

Pre-Budget Consolations Speech (07 Feb, 2008)

Hon. John McCallum (Markham—Unionville, Lib.):  

Mr. Speaker, I would like to begin by thanking all Canadians who have taken the time to make presentations during committee meetings here in Ottawa and in various cities across the country. I would also like to thank those who made written submissions, as well as the clerk and her assistants for their excellent work.

[English]

I even thank fellow MPs from opposition parties for what was generally a cooperative effort, even though we did not agree on every point, as was evident from our various minority reports.

When the Conservatives came to power two years ago, they inherited the strongest fiscal position, the strongest employment growth of any G-7 country. Therefore, it was really up to them. They had the opportunity, based on very large surpluses, to make wise investments, smart tax cuts so as to better position our country in terms of productivity and in being prepared to face the times of greater economic uncertainty, in which we now find ourselves.

The burden of my remarks is that they have failed to make these wise investments and these intelligent tax cuts. Now when we are at a time of great economic uncertainty, potentially in recession, we find our fiscal cupboard is bare. We find ourselves much less able to face the future with confidence than had the government managed our economy in an effective and efficient way.

Let me just say a few words about the overall economic situation in which we find ourselves. Clearly, the major global problems have begun in the United States, which is truly in the eye of the storm, but Canada is not immune. We see this from the fact that the Bank of Canada has substantially reduced its growth forecast for this year, indeed to less than 1% for the first quarter of this year. Jobs actually dropped significantly in the month of December.

Therefore, government's claim that employment is at an all time high is simply wrong arithmetically. Jobs came down last month by 51,000 in terms of the private sector and some 17,000 total jobs. Some sectors have been particularly hard hit. Manufacturing has lost more than 130,000 jobs in the last year. According to one of our witnesses at the finance committee, Jim Stanford, he expects that if the dollar stays at or near parity, we could face another 300,000 job losses in manufacturing over the next two to four years.

To put it in a nutshell, one of Canada's better respected economists has summed up by saying that the odds of a recession in the United States and Ontario are approximately fifty-fifty. The odds of a recession in Canada as a whole are approximately one in four.

That underlines the really tight connection between Ontario and the United States, with 90% or so of Ontario exports destined to the U.S. Therefore, the uncertainties in which the whole country finds itself are concentrated here in the province of Ontario.

Let me begin with the question of spending. Perhaps uncharacteristically the Conservative government has been the biggest spending government in living memory. This is not just myself saying this. Take normally small-c conservative individuals like Andrew Coyne, who writes for the *National Post* and John Williamson, head of the Canadian Taxpayers Federation. Both these gentlemen have taken the government to task for going on a big spending spree.

This comes through if we look at the numbers. If we compare total program spending over the two years of the Conservative government versus the whole Liberal time in government, or just the Liberal time in government since we balanced the budget, we

find the rate of growth of spending substantially higher in the last two years than in the Liberal years.

This is particularly the case if we limit our consideration to money spent by the federal government itself rather than monies transferred to individuals or other levels of government. The federal government's own spending in the two years of government has been up by an almost unbelievable 18%, which is an average of 8.6% per year. This is very substantially higher than spending increases during the Liberal period.

 (1055)

As confirmed by Andrew Coyne and by John Williamson and as confirmed by the statistics, this has been a big spending government when times were good. Its first two years in government, until recently, were periods of strong economic growth globally and inherited from the previous government. It spent like drunken sailors during good times, leaving the cupboard largely bare now that we are entering uncertain times. I submit, from the point of view of basic economic management, this is an incompetent way to run a fiscal policy and a government.

The other side of the ledger is tax. The Conservatives spent like crazy during good times, now we have taxes on the other side. Essentially they have undertaken four tax measures, one with which we agree. Indeed, the Leader of the Liberal Party, before the Conservative economic statement, called for deeper corporate tax cuts to increase the productivity and competitiveness of the Canadian economic and partly to offset the fact that Canada no longer had an competitive advantage to a weak currency. We needed to create a new Canadian advantage through a corporate tax rate substantially lower than the United States. The government has followed our suggestion, so we do not really have any complaints in that domain. However, that is where our agreement ends.

The second item of taxation done by the Conservatives was this. Within a few months of coming to office, they raised personal income tax rates on the lowest income Canadians. They raised it from 15% to 15.5%. Then, in a great sweep of victory, they brought it back to 15% from 15.5% and claimed huge credit for cutting taxes, whereas in reality they raised the tax for one year to 15.5% and then brought it down to 15%. We do not object to them bringing it back to 15%, but we do criticize them for raising that tax for one year a year earlier.

The third thing the Conservatives did was spend a huge amount of money to lower the GST by two points. There is hardly an economist on the planet who would agree that was the wisest way to cut taxes. I will simply quote former Conservative cabinet minister, Perrin Beatty, now the president of the Chamber of Commerce, who said:

Knocking another point off the GST may be politically attractive but it does not provide the same incentive for improving our sustained economic performance.

We Liberals believe in cutting taxes. We are committed to not raising any taxes, including the GST, but we certainly believe it would have been far wiser had the government used that same amount of money for broad based personal income tax cuts rather than for cutting the GST.

The fourth element of the Conservative tax policy is what I would call narrow, politically motivated boutique tax cuts. In other words, if the Conservatives have money available to cut taxes, instead of cutting the taxes of all Canadians, they direct those to narrowly targeted groups like students getting credits for buying text books or young Canadians playing hockey, et cetera.

I have nothing against those groups. In fact I am in favour of them. However, why is it up to government to decide that young hockey players deserve a tax break and young piano players or violin players do not? This is an intrusive kind of tax policy that substitutes government decision making where family decision making is appropriate. We would prefer to have broad based tax cuts rather than narrow, politically directed, intrusive boutique tax cuts.

If we combine the spending spree during good times with the tax cuts, which are largely incompetent in the sense that at least most economists and I believe most business leaders and most Canadians would have benefited far more from a different pattern of tax cuts, the net effect is that the government's fiscal cupboard is bare just at the moment when the Canadian economy is likely to need a boost.

 (1100)

Let me end by mentioning the sectors where the Canadian economy definitely does need a boost. Manufacturing, as I said earlier, is at risk of losing hundreds of thousands more jobs. Forestry is on life support. The livestock branch of agriculture is in deep trouble. Tourism is in trouble. All of these sectors are in trouble for a combination of reasons, but principally the very high value of the Canada dollar is hammering them. In addition, a slowing U.S. economy and rising energy costs are creating this perfect storm in which several of Canada's most important sectors are being battered as we speak.

The government is not prepared to do anything for those sectors. Yes, it has this communities fund, and we on the Liberal side have said we would replicate that, but that does not help protect the jobs in those sectors. That only comes into play after those jobs have been lost. The Conservatives have nothing to directly support the manufacturing industry and those other sectors in their time of need. Whereas we on the Liberal side are not only going to replicate the communities fund, but we also have an additional \$1 billion fund dedicated to supporting investment in the manufacturing sector.

I suggest that the government is neglecting these critical sectors of the Canadian economy at their moment of greatest need, partly because the Conservatives have overspent in the past. They spent wildly during good times, leaving the fiscal cupboard bare. But there are also their narrow ideological reasons. They adhere to free market principles. The government will not get involved in the manufacturing sector, as the finance minister called it a shell game; this, even though the biggest players, the United States and the European Union, have given massive subsidies to their agricultural and aerospace sectors. The southern state governors are giving massive subsidies to car companies to locate there.

It is a kind of boy scout, narrow ideology, naive point of view that Canada alone can adhere to these market principles while all the players around us are doing otherwise. It is a recipe for job losses, a recipe for not supporting key sectors of the Canadian economy.

To conclude, the government has demonstrated great incompetence in its economic management. I have not had time to mention two of the most incompetent episodes involving income trusts and interest deductibility. Both of those will go down in infamy in terms of incompetence, and in the case of income trusts dishonest economic management, but at the macro level in terms of excessive spending in good times, in terms of an unwise structure of tax cuts.

Just as Canada enters this period of economic uncertainty, the government which inherited the most bountiful fiscal surplus two years ago has left the fiscal cupboard virtually bare. It has left the Canadian economy ill-prepared for the economic storms which may lie ahead of us.