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Budgeting on Performance: An Agenda for Consultation

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PREFACE

In November 1984, the Government of Canada set out a comprehensive agenda for economic renewal. At the same time, we launched an extensive round of consultations to help forge a more broadly based understanding of the challenges facing the country. These consultations have greatly assisted the government in developing appropriate policies and programs to address these challenges.

In preparation for the 1985 and 1986 budgets, my colleague, the Minister of State (Finance) and I met with representative groups from the business, labour, social and voluntary communities. In the coming weeks, we will conduct a new series of pre-budget consultations. Between now and the presentation of the budget, my officials and I will also consider written submissions from groups and individuals on those policy directions and initiatives which are the focus of this year's consultations. An overview of these initiatives is outlined later in this document.

I would like to again invite interested Canadians to consider the agenda set out in these pages and in the accompanying background documents and to provide me and my colleague, the Minister of State (Finance), with views and suggestions in the months ahead.

The Honourable Michael H. Wilson
Minister of Finance

I. A RECORD OF PERFORMANCE

The 1986 pre-budget consultations are intended to continue the dialogue which began in 1984 on the key elements of the government's economic renewal agenda. These consultations will help the government to build on the progress of the past two years. A brief review of that progress makes clear that while much has been accomplished, much more remains to be done.

As noted in the September 1986 issue of The Economy in Brief, a quarterly publication of the Department of Finance, the Canadian economy is well poised to realize substantial benefits from increased world growth. The household and corporate sectors are generally financially healthy, consumer confidence is strong and the prospects for further improvements in Canada's international competitiveness are good. Canada currently boasts one of the highest growth rates among industrialized countries. Interest rates and the unemployment rate are lower than they have been for years.

This encouraging economic performance did not come about by accident; it is the product of an aggressive strategy designed to build a strong national economy capable of competing in an environment of intense global competition, changing markets and new technologies.

Fiscal responsibility is one of the key tenets of this economic renewal strategy. As was made clear in the Minister of Finance's September 18, 1986 economic and fiscal update, the government remains committed to its plan to restore health to the nation's finances. The 1985-86 deficit of \$34.5 billion was \$3.8 billion or 10 per cent lower than the record \$38.3 billion deficit of the previous year. Despite a significant drop in revenues this year due to external factors such as lower oil and grain prices, the deficit for 1986-87 will come in at, or under \$32 billion. This is a substantial decline from last year and it is the first time in 16 years that the deficit has decreased two years in a row.

The August 1986 issue of The Fiscal Monitor, also published quarterly by the Department of Finance, notes that this turnaround in the deficit reflects the hard line that the government has taken on spending. Last year, due to a \$1.6 billion reduction in spending on discretionary, or

non-statutory programs, total program expenditures dropped by 0.9 per cent, the first sizeable decline in the postwar period. The government will continue to achieve sizeable year-over-year reductions in the deficit and in financial requirements by relying on continued expenditure restraint and sound financial management.

Restraining government spending remains part of a broader effort to make government more efficient.

The work of the Ministerial Task Force on Program Review (Nielsen Task Force) has begun to deliver results. Steps have been taken to rationalize industrial incentives, the sales tax has been broadened to eliminate a number of competitive distortions and business framework legislation is being updated. Further initiatives are being taken to make government programs simpler, more effective and more understandable. Government regulation of major sectors such as transportation and energy is being reviewed. Changes have already been introduced in the energy sector to reduce the regulatory burden and promote efficiency through increased reliance on market forces. The government has announced its intention to propose a new regulatory framework for the financial services industry which will promote competition, efficiency and international competitiveness, while at the same time strengthening consumer protection. The privatization of Crown corporations that have no ongoing public policy purpose continues to be a priority as illustrated by the sale of de Havilland, Canadair, Canadian Arsenals Limited and the Northern Transportation Company Limited.

The actions taken to improve government effectiveness complement the effort and resources that have been devoted to supporting private initiative. Since 1984, incentives have been introduced to encourage productive new investments. The Foreign Investment Review Agency has been replaced by Investment Canada. Incentives for research and development in science and technology have been provided. Support for the Granting Councils has been enhanced and new public-private sector matching mechanisms introduced, forging a new partnership in this area. The Canadian Jobs Strategy is being implemented as a means of better linking skill development strategies to private sector needs and resources. The government will continue to pursue its trade initiatives in bilateral negotiations with the United States and multilaterally in the GATT round of trade talks to secure and enhance access to world markets for Canadian goods.

By working to promote sustained economic growth and job creation, the government is providing a firmer foundation for social progress while strengthening its capacity to react to changing needs and demands. In the past two years, the government has responded to a wide range of social policy concerns. Support has been increased for those in need

by enhancing and providing mechanisms for the pre-payment of the child tax credit, by extending the eligibility for the spouses' allowance and by introducing changes to the tax system to assist disabled persons.

The Canada Pension Plan and standards for private pension plans have been strengthened and veterans' pensions increased. In addition, the government recently tabled measures in the House of Commons to provide fairer and more flexible tax treatment for retirement saving by Canadians. The government has introduced a refundable sales tax credit for low-income Canadians and imposed a minimum tax on the wealthy. Needed reforms to the justice system have been implemented. These actions and others reinforce the government's commitment to Canada's system of social programs. They also demonstrate that fiscal responsibility is not incompatible with a strong sense of social responsibility.

In its effort to support private initiative, the government also launched a process to reform the corporate income tax system and generally improve the fairness of the tax system. As part of this process, some restructuring of the corporate tax system has been undertaken, incentives have been made more effective, certain preferences have been eliminated and opportunities for tax evasion curtailed. This important initiative is continuing as the government proceeds with its review of the options for comprehensive tax reform.



II. BUILDING ON PERFORMANCE: THE AGENDA FOR CONSULTATIONS

Government actions over the past two years have been successful in making the economy stronger and our society more humane. The task for the coming year is to build on this solid record of achievement.

The forthcoming round of pre-budget consultations will provide opportunities for public discussion of the key elements of the government's economic strategy: fiscal responsibility, tax reform, improving the climate for sustained economic growth and trade promotion.

A. Fiscal Responsibility

Deficit reduction and control of government expenditures remain government priorities. Fiscal responsibility demands that scarce resources be allocated as effectively and efficiently as possible. The government will continue to consider suggestions about how further deficit reduction might be achieved. Views on the appropriate allocation of existing financial resources are welcomed.

B. Tax Reform

The government is currently proceeding with a review of the options for comprehensive tax reform. A statement of the guidelines governing any changes that may be made to the current tax system is being published. As the work on comprehensive tax reform progresses, the government will be seeking views on the broad directions of tax reform. It will also seek recommendations for change that are consistent with the government's guidelines.

The government recognizes the fundamental linkages between overall tax reform and the ongoing review of major social transfers and related tax provisions. These linkages will be taken into account as the government continues to consider its options for change in this area.

C. Improving the Climate for Economic Growth

The government will continue its efforts to reduce the burden of paperwork and regulation and to advance the process of privatization of Crown corporations. It will continue to invest in scientific knowledge and will examine new ways of approaching the long-standing problem of

regional disparity. In all of these areas, the government will continue to rely on the private sector to help identify impediments to economic growth and to suggest ways of removing them.

D. Promoting Trade and International Competitiveness

Canada is a trading nation and our economic performance hinges on our ability to secure new markets for Canadian goods, enhance our access to traditional markets, and generally improve our competitive position abroad. Pursuing bilateral and multilateral trade initiatives ranks high on the agenda for the coming year.

Reference Materials

Participants in the consultative process may find the following material useful as reference documents.

- The Economy in Brief (a quarterly publication of the Department of Finance), September, 1986
- The Fiscal Monitor (a quarterly publication of the Department of Finance), August/October, 1986
- Notes for an address by the Honourable Michael Wilson, Minister of Finance, to the Canadian Club, Toronto, September 18, 1986
- Notes for an address by the Honourable Michael Wilson, Minister of Finance, to the House of Commons, October 23, 1986.
- Guidelines for Tax Reform in Canada.

Copies of this material can be obtained from the Consultations Division, Department of Finance.



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