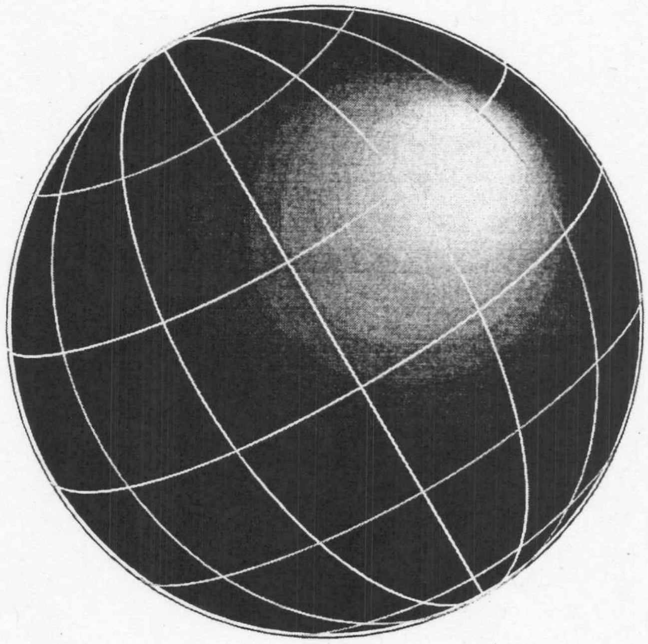
Progressive Conservative
Party of Canada

PC

Parti progressiste-
conservateur du Canada

UNLOCKING CANADA'S POTENTIAL



The Progressive Conservative Budget Plan

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Sound economic and fiscal policies are the bedrock of any country that wants to function effectively in this modern world. Economic growth is the means to achieve all the other goals we might set for our society. It is the key to unlocking Canada's potential.

PC Leader
Rt. Hon. Joe Clark

Yet our economy is nowhere near as strong as it needs to be. The Organization for Economic Co-operation and Development (OECD) is one of the most respected independent analysts in the world. Its annual report on Canada, published in December 1998, warned that current trends "could, if ongoing, lead to a substantial decline in Canada's per capita income (measured in purchasing power parities) relative to the OECD average." In simple language, the OECD warns that Canada could fall behind the countries with which we normally compete and are compared.

Jean Chrétien and Paul Martin like to say the fundamentals of the Canadian economy are sound. Some of them are but some of Canada's "fundamentals" are in bad shape. We have a $580 billion national debt, which we must begin to pay down in an orderly way. Our productivity performance is poor by our own past standards, poor by comparison with our international competitors, and still falling behind.

"Economic growth is the means to achieve all other goals we might set for our society. It is the key to unlocking Canada's potential"

Canada's tax burden is among the highest in the industrialized world. High taxation is a drag on investment, productivity, and economic growth. Canada must embark decisively and irrevocably on a policy of reducing the tax burden on our people. That burden is too heavy. Canadians earning as little as $7,000 are paying income tax. In many provinces, the top marginal rate is more than 50 per cent, and it starts at an income of $64,000. In the U.S., the top rate (federal and state combined) is in the mid-to-upper 40 per cent range. You would hit such a rate only when your income reached US$264,000.

In Canada, taxes continue to go up. Personal income tax revenue is up $20 billion (38 per cent) and Paul Martin has increased payroll taxes every year since the 1993-94 fiscal year. Meanwhile, real incomes in Canada have been stagnant or in decline.

We are paying more to government and getting less for it. Canadians deserve better.

Rt. Hon. Joe Clark

REDUCING THE TAX BURDEN ON CANADIANS

The Progressive Conservative Party is committed to providing Canadians with a nation that is fiscally sound and economically strong.

One of the keys to creating a strong and vibrant economy is a fair and reasonable level of taxation. Our plan to lower taxes will allow Canadian workers to keep more of what they earn, and stimulate economic growth.

Canada needs lower taxes NOW!

Taxes in Canada are too high. For example, Canadians hit the top marginal tax rate at roughly $64,000 while Americans reach their top rate at nearly US$264,000. These high taxes penalize initiative, slow the investment that creates jobs and drives it outside Canada, and they encourage high-skilled, entrepreneurial Canadians to seek their future in other countries.

We believe that you know how to spend your money better than the government does. Real tax cuts cannot wait until later. The next federal budget must send a clear signal that a specific portion of the fiscal dividend will be used to immediately reduce the tax burden on Canadians.

GENERAL TAX RELIEF

Initiatives in the PC plan for general tax relief:

- ✓ Increase the basic personal amount from $6,456 to $10,000 for *all* taxpayers.
- ✓ Increase the spousal amount and the equivalent-to-spouse amount from $5,830 to $10,000.
- ✓ Fully index the tax brackets.
- ✓ Cut EI premiums from $2.55 to $2.00.
- ✓ Remove the 3 per cent deficit reduction surtax entirely.
- ✓ Eliminate the 5 per cent surtax.

HOW ARE WE DOING NOW?

Canada's unemployment rate was 7.8 per cent in January 1999, nearly double the U.S. rate at 4.3 per cent.

As of January 1999, there are still 1.3 million Canadians unemployed.

Our youth unemployment rate remains at unacceptably high levels, 13.9 per cent in January 1999, almost double the national average.

The average after-tax income in Canada (adjusted for inflation) fell 7.2 per cent from the beginning of 1990 to the middle of 1998. Over the same period, real after-tax income per capita was up 9.5 per cent in the U.S.

Paul Martin and Jean Chrétien have raised payroll taxes every year since 1993.

CANADA'S TAX BURDEN

Canadian workers who earned $39,000 in 1992, paid $1,803 in CPP and EI premiums. In 1999, the same worker will pay $2,163, an increase of 20 per cent.

Raising the Basic Personal Amount to $10,000 will put as much as $900 back in the pocket of an individual taxpayer, and as much as $1,800 for a married taxpayer or a single-parent.

Personal income taxes are the largest single expenditure for Canadian households, more than food and shelter combined.

Due to rising levels of taxation and reduced disposable income, personal debt levels hit a new record of 114 per cent of disposable income in 1997.

Personal debt levels grew faster in Canada than any other G7 country over the past decade. In 1997, consumer bankruptcies reached 85,297, an all-time high.

TARGETED TAX RELIEF

Capital Gains Exemption for Small Business and Farmers

Entrepreneurs are more willing to take risks and bring their ideas to market when they know that they will be able to keep more of what they earn. In this regard, capital gains tax exemption is also important in attracting investment capital for start-up or expansion. The small and medium sized business sector is the most dynamic sector of the economy.

- ✓ The government should increase the capital gains exemption for farmers and small business owners to $750,000 from $500,000.

Reward all Emergency Service Volunteers

Currently, a tax free allowance of $1,000 is provided only to those Emergency Service Volunteers who receive remuneration for their services. This policy discriminates against rural fire-fighters, for example, who rarely receive any compensation.

- ✓ The *Income Tax Act* should be amended to provide a tax credit of $1,000 to *all* Emergency Service Volunteers.

Appropriate tax treatment for Private Woodlots

In a post Kyoto environment, the Government should be encouraging sound forest management practices.

- ✓ The government should allow forest maintenance expenses to be deducted against income.
- ✓ Private woodlot operators should be provided with the same capital gains tax exemption currently available to farmers.

The effects of our general and targeted tax relief initiatives:

- ☆ Put more money back in the pockets of Canadians and reverse the trend of declining real incomes.
- ☆ Stimulate growth in our economy and create jobs for the 1.3 million Canadians still unemployed.
- ☆ Increase our productivity growth.
- ☆ Increase tax fairness in Canada.

☆ Reduce the tax burden for those who can least afford it.

MENDING CANADA'S SOCIAL FABRIC

HOW IS OUR HEALTHCARE SYSTEM DOING?

The PC government added $6 billion to the annual health and social transfers between 1984 to 1993.

The Liberals have cut $6 billion from the annual health and social transfers to the provinces since 1993-94.

The Liberals have taken $17 billion away from the provinces for health care and social programs since they were elected in 1993.

"It is unacceptable for the Government of Canada to maintain this rule, given its enormous cost to Canadians..."
Mr. Ian Markham,
Association of Canadian
Pension Management

Restore Healthcare Funding

The priorities of Canadians have never been more apparent. They want a quality healthcare system for themselves, their children and their parents. They want to see the massive cuts to health care restored.

From 1984 to 1993, the Progressive Conservative government increased the annual cash funding for health care and social programs by $6 billion. It took the Liberals just four years to cut cash transfers for health care by $6 billion. In fact, since 1993-94, Jean Chrétien and Paul Martin have taken over $17 billion out of health care and social programs.

The results of the Liberals' cuts to health care have been longer waiting lists for diagnosis and treatment, reduced staff levels, and hospitals running deficits in an attempt to maintain proper care. We must restore the cuts of the past 5 years.

The Child Tax Benefit (CTB)

The erosion of benefits through inflation has persisted since 1986 when the full indexing protection of the CTB was replaced by a partial indexing formula.

Under the federal Liberal government, the value of the Child Tax Benefit has decreased by about $160 million per year over the last few years.

Helping Canadians retire with more

The previous Progressive Conservative government increased the RRSP foreign content limit to 18 per cent, and then to 20 per cent. We now believe this limit should be increased further, since Canada represents less than 3 per cent of the world's investment opportunities and recent studies have shown that the optimal level of foreign content in an individual's investment portfolio is more than 35 per cent.

As well, Canadians of all income levels should have the capacity to save more for retirement.

"Drastic increases in tuition fees, compounded with the student financial assistance program which is based primarily on student loans, has led to a generation of learners who are shouldering huge debt loads..."
Ms. Elizabeth Carlyle,
National President
Canadian Federation of Students

Increasing access to higher education

There is an urgent need to address the issue of access to higher education in this country.

In 1990, the average debt load of a student borrowing from the Canada Student Loans Program was $9,000 at graduation. Today, that same student has an estimated average debt load of $25,000. Canada is on the path to a being a country in which higher education is a privilege reserved only for the well-to-do.

12,000 newly graduated post-secondary students went bankruptcy in 1997, according to HRDC.

In 1997, 187,416 Canadians were waiting for surgical procedures, 8.5 per cent higher than in 1996.

Canadians were waiting nearly 12 weeks from referral to a specialist by a general practitioner (GP) to the receipt of treatment, a 28 per cent increase since 1993.

The PC plan for mending Canada's social fabric:

- ✓ Increase the cash portion of the Canada Health and Social Transfer by $2 billion per year over 3 years.
- ✓ Work with the provinces to restore the $6 billion the Liberals have cut from health care and other social programs.
- ✓ Index the Child Tax Benefit.
- ✓ Increase the foreign content limit on RRSPs to 50 per cent from the current 20 per cent level.
- ✓ Increase annual RRSP contribution limits now, and change the rules so that low and middle-income workers can save more of their income in RRSPs.
- ✓ Implement a higher proportion of grants to loans.
- ✓ Make the repayment of student loans contingent on income.
- ✓ Award Millennium Scholarships on merit as well as need.
- ✓ Make up to $4,000 of Registered Education Savings Plan (RESP) contributions tax deductible, and allow part of current RRSPs to be transferred without penalty to RESPs.

The effects of these initiatives will be:

- ☆ Reduce hospital waiting lists, provide technical equipment, and reduce the inadequacies in our healthcare system.
- ☆ Restore Canadians' confidence in our national healthcare system.
- ☆ Put more money in the pockets of parents who need our help.
- ☆ Provide Canadians the opportunity to put more money away for retirement and get a better return on their RRSPs, allowing them to retire with more.
- ☆ Increase access to post-secondary education for young

Canadians.

HOW DOES CANADA COMPARE?

Over the last two decades, Canada's productivity growth has been slower than every other G7 country.

Over the past decade, Canadian labour productivity in manufacturing has lost ground against most of the G7, as well as other industrialized countries.

Canada's tax burden is among the highest in the industrialized world, with the highest direct taxes on personal income in the G7.

THE DECLINING DOLLAR

The Loonie is 11 cents (15 per cent) lower now than the day the Liberals took office in 1993.

Due to Newfoundland's high proportion of U.S. dollar denominated debt, a 5 cent drop in the value of our dollar costs the province $6.5 million over a 12 month period.

The Nova Scotia government claims the diving dollar has added as much as $50 million to its annual debt servicing charges.

INCREASING CANADA'S PRODUCTIVITY

Productivity measures what an economy produces, given the human and capital resources invested in it. Canada's productivity growth has been declining for the past two decades. In fact, our productivity performance has been so poor that the OECD has warned Canada that if this trend continues, Canadians could experience a drop in our living standard from 10 per cent above the OECD average, where we are currently, to 15 per cent below the average in just 20 years.

Canada's poor productivity performance has been one of the major reasons for the decline in the value of our dollar (other reasons include high levels of taxation and government debt, declining commodity prices). This low productivity growth began a vicious cycle because our low dollar decreases the incentive to innovate and promotes a "laziness" in our manufacturing sector which, in turn, reduces productivity growth further and drives our dollar lower.

Paul Martin and the Liberals are well aware of this phenomenon yet they have done nothing to reverse this trend. The OECD, among others, has recommended a number of initiatives to increase Canada's productivity and our standard of living.

The PC plan for increasing Canada's productivity:

- ✓ Provide Canadians with *real* tax relief.
- ✓ Set firm goals for reducing Canada's public debt.
- ✓ Create the environment where capital investment, entrepreneurship, and innovation can flourish.
- ✓ Reduce barriers to inter-provincial trade and reduce the regulatory burden on Canadians and Canadian corporations.

The effects of these initiatives will be:

- ☆ A tax burden that Canadians can more easily manage.
- ☆ A tax system that rewards risk, innovation, and success.
- ☆ Enhance Canada's competitiveness against our global

competitors.

☆ Increase the standard of living for all Canadians.

OTHER MEASURES TO INCREASE PRODUCTIVITY

CANADA'S DEBT BURDEN

The net public debt stood at $580 billion at the end of the 1997-98 fiscal year.

The cost to service the federal government's debt was $41 billion in 1997-98.

For every dollar we send to Ottawa, 27 cents goes to pay interest on the debt.

Canada has the second highest debt-to-GDP ratio in the G7 and we are well above the OECD average of 50 per cent.

"Much of the credit for deficit reduction [in Canada] goes to the passage of time and successful reforms earlier this decade."
The Economist magazine

Restore Parliamentary control over estimates

✓ A certain number of departments, selected by the Opposition, should have their Estimates scrutinized by Parliament, without a time limit. The Ministers would have to be prepared to defend each item in their budget.

Implement a "Regulatory Budget"

✓ The government should implement a "Regulatory Budget," which would detail estimates of the total cost of regulation, including the government enforcement costs and the cost of compliance to individual citizens and businesses. The "Regulatory Budget" would also include a risk/benefit assessment of the regulation to enable cost-benefit analysis by parliamentarians.

REDUCING THE SIZE OF CANADA'S DEBT

Canada's debt-to-GDP ratio in 1998 was nearly 68 per cent, not much lower than the peak two years ago at 71.9 per cent.

The net public debt stood at $580 billion at the end of the 1997-98 fiscal year and the cost to service it was $41 billion. For every dollar we send to Ottawa, 27 cents goes to pay interest on the debt.

Canada must reduce its debt-to-GDP ratio:

- To increase productivity – the government should contribute to the savings of the economy, not be a drain upon it.
- To reward Canadians with a well deserved ***fiscal dividend***.
- To free up resources and prepare Canada's healthcare system and social programs for the financial strain that will come as the population ages in the following decades.

The Chrétien government has refused to establish clear targets for debt reduction and debt-to-GDP ratios.

The PC plan to reduce the debt burden:

✓ Set firm and measurable goals, then stick to them.

✓ Canada should aim to reduce its debt-to-GDP ratio to the OECD average of 50 per cent by 2003-04.

Highlights of the PC Budget Plan

- ✓ Increase the basic personal amount and the spousal & equivalent-to-spouse amount to $10,000.
- ✓ Fully index the tax brackets.
- ✓ Cut EI premiums to $2.00.
- ✓ Eliminate the 3% and 5% surtaxes.
- ✓ Increase the capital gains exemption for farmers and small business owners to $750,000.
- ✓ Implement $1,000 tax credit for all Emergency Service Volunteers.
- ✓ The government should allow forest maintenance expenses to be deducted against income and provide the same capital gains tax exemption currently available to farmers.
- ✓ Increase the cash portion of the CHST by $2 billion per year for the next 3 years.
- ✓ Index the Child Tax Benefit.
- ✓ Increase the foreign content limit on RRSPs from 20 to 50 per cent.
- ✓ Increase annual RRSP contribution limits now, and change the rules so that low and middle-income workers can save more of their income in RRSPs.
- ✓ Implement a higher proportion of grants to loans for students.
- ✓ Make the repayment of student loans contingent on income.
- ✓ Award Millennium Scholarships on merit as well as need.
- ✓ Make up to $4,000 of Registered Education Savings Plan (RESP) contributions tax deductible.
- ✓ Restore Parliamentary control over estimates.

Savings to Canadians from PC Tax Relief

A Single Earner making $20,000

	Liberals	*PC*
Income Taxes*	$3,795	$3,211
EI Premiums	510	400
	4,305	3,611
Annual Tax Savings		***$694***

A Single Earner making $35,000

	Liberals	*PC*
Income Taxes*	$8,175	$7,455
EI Premiums	893	700
	9,068	8,155
Annual Tax Savings		***$913***

Family: One income of $35,000

	Liberals	*PC*
Income Taxes*	$7,261	$5,755
EI Premiums	893	700
	8,154	6,455
Annual Tax Savings		***$1,699***

Family: One income of $45,000

	Liberals	*PC*
Income Taxes*	$11,122	$9,620
EI Premiums	995	780
	12,117	10,400

- ✓ Implement a "Regulatory Budget."
- ✓ Canada should aim to reduce its debt-to-GDP ratio to the OECD average of 50 per cent by 2003-04.

Annual Tax Savings	***$1,717***

*Provincial income taxes assumed 50%

Progressive Conservative Party of Canada
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Scott Brison
PC Finance Critic
Member of Parliament
for Kings-Hants

The policies of the Progressive Conservative Party reflect what is important to Canada because they are based on ideas shared by Canadians. We encourage you to contact us with *your* views. Please write to:

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The 1999 Budget will provide Canadians with a clear view of the Liberals' direction on the very important financial matters facing our country.

We live in a world that is changing at an unprecedented pace. Globalization and the forces of technology create change on a daily basis. Governments will only be successful in bringing their countries into the new millennium as full participants in the world economy if they have the vision and leadership to do so.

The Liberals have no real agenda, no firm vision. They are a government on cruise control, a government without leadership. Instead of looking well into the next century, in terms of where it wants to take this country, the Liberals are focused solely on the next election.

The only objective that this government has been successful in achieving has been the elimination of the deficit. This is an achievement completed on the solid foundation built by the previous PC government. Indeed, it was the Rt. Hon. Joe Clark who began Canada's shift to fiscal responsibility back in 1979.

The credit, however, for Canada's balanced books belongs to Canadians. Canadians have borne the brunt of deficit reduction. Canadians now deserve the rewards of that hard-fought battle: an improved healthcare system, a reduced tax burden, and a healthier and more vibrant economy.

Scott Brison, MP (Kings-Hants)

PROGRESSIVE CONSERVATIVE BUDGET INITIATIVES TO UNLOCK CANADA'S POTENTIAL

Initial Impact on Federal Government Finances

Year 1: 1999-00	($millions)	Year 2: 2000-01	($millions)	Year 3: 2001-02	($millions)
Increase Basic Personal Amount to $7,500	1,800	Increase BPA to $8,500	2,500	Increase BPA to $10,000	3,750
Increase Spousal Amount to $7,500	840	Increase SA to $8,500	400	Increase SA to $10,000	600
Eliminate 3% surtax	1,050	Reduce 5% surtax to 2.5%	325	Eliminate 5% surtax	325
Cut EI premiums to $2.40	1,050	Cut EI prem's to $2.20	1,400	Cut EI prem's to $2.00	1,400
RESP Phase 1	200	RESP Phase 2	350	RESP Phase 3	500
		Capital Gains Exemption(1)	500	Capital Gains Exemption(2)	490
Increase CHST	2,500	Increase CHST	2,000	Increase CHST	1,500
Debt Payments	5,000	Debt Payments	5,000	Debt Payments	5,000
TOTAL	**$12,440**	**TOTAL**	**$12,475**	**TOTAL**	**$13,565**

Note: The impact of Fully Indexing the Tax brackets should not be listed as a "cost" to the federal treasury. Fully indexing the tax brackets does not actually force the government to give up any revenues. Rather, it forces it to stop automatically increasing revenues. The automatic growth in revenues that would otherwise occur with partial indexing is estimated to be $840 million, and $1.7 billion in year 2.

PROGRESSIVE CONSERVATIVE REPAYMENT SCHEDULE ON CANADA'S FEDERAL DEBT

Fiscal Year	End of Period Net Debt	Debt Payment For the Period	End of Period Nominal GDP	Debt-to-GDP	Nominal GDP Growth
1996-97	583.2		820.8	71.1%	
1997-98	579.7	3.5	855.5	67.8%	4.2%
1998-99	573.7	6.0	885.4	64.8%	3.5%
1999-00	568.7	5.0	918.2	61.9%	3.7% [1]
2000-01	563.7	5.0	956.8	58.9%	4.2%
2001-02	558.7	5.0	999.8	55.9%	4.5%
2002-03	553.7	5.0	1042.8	53.1%	4.3%
2003-04	549.2	4.5	1086.6	50.5%	4.2%
2004-05	544.7	4.5	1130.1	48.2%	4.0% [2]
2005-06	540.2	4.5	1175.3	46.0%	4.0%
2006-07	535.7	4.5	1222.3	43.8%	4.0%
2007-08	531.7	4.0	1271.2	41.8%	4.0%
2008-09	528.2	3.5	1322.0	40.0%	4.0%
2009-10	524.7	3.5	1374.9	38.2%	4.0%
2010-11	521.2	3.5	1429.9	36.4%	4.0%
2011-12	517.7	3.5	1487.1	34.8%	4.0%
2012-13	514.7	3.0	1546.6	33.3%	4.0%
2013-14	511.7	3.0	1608.5	31.8%	4.0%
2014-15	508.7	3.0	1672.8	30.4%	4.0%

Note 1: With the status quo, real economic growth for 1999 is expected to be only 2-2.25 per cent (*i.e.*, nominal growth of 3-3.25 per cent). The tax relief provided in the PC Plan will stimulate domestic demand, and therefore, economic growth beyond the status quo projections.

Note 2: For simplicity of projections, there has been no recession factored into this analysis but the business cycle is not dead and there could be a recession (or two) within this time frame.