A New Framework for Economic Policy

A Presentation by
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Last February, in putting forward our first budget, the government made a commitment to Canadians to permanently open up the budget process. Our meeting today, and the national dialogue that lies ahead, flows from that commitment.

We made a further commitment as well. We said that the February budget was the first stage of a two-stage process. The second stage would involve rethinking the fundamental role of government in the economy. This presentation is part of that process as well.

Let me be clear about the purpose of my remarks. Tomorrow, I will be providing this Committee with an update describing the economic and fiscal outlook for our country. Tomorrow's presentation will not be a budget. That will come in the new year. That being said, tomorrow's presentation is part of a much larger picture, and requires a broad perspective on the economic challenges that face Canada. It is that broader picture that I wish to address this morning.

Today's document is entitled *A New Framework for Economic Policy*. Let me state from the outset that this is not a list of new programs. It is a statement of objectives – a statement of our economic philosophy. The budgetary decisions we make will be consistent with the criteria set out in this framework.

Let me begin with first principles. First, we have one overriding goal as a government. And that's jobs and economic growth. Second, we believe that good economic policy and good social policy are one and the same. In the most fundamental way possible, good social policy begins with a good job. Third, we believe a country that is to continue to care for its citizens must be a country that can pay its bills.

We have one overriding goal as a government. And that's jobs and economic growth.

We need that same will and wisdom today to create a new infrastructure – the infrastructure for a Canada of ideas and innovation.

Our fourth principle: We must respond to challenges in our times, as did previous generations of Canadians in theirs. The generation that put in place the physical infrastructure of the postwar economy – the Seaway, the pipelines, the highways, and the generation that followed – creating the social infrastructure of a caring and compassionate Canada. We need that same will and wisdom today to create a new infrastructure – the infrastructure for a Canada of ideas and innovation.

Fifth, the very nature of government itself must change. We must develop a new notion of responsibility. The time is long past when governments can – or should – do everything. We need a new division of labour, a new partnership, a clear vision of what the advantages of each partner are. Responsibility should lie with those who are best able to do the job. And that requires a government that knows where its true potential lies – and what its real limitations are.

There is good news today – and some not so good. The good news is that a strong economic recovery has clearly taken hold. In the last eight months, 327,000 new jobs have been created, 316,000 of which are full time. But that is not good enough. Because looming above it all, there remains the painful reality of 1.4 million unemployed Canadians. Addressing that problem is an essential obligation of government today. It is an acid test of our public policy.

This job crisis is not about recession – not just a familiar swing in the business cycle. This is not a cycle. This is a sea-change in economic behaviour. It is a global epidemic. As we meet, there are almost 35 million unemployed people in the industrialized countries of the OECD. What has happened? Three major things have happened.

The world economy has become truly integrated, truly global. The demise of dictators and the collapse of communism have created a world economy that, for the first time, is fully open.

Trade barriers have been brought down. Communications are instant. Transportation is swift.

Markets never sleep. There are no islands any more. And like it or not, there is no place to hide.

Next, literally billions of people in what we once called 'The Third World' are now joining the global economy, almost always on free market principles. That emerging new market is unlike anything the world has ever known. Finally, there is information technology – exploding, portable, unstoppable. Indeed, in many ways, innovation and ideas are becoming the world's only true hard currency.

All that spells competition. And competition brings opportunity. For those with the right skills, the prospects for success have never been brighter. There are dozens of potential new markets – hundreds of millions of new customers for Canadian goods. Across Canada, companies are penetrating those markets and creating new jobs.

But so too, that same competition brings anxiety to many. It has put pressure on wages.

It is forcing old businesses to shed jobs. And it is forcing entire societies to adapt to difficult change. This is not easy. It has shattered lives. And it has shattered our expectations. After all, until recently, we Canadians were accustomed to success.

For three entire decades, after the Second World War, all we knew was high job growth, high productivity growth, high income growth, and low unemployment. We had it too easy for too long and we missed the signals that times were changing.

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We ignored the fact that our unemployment rate was rising relentlessly with every recession and staying up. Since the 60s, the average unemployment rate more than doubled, going from 5 per cent 25 years ago, to more than 10 per cent this decade.

Missing signals? We ignored the fact that growth in our economy was slowing, again progressively over the past 20 years. In the 1960s, average annual growth per capita stood at 5.5 per cent. By the 1990s, it had dropped to zero. And finally, we ignored the fact that real incomes were stagnant after the mid-1970s, after nearly 30 years of strong and steady growth.

And as we were missing those signals, what did we do? We borrowed to paper over the problem – borrowing first from ourselves, then from foreigners – and always from the future. It is compelling to note that the last overall public sector surplus recorded in Canada was two decades ago. From 1981 until this year – a mere thirteen years – federal and provincial government debt increased six-fold to almost $700 billion – now more than $24,000 for each and every Canadian. For two decades now, we have spent more than we have saved.

The fiscal track we have been on is unsustainable. This is not a question of economic ideology. It is a mathematical reality.

We need to face some hard home truths. We have a financial deficit, but we also have a human deficit. First, our country's skills have slipped. To succeed in a knowledge-based economy, you need knowledge in constant evolution. Second, many of our income support programs have been allowed to become dead ends of dependence rather than roads to recovery.

Third, governments have lost a clear sense of economic leadership – a vision of what their role must be in the modern economy – and where they should leave action to others. Finally, the fiscal track we have been on is unsustainable. This is not a question of economic ideology. It is a mathematical reality.

What do we do about all this? The answer: We must accept the need for real reform. We must decide on a game plan and stick to it.

In our view, there is only one answer to our job dilemma. And that is sustained, substantial, economic growth. Growing economies produce jobs. Economies that aren't growing don't. And the key to growth is productivity. It's as simple as that.

Let me be clear about what I mean. Productivity is not about workers putting in more hours or being bullied by unthinking management. Productivity is about how well ideas, workers, resources and investment are brought together in a country's economy.

Productivity is about ingenuity, about better management, about paying attention to the common-sense of workers. High productivity growth increases incomes. In fact, it's the only way to increase incomes over time. Indeed, productivity growth is the key ingredient of a better standard of living for every Canadian.

To prove that point, look at our history and look at today's reality. The relationship between productivity and employment is compelling. Between 1954 and 1973, productivity growth was high, averaging 2.3 per cent. During those decades, unemployment was relatively low.

But in the decades that followed – from 1974 to 1993 – productivity growth dropped by more than half – to 1.1 per cent. At the same time, average unemployment soared – from 5.2 per cent to 8.9 per cent.

Look at the relationship between productivity and income. In the early 1970s, when productivity growth was strong, the incomes of Canadians were growing strongly too. However, in the later years of that decade, productivity slowed, and income growth began to fall as well. By the 1980s, when productivity growth approached zero, the growth in incomes of Canadians slowed to a virtual halt.

That's why real wages are flat. That's why so many families feel they are not getting ahead anymore. In fact, lack of sufficient productivity has been responsible for almost the entire long-term slowdown in our economy since the early 1970s.

Now, that's not just Canada's story. That's a global story. And the views I have just put forward are part of a strong global consensus. Wherever you look – at the OECD, at the G-7 and elsewhere – the conclusion is the same: policies and practices that drag productivity down ensure higher unemployment and lower income growth.

To turn that around – better productivity is not the enemy of employment, it is our workers' best friend.

How do we improve productivity? The answer is clear. We must improve our skills. We must do better at innovation. We must provide a welcoming climate for investment. We must remove the disincentives we have created for both business and individuals – disincentives that encourage dependence and stand in the way of opportunity. Finally, we must get our fiscal house in order.

There are times in the life of nations when extraordinary opportunities and challenges demand extraordinary responses. We are living in such a time. All of this requires a fundamental redesign of the role of government in the economy – a new architecture for action on jobs, a new framework for growth.

We believe there are five key areas on which we must focus. The first is helping Canadians acquire skills – the skills to get jobs, the skills to keep jobs, the skills to find better jobs. The facts are clear. Over the past two decades, jobs have shrunk by 5.2 per cent for those who have only primary education. But for those with more skills – particularly education beyond high school – jobs have been growing at a strong rate.

All of this requires a fundamental redesign of the role of government in the economy – a new architecture for action on jobs, a new framework for growth. There are five key areas. The first is helping Canadians acquire skills.

Look at the last recession. Between 1990 and 1993, there was a net loss of 190,000 jobs in Canada. But that number hides the real story. For people with high school education or less, 640,000 jobs were lost. But for those with education beyond high school, 450,000 jobs were gained.

Now, no one is saying that every new job in the future will require a Ph.D. About a third can still be filled by those with high school education or less. The point is that for most types of jobs, the clear trend is towards more and better training – whether that training is academic or on the job.

In terms of education and training, the challenge in Canada is not money. International studies show that we spend more on education as a country than just about anyone else. But studies also show that despite that spending we do not get nearly the results we need. For example, at the federal level, we are committed to improving the training the unemployed receive while on UI. Passive support won't solve the problem. Active support is what Canadians need.

The second is encouraging Canadians to adjust to change. Far too often, as a country, we have done just the opposite.

The second thrust of our framework is encouraging Canadians to adjust to change. Far too often, as a country, we have done just the opposite. Governments have erected barriers against individuals adjusting. Government have erected barriers against business adjusting too.

These must be brought down. For example, it is our view that protecting and subsidizing business is almost always the wrong way to go.

The OECD agrees. Let me quote from their recent Jobs Study: "Subsidies tend to operate in exactly the opposite way from what is needed: they slow rather than stimulate adjustment; they discourage rather than encourage innovation; and they tend to become permanent."

We are going to change the government's entire approach to subsidies. For example, we will not support new megaprojects. Our decision this summer on oil upgraders proves that point.

Equally, we believe that regional economic assistance should focus on genuine opportunities that have the potential to be self-sustaining.

We intend to concentrate, for example, more on tourism and on the creation of a positive environment for small- and medium-sized business – the multinationals of tomorrow. At the level of individuals, as our social security reform proposals make clear, we also believe there is a need to change unemployment insurance, building on the reforms begun in last February's budget.

The current system is outdated social policy. While it has worked well for a lot of people, for too many others the UI system does little or nothing for their self-esteem or success. But the current UI system is outdated economic policy too. It encourages chronic and repeat use of the program by business and individuals. It is a barrier that prevents people from adapting to changes that are unavoidable – and opportunities that are present. Therefore, we intend to take measures that will bring UI back closer to what the term says – insurance – and to create programs that foster and improve greater job readiness.

Furthermore, we believe there is nothing more ludicrous than a tax on hiring. But that's what high payroll taxes are. They have grown dramatically over time. They affect lower wage earners much more than those at the high end. We took steps earlier in our mandate to reverse this trend in the case of UI premiums. We would hope to take further steps in the future that will enable us to reverse the need to immediately ratchet up premiums when recession hits – a counterproductive move if there ever was one.

The third thrust of our framework is getting government right. If Canada is to become more productive, government must be more productive too. We need to focus on the essential, not the secondary. We must shift from a posture of trying to fix every problem ourselves to facilitating solutions, in partnership with others. Our attitude here is straightforward. The things that government does must be things that only it can do really well.

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That is the fundamental principle behind the Program Review now underway. If government activities don't still serve a significant public purpose, they will be dropped. And for those activities that are important, it will be decided if someone other than the federal government is in a better place to take them on.

That is behind the plans to commercialize current activities, for instance, at Transport.

It is also behind our policy to devolve services to those in the public or private sector who are in the best position to provide them. One additional initiative I must highlight is the necessity to drain the swamp of federal regulations, which cost Canadian business billions of dollars. Of the 1,700 we have looked at, one quarter have been eliminated, another quarter left in place and fully half are either being revised or examined further with a view to change.

The fourth thrust of our new economic framework is to provide leadership in the Canadian economy. Government has a clear role in fostering economic growth.

The fourth thrust of our new economic framework is to provide leadership in the Canadian economy. Now, we believe that the primary creator of jobs is the private sector. We believe that, for the most part, the role of government is to stand aside, not stand in the way of business. But that does not mean government has no role. Government has a clear role in fostering economic growth.

Government does have advantages – assets no one else has. One advantage is in gathering and disseminating information and ideas – something that can mean life or death, particularly for smaller firms who do not have the ability to scour the world for technology and new markets.

So too government can play an important role in bringing businesses together, in building linkages – something that again is critical in an economy where new firms are smaller and more specialized than ever.

And government has a role in helping small- and medium-sized business get access to the financing it needs to innovate and succeed. Government has a role in helping small- and medium-sized business get access not simply to technology but to the people who know best how to put that technology to good use. We need to do much better both as a government and a country in harnessing Science and Technology to improve productivity and growth. This is not a secondary issue. In an important way, ideas and their application are the only way in which productivity can grow over time. In today's world, an ignorant economy is a stagnant economy.

Trade is another area where government involvement is essential for success. Canada is an exporting nation today more than ever. But despite its overall size, the small business sector, for instance, accounts for under 10 per cent of the value of our manufactured exports. In fact, only 15 per cent of our manufacturing companies export at all. That simply won't cut it in today's world.

Government has a role in providing information, particularly to small business so that they can exploit market opportunities abroad. And government has a role to play in helping business get access to the export financing they need.

The fifth thrust of our framework provides the lead-in to tomorrow's discussion. It is imperative that we restore to good health the fiscal climate in this country. If we don't do that job, we will fail at everything else. We have created the deficit and debt problem ourselves. The wound is self-inflicted. It must be healed.

The fifth thrust of our framework provides the lead-in to tomorrow's discussion. If we don't do that job, we will fail at everything else.

The debt is much more than an issue for bankers on Bay Street. It is an issue for every citizen who pays higher taxes to pay the interest on the debt. It is an issue for homeowners whose mortgage payments are high because the debt keeps our interest rates up. It is an issue for unemployed Canadians when high interest and high taxes keep the investment away that would mean new jobs.

It is an issue for every Canadian when deficits and the debt prevent government from doing so many of the productive things a modern, caring and competitive society needs. And it is an issue when in building up a debt we are bankrupting our children.

Today, total government debt in Canada has reached 100 per cent of GDP. The interest alone on that bill last year exceeded $56 billion a year – nearly $39 billion of which was paid by the federal government. That is likely to exceed $44 billion this year. We are now at the point where interest on the debt is growing faster than the economy. We are in hock up to our eyeballs. That can't be sustained. It is unsustainable by the laws of capital markets.

It is unsustainable by the laws of compound interest. Over the next five years, if we were to do nothing and simply let compounding interest payments drive the federal deficit up:

- the federal debt would grow almost 50 per cent to more than $800 billion, and

- the annual interest payments would rise to about $64 billion, that's $20 billion more than the $44 billion we will be paying this year.

Put that in perspective.

- The potential growth in interest payments alone is more than double what we transfer to the less well-off provinces in equalization payments.

- It is equal to our entire current spending for the elderly.

- It is more than all the revenue from the GST.

Our ultimate goal is a balanced budget – we must significantly reduce public debt as a percentage of our GDP.

And that is the effect of compound interest in only five short years. This country is now in a situation where we are constantly trying to walk up an escalator that is going down. The problem is so large that we can no longer rely on growth to get ourselves out of it.

Why?

Because the deficit has become a burden on growth itself. Until that dragon is slain, too much investment will stay away, interest rates will stay up, jobs will be lost and future generations will pay the penalty.

Our ultimate goal is a balanced budget – we must significantly reduce public debt as a percentage of our GDP. We have committed to lower the deficit to 3 per cent of GDP by 1996-97. This is an interim target. Let there be no doubt about it. Nothing – I repeat nothing – is going to make us miss that target.

To sum up Mr. Chairman, these are the five fundamentals of our framework to create jobs from economic growth: helping Canadians acquire skills; encouraging Canadians to adjust to change; getting government right; providing leadership in the economy; and creating a healthy fiscal climate.

Mr. Chairman, the document we are putting forward today is not a list of new programs. It is a framework for our economic future. It is a test we will apply to ourselves. We believe that good jobs will only be created on a sustainable basis if government creates a climate for growth – and that in turn means a focus on productivity.

That is the context, those are the criteria for the budget actions that must follow. There is only one question. If an economic program, new or old, doesn't fit the criteria – should it go forward? Our answer is clear – no! Mr. Chairman, the game is growth. The goal is jobs. And for all of us, there is no more important goal than that.

I now look forward to questions and discussion with this committee on our new framework for economic policy.