

July 16, 2008

**Speech by the Honourable Jim Flaherty, Minister of Finance,
to the Calgary Chamber of Commerce**

Calgary, Alberta

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I want to thank the Calgary Chamber of Commerce for this opportunity to speak with you today.

I would like to talk a bit about the Canadian economy, Budget 2008, some of the challenges that we face in Canada, and the world economy.

I want to thank Jim Kinnear for the very kind introduction. He is a brilliant entrepreneur and innovative thinker, as you know, and, as I've learned, fully capable of communicating clearly and without any undue shyness about his concerns on various issues. And obviously, we have not seen eye to eye on one or two fairly substantial issues. But I do appreciate the opportunity to hear directly about issues like that.

And I had that opportunity this morning with some members of the Chamber, which is very important. I also had the opportunity the last four or five days to travel a bit in rural Alberta and to speak to the Hinton Chamber of Commerce the other night, to hear and to see more. And it's good, especially for federal politicians from central Canada, to get out and learn, as we do when we get the opportunity to do that.

I congratulate all of you on the success of the Stampede. I was here for the last day. I congratulate you also as a central Canadian on the success of the Alberta economy. We know in Ontario certainly how important it is to have this success. Now I know as the federal Finance Minister how important it is to have the strength that we see in the economy in western Canada and Alberta of course, but also in Saskatchewan and British Columbia.

We are going through turbulent times. I want to assure you that Canada's economic future is bright, and I say that based on the economic fundamentals of this country, which are solid. When we were elected in 2006, this country did not have an economic plan. We had to do a budget fairly quickly, which we did, but then we set to work on creating an economic plan, a mid- and long-term economic plan for the country, which we published in November 2006. It's called *Advantage Canada*. You can read it on the Department of Finance website.

It's important because it is our roadmap. It is the prism through which we look to see whether a public policy idea—be it a tax idea, a fiscal idea, whatever—fits with our long-term economic plan for the country. We're not trying to be all things to all people. We're trying to be focused on long-term economic sustainability and success for the Canadian economy.

We concentrate on five advantages: a Tax Advantage, a Fiscal Advantage, an Entrepreneurial Advantage, a Knowledge Advantage and an Infrastructure Advantage. You'll be happy to know I'm not going to go through all of those today but I will talk certainly about the fiscal side of things.

The goal of the *Advantage Canada* plan is to encourage growth and job creation all across Canada from sea to sea to sea. I'm happy to say that we have had significant economic growth over the past two and a half years in all regions of Canada. It's important that our job market remain solid. We had a small job loss last month nationally of about 5,000 jobs in the month of June. 290,000 jobs have been created over the past 12 months. Nearly 127,000 net new jobs

created this year alone. Three-quarters of a million jobs have been created since this government took office. Full-time jobs account for over 70 per cent of the increase. We have labour shortages, as you know, certainly here in Alberta, in most regions of the country.

CIBC's employment quality index released today shows a 2.4 per cent jump since the beginning of the year. The CIBC report notes in Canada the loss of manufacturing jobs is being offset by job gains in sectors with equivalent or higher employment quality.

Our economic fundamentals are the strongest in the G7. I'm proud to serve as the Finance Minister and travel abroad and meet with my G7 colleagues. I was speaking with one of them this morning on the phone in Europe. Our economic fundamentals are the envy of the G7. We run balanced budgets here. We have the lowest unemployment rate in a generation. Our interest rates remain low. Core inflation remains within the targeted range. Disposable incomes are going up. Our public pension plans are solid in Canada, which cannot be said in many other countries. As I say, other nations are envious of our situation.

In Alberta, certainly in Calgary, you know the importance of Canada, as Prime Minister Harper speaks of it, as an emerging energy superpower, that we have the second largest known reserves of petroleum resources in the world, we are the largest exporter of oil to the United States, the first in the world in the cleanest form of energy, hydroelectric power, largest producer of potash in the world, largest producer of high grade uranium, second largest producer of nickel, third largest producer of aluminum, third largest producer now of diamonds in the world, largest producer of forest products. Total resource wealth in Canada is now about \$1.5 trillion, which is \$30,000 for every Canadian.

The Alberta economy, as you know also, has been an economic leader in Canada. Real GDP growth forecast at 2.7 per cent this year, 3 per cent next year. Substantial increases in budgetary revenue. On track for a very substantial surplus. Exports are up 28 per cent. Non-residential building construction up almost 9 per cent.

So the economic fundamentals of Canada and of Alberta within Canada are strong. But you know and I know that we're seeing a world economic slowdown in terms of overall global GDP growth. Canada is a global trader. Therefore, Canada is not an island. We have a significant recession in the U.S. housing sector. That looks like it is going to be longer and deeper than some were anticipating in previous months.

There is volatility—and this is a matter of significant concern—in capital markets globally. There is of course the dramatic depreciation in the U.S. dollar. In Canada, the Canadian currency has borne about one-third of that burden of that rapid depreciation of the U.S. dollar. The European Union has borne about another third but they're well over 300 million people and, as you know, we're about 34 million people here in Canada.

We have the challenge of the competition from the large emerging economies—China, Brazil, India. We have a challenge with respect to an aging population, labour shortages and that demographic challenge. So in Bill C-50, the budget bill this year, we were so concerned about the economic, demographic challenge that we included amendments to the Immigration Act. And

these amendments to the Immigration Act were to give the Minister the important opportunity to make sure that we take into consideration actual economic needs in Canada when we look at immigration issues.

So these challenges are not insignificant. I'm heartened by the fact, including in central Canada, of the resiliency of businesses. The Canadian dollar has gone from 62 cents or so U.S. in 2002 to about parity today. And nevertheless, businesses have shown that resilience to a large extent and carried on.

Now a few words about the U.S. economy and Canada.

I am concerned when I read the media from time to time, including this morning—that I'm reading American news and some of the news is interpreted as being Canadian news. For example, the auto sales figures have been pretty good in Canada this year, including right through the month of May. Not so in the United States. The housing market in Canada is still solid. We expect it to continue to be solid. Certainly not so in the United States. There was no large bubble in the Canadian housing market. Huge bubble, as you know, in the U.S. housing market. Huge sub-prime issue in the United States. Very little of that here in Canada.

In addition, our financial institutions, particularly our banks, are well capitalized and strong, and our household balance sheets are strong as well.

So these are some of the fundamental differences that we see between the United States and Canada. There's also the difference between governments. That is, we run surpluses federally. We pay down debt federally. We reduce taxes federally. Similarly, all of the provinces in Canada—I always have to say this, with the exception of Prince Edward Island; we really need to fix that—all of the provinces in Canada are in surplus positions.

So this is important in terms of the difference between the U.S. economic fundamentals and our fundamentals in Canada.

Our plan, as was set out in *Advantage Canada*, is to continue to reduce taxes, reduce debt, lighten the burden on business and families, encourage free trade, support infrastructure, support research development and of course education and training. Not only do we have a plan—and lots of people have plans, I suppose—but we're implementing it.

If someone had told me two and a half years ago that we would do three budgets, five budget bills and get them all through Parliament in a minority Parliament, where we hold about 125 of more than 300 seats in the House of Commons, I would not have believed that is possible. But we have proceeded with our economic agenda, our tax reductions, our debt payoffs, and that has been successful in the House of Commons.

A few words about taxes. About \$200 billion in tax reductions so far. Canadians still pay too much tax. We have reduced every kind of tax that Canadians pay to the Government of Canada. Consumption tax, the GST, reduced by 2 percentage points. Personal income taxes reduced. Businesses taxes dramatically reduced going out to 2012. Pension income splitting for

Canadians—and I sure hear about that now in airports and so on from pensioners. They don't need to be seniors, by the way. And many of them, police officers and others, retiring in their 50s, teachers and so on, have been able to pension split for the first time for the 2007 taxation year. Rebates of \$3,000, \$4,000, \$6,000 that these families would not have received were it not for pension splitting.

And the changes we have made, unlike many of the tax changes made in the United States, are structural changes. These are fundamental changes that will continue year after year in our tax system in Canada, which is important in terms of economic stimulus to the economy. The tax level now is approaching where it was when Prime Minister Diefenbaker was Prime Minister of Canada. So that's where we're going, reducing taxes on businesses as well.

On October 30th, anticipating the significant slowdown in the U.S. economy this year and the recession in the U.S. economy in the housing sector, in the fall Economic Statement, we brought in dramatic business tax reductions federally. Go back to the 1970s, 1980s, the federal business tax base rate was about 38 per cent. When we took office it was over 22 per cent. We got rid of the capital tax. We're now down to 18, 19 per cent. We'll be down to 15 per cent by 2012. As you know, Alberta is already at 10 per cent. We've issued a challenge to all the other provinces to get to 10 per cent by 2012. Why? So we can brand Canada as a 25 per cent corporate tax jurisdiction around the world—a low business tax jurisdiction around the world.

British Columbia will be there a year ahead of time. Manitoba's going in that direction. So is New Brunswick. So is the new government in Saskatchewan. Positive indications in Quebec as well and in Atlantic Canada. Being from Ontario, as you may have heard, I have a bit of a challenge with my provincial government and I'm gently nudging Premier McGuinty and the Government of Ontario and encouraging them in the direction of reducing the burden of business taxes in that province and, importantly, since that province and a few others are not harmonized, to harmonize the PST and the GST in those provinces, which would be the single most important step that could be done to help relieve the tax burden on business. As I say, most of the other provinces are already there.

I talked about the stimulus. The stimulus that is entering the economy this year in Canada is about 1.4 per cent of our GDP. It's about \$21 billion. This is timely stimulus to our economy. The American stimulus in one-time tax rebate cheques that have been mailed out to more than 100 million Americans amounts to less than 1.1 per cent of the U.S. GDP, just by comparison.

We're working on that relationship with the provinces and with the territories in terms of tax policy. This is vitally important. Murray Edwards just served on Red Wilson's panel. The important report they did talked about economic union issues. We have to make sure that we're working together on the tax agenda, particularly on the business tax agenda. We were able to successfully arrive at a resolution of the fiscal imbalance issue during the first year or so that we were in office.

I want to say this because I hear often from municipalities, as I heard in rural Alberta a couple of days ago, about the importance of sharing tax revenues with municipalities. As you know, the Gas Tax Fund is being shared now and in the budget this year we made it permanent. The

significance of the permanence—and a number of the big-city mayors talked to me about this as we were preparing the budget—is they can now lever the money because they know they have this assured stream of revenue indefinitely into the future. Edmonton in 2009–2010: \$43.1 million. The City of Calgary in 2009–2010: \$56.4 million.

We have a new office of public-private partnerships in Ottawa called P3 Canada that reports to me in Finance, and we're ready, willing and able to help municipalities and advance the cause of public-private partnerships so that we can lever these funds and the federal infrastructure funds into more substantial investments because of the large infrastructure needs across the country.

On debt reduction, I believe in reducing debt. We're committed to reducing debt. We've reduced debt by about \$37 billion so far. We're going to continue reducing debt. Why reduce debt? Well, it puts us in good stead when we run into turbulent economic times, as we are now. It helps keep interest rates down and it does something else, and that is it helps achieve intergenerational equity. That is, we should not live as Canadians at a certain standard of living now on borrowed money and expect the next generation to pay the bill for us. So we want to accomplish that intergenerational equity by paying down debt. We can accomplish the elimination of net government debt in Canada by 2021. Australia's already done it. This is not an unachievable result, and that's the direction in which we are heading on debt.

To help manage, we have to control spending. I thank the private sector. They gave Vic Toews, the President of Treasury Board, and me advice about how we could move forward in controlling the size of the growth of spending in the Government of Canada. This is a big organization, more than 400,000 employees. And governments, as you know, have a tendency to grow and grow on their own. So now we have an Expenditure Management System in place where we are reviewing every government program, every agency, every department of the Government of Canada. It'll take us four years to do it all through Treasury Board. We've already done about 15 per cent, saved hundreds of millions of dollars so far.

The system is not terribly complicated. We took advice on this from the private sector, and that is each entity has to look at its budgeting and look at the bottom 5 per cent. What's the least important 5 per cent in your budgeting and then present that to Treasury Board, and we work from there on that. Waste in government—of course there are government programs that were put into place years ago and they're not fulfilling the needs for which they were designed or the needs are no longer there. So it's important on an ongoing basis to have fiscal integrity, that we control the spending side of government.

Now when it came to doing the budget this year, we had done the business tax reductions, the GST reductions, some personal income tax reductions—more to do certainly over time. The gap that we saw in the Canadian structure was the savings gap and that is, unlike the U.K. or the U.S., we do not have a savings plan for Canadians except for retirement savings, the RRSP. So we created the Tax-Free Savings Account—TFSA. You're going to hear a lot more about this as we move toward the end of 2008 because the financial institutions are going to be advertising and seeking Canadians to open Tax-Free Savings Accounts as of January 1, 2009. The legislation is already passed.

Five thousand dollars maximum in per year. This is tax-paid going in. Everything coming out is tax-free. An accountant in Prince George last month said it's like your own personal Swiss bank account. I'm not sure I want to use that but that's what he said to me in Prince George. It's important. Young people get it. I've been at some universities recently. They sure understand it. They're already looking at the calculator that we have on the Department of Finance website. You know the miracle of compound interest. Warren Buffett loves this, I'm sure. What it means for people over the course of their lifetime in terms of accumulating dividends, capital gains, interest—all tax-free. And the money coming out can be used for whatever purpose the individual wishes and it can be replaced in the future. This is a major tax change. This is the biggest savings tax change since the introduction of the RRSP in 1957. It's expensive over time. It means that 15 to 20 years out, about 90 per cent of the savings of Canadians will be sheltered from tax.

Now the opposition voted against—some of the opposition, the Official Opposition, of course was not present for most of these votes in any numbers. Their approach is different, as you know. Their approach on our calculations is about \$60 billion in new spending. This will mean a big tax increase to pay for the spending and, as you know, the Official Opposition has proposed a big tax increase on virtually everything in Canada. You know, some people say that the opposition would spend like drunken sailors. I've always said I think that's unfair to drunken sailors. Because, after all, drunken sailors spend their own money. So there we go.

Let me mention just one more issue. Last week we set out a couple of rules about residential mortgage insurance in Canada and, as you as Canadians and me as the Minister of Finance or the shareholder of CMHC that insures mortgages, and there are some private sector players in that sector, there is concern, I have concern, the government has concern about 40-year amortizations and very small down payments in residential housing. We of course want to avoid anything like the Americans went through in their housing sector. So we have fixed the maximum amortization period for new government-backed mortgages to 35 years, we are requiring a down payment of 5 per cent for new government-backed mortgages, and we are establishing a consistent minimum credit score requirement. This is a measured and I believe a responsible approach to residential housing financing in Canada. They are modest changes but we do want to encourage Canadians to build up equity in their homes.

A few words on the economic union. This is very important. Murray Edwards and the Wilson panel spent a good deal of time on that. We want to knock down interprovincial trade barriers. This is important for the economic growth of all of our great country. We need to improve labour mobility. I encourage the Finance Ministers when I meet with them to look at the model that Alberta and British Columbia established in this area. You have to have an enforcement mechanism to make interprovincial trade barriers go down. As I mentioned, we need harmonization of sales taxes in some provinces. And an issue with respect to which there is perhaps more controversy, but we do need to have a common securities regulator in Canada in my view, not a federal securities regulator but a regulator where the provinces and the federal government work together.

Let me conclude by repeating that our economy has solid economic fundamentals, and Canadians can take some pride in that. I can assure you that our budget will remain balanced. We

do have the strongest economic fundamentals in the G7. I can also assure you that our spending will be controlled.

Sir John A. Macdonald used to be fond of saying to his cabinet colleagues: “Look a little ahead, my friends.” And that’s what we’re trying to do in terms of the economic, fiscal and tax stewardship of the Canadian economy. It’s not always the easiest way but if it were easy, the previous government would have done it. We try to follow the tax policies that we know over time will provide sustainable growth for the Canadian economy, including the stimulus that is entering the economy this year.

Let me end with three good reasons to be optimistic about Canada and our economy. Our economy is strong. Our government is focused with strong leadership by Prime Minister Stephen Harper. And our country is united. My friends, we have a brilliant future together and I thank you for the invitation to be with you today.