External Affairs Canada | Affaires extérieures Canada

# Statements and Speeches

No. 84/7

## STRATEGY TO SOLVE PROBLEMS OF ECONOMIC MALAISE

Notes for an Address by the Honourable James Kelleher, Minister for International Trade, to the Fifty-fifth Annual Meeting of the Canadian Chamber of Commerce, Toronto, September 25, 1984.

...As you know, I am one of the new faces in the new Progressive Conservative government. It is, therefore, not my intention to break new ground in my capacity as Minister for International Trade. These are early days, and I plan to approach the many complex trade issues facing the country in an orderly and prudent fashion. We will be seeking your ideas. We will listen. And we will act.

Instead, I thought it would be useful to reiterate the economic strategy outlined by the Prime Minister to the Vancouver Board of Trade in late August – a speech which contained many important ideas but which received limited exposure in other regions of the country.

As the Prime Minister stated that day, the strategy of the Progressive Conservative government will be based on our belief that Canadians must address five fundamental problems which lie at the core of our economic malaise:

(1) the high cost of credit, caused by the weakness of our dollar and our need to finance our growing foreign debt;

(2) the financial weakness of our private sector. Too many Canadian businesses – both large and small – continue to struggle with too much high cost debt and not enough low cost equity;

(3) our spiralling public debt, which will have grown from $18 billion in 1968 to $180 billion at the end of the current fiscal year;

(4) our weak competitive position in the world, caused in great part by our dismal record in research and development and technological innovation; and

(5) weak foreign and domestic demand for our goods and services.

We believe those are the five fundamental problems which have combined to cause economic stagnation and massive unemployment.

So how do we go about solving them? Let me outline the approach of the new government.

First, lower interest rates. There is no use deluding ourselves that Canada can have made-in-Canada interest rates overnight, unless we want to change from an open and mixed to a closed and fixed economy. And that would mean a huge drop in our standard of living.

Given this fact of life, it is our view that the prudent response to our current interest rate dilemma — in the short run — is to keep our interest rates as low as possible without causing a run on the dollar, and to offset the high cost of credit in key sectors of the economy by lowering other production costs.

In the medium term, we believe Canada can lower interest rates if we implement trade, investment and tax policies which combine to put upward pressure on our dollar.

A strong and more broadly based merchandise trade performance is essential. But it is also essential that we encourage an inflow of direct investment capital to lessen our dependence on foreign debt. It is for this reason that we committed ourselves to two major policy changes which will start the process of restoring our international reputation as a first-class place to invest.

First, we intend to end the retroactivity and excessive discrimination in the National Energy Program.

Second, we will change both the mandate and the name of the Foreign Investment Review Agency.

The new agency — Investment Canada — will continue to review major investment proposals of national economic significance. But it will also take on a more positive role — to facilitate job-creating investment, and to work with a revived and expanded Trade Commissioner Service to identify new ideas, new technologies and new export and investment opportunities for Canada.

These policy initiatives reflect our belief that the real solution to our weak dollar/high interest rate dilemma is for Canadians to become first class world traders and for Canada to once again become a first class place to invest.

Next, the recapitalization of Canadian industry. It is in this context that the size of the federal deficit becomes a matter of major concern.

We simply cannot finance both massive public sector deficits and the recapitalization of the Canadian private sector. Clearly, there can be no drastic reduction in the deficit until interest rates are lower and the country gets back to work. Massive cuts now would guarantee a recession. However, we believe there are steps which can and should be taken regardless of the level of the deficit.

First, we will have to lower the overhead costs of government caused by excessive duplication, waste and mismanagement. To begin this process, the Prime Minister has already created a task force of senior ministers, to be chaired by the Deputy Prime Minister.

The second area of savings comes in government programs themselves. We must improve the budgetary process so it challenges the effectiveness of on-going programs. "Sunset laws", program evaluation — these and other techniques must be employed to end program duplication and overlap.

In the energy sector, we plan to move to a tax-based incentives system and away from petroleum incentive program grants. Off-oil [oil substitution] programs will also be brought together in one fund.

In the economic development area, we want to see who is paying the $8 billion in corporate taxes, and who is receiving the $8 billion in government expenditures. Our goal is to move away from a politicized grant structure to greater reliance on the tax system.

We will also be examining the effectiveness of certain capital works expenditures....

Finally, we will be examining tax laws regarding transfer-pricing and other forms of corporate tax avoidance. Some critics say the treasury is losing millions. It's time to find out the facts.

In the social program area, we are not only committed to the maintenance of current income security programs, it is our goal to improve them – to make sure there are no holes in the safety net and that it is raised off the ground for all Canadians.

In health care, we will negotiate with the provinces to invest more of our health dollars in areas which will create long-term saving: areas such as: preventive medicine; community-based care; and medical research, particularly related to the problem of an aging population. We believe one of the keys to long-term deficit reduction lies in "spending smarter" our health care dollar.

We plan to reform the personal income tax system to make it more fair, more progressive and more productive. We are committed to the goal of fair taxation. And we will implement the best means to achieve that goal.

But let us be frank. No amount of prudent management or tax reform will cut the deficit down to size. That will only occur when interest rates fall, when economic growth resumes and when Canadians are put back to work. That is the fundamental goal of the new Progressive Conservative administration. And once we get the economy growing and the deficit shrinking, we can begin to strengthen the capital base of our private sector, through incentives which encourage investment in Canadian companies and worker equity participation. And we can also move to create the pool of venture capital needed to finance Canadian small business – the real source of jobs in this fast-paced world.

Next, improving our international competitiveness. The new Progressive Conservative administration will concentrate on two parallel initiatives to improve our competitive position in the world.

First, we must participate in the restructuring of our primary sectors, particularly the fisheries, forestry and mining sectors, and we must lower their production costs, wherever possible.

Second, we must increase our efforts in technology and training – the development of our human resources.

Our technology and training policies will be based on five assumptions:

(1) It is clear that lower interest rates, a stronger capital base, and market access are essential prerequisites to increased research and development (R&D) expenditure by the private sector.

Nobody is going to invest in R&D if they can't afford it, or if there is no market for the improved product.

(2) The small size of our country means we must not only encourage the production of Canadian technology, but the adaptation of foreign-sourced technology. We must then encourage the diffusion of this technology and know-how across the country – on the farm, in the factory and in the office.

(3) We believe the essence of the so-called "information revolution" is the application of new technology in existing industries – in manufacturing, textiles, agriculture, mining, forestry and so on. Producing new technology is important. But even more important is using it to our advantage.

(4) We believe tax reform is also necessary to redirect investment to this vital job-creating activity. Tax changes will reflect our belief that incentives should replace grants, that the definition of "development" should be broadened and that tax laws must better reflect the idea that research and development is an integral part of the production process, not a separate activity.

(5) Hand-in-hand with policies to encourage the production, application and diffusion of new technologies must be policies to train Canadians in their use. And we believe the recommendations of our two caucus task forces on retraining and youth unemployment are an excellent start. They are innovative, forward looking and cost-effective. They will train people to fill the new jobs being spawned by complex and changing technologies and trade patterns.

Finally, the question of stimulating demand. In our view, a sustained economic recovery in Canada requires increased domestic business investment and increased foreign trade. We have identified five priority areas for increased capital investment:

– the energy industry – both in the West and offshore;
– the national rail transportation system, particularly in the West;
– the application of technology throughout the economy;
– local and municipal infrastructure development and maintenance; and
– capital equipment upgrading for our armed forces.

To increase foreign demand, it is critical that we negotiate increased and secured access to foreign markets for our goods and services, through multilateral and bilateral negotiations.

To that end, the new Progressive Conservative government will continue to be a strong proponent of the multilateral trading order. We will strive to develop the international consensus necessary to begin a new round of General Agreement on Tariffs and Trade negotiations in such areas as safeguard arrangements, procurement, agricultural trade and trade in high technology.

The creation of an international framework for trade in various services will also be high on the agenda of the new government, and I welcome your views on how best to proceed in these complex sectors.

At the same time, we believe there may be opportunities to set bilateral precedents which will spur multilateral action.

We will continue the dialogue with American officials to explore potential areas for action which are consistent with our multilateral obligations. Our goal is not to create a fortress in North America. Rather it is to act as a catalyst for co-operative multilateral action.

So, how can one summarize our strategy? What can Canadians expect from the new P.C. government? Simply put, our plan for jobs and growth is:

- to lower interest rates by strengthening the dollar, through trade expansion and an inflow of equity capital;
- to reduce the deficit in an orderly fashion through a balanced program of strategic investment, economic growth, tax reform and prudent fiscal management;
- as the deficit declines, to redirect those savings into the capital base of the private sector, particularly the small business sector;
- to improve our international competitiveness through the restructuring of our primary industries, innovative technology and training strategies and secured access to foreign markets; and
- to create a climate for increased capital investment in our economy, particularly in energy, transportation, applied technology, basic infrastructure and shipbuilding.

And we are confident that by spending smarter — by investing in more productive purposes, by increasing the competitiveness of key export industries, and by prudent management of government finances, we can nurture the growth which will start the deficit on a downward course.....

S/C