

November 2, 1999

The Economic and Fiscal Update

Highlights



***Translating
better finances
into better lives***

CanadaTM

“The Government will continue to build a better environment for economic growth and enhanced productivity by reducing the debt burden, cutting taxes and making strategic investments.”

Prime Minister Jean Chrétien
Speech from the Throne
October 12, 1999

“In these – the closing days of the 20th century – Canada has a unique opportunity to take hold of its destiny. To translate better finances into better lives for all.”

Finance Minister Paul Martin
1999 Economic and Fiscal Update speech
November 2, 1999

Introduction

Canada is entering the new millennium with a strong, growing economy and its finances in order.

We have finally left behind a long period of deficits and rising debt.

As we enter this new era, a debate among Canadians has begun on what should be done with budgetary surpluses.

Canadians are being asked: Should they be used for tax cuts? Debt reduction? New investments?

How much should be used for each? How fast? For whom? To what end?

The choices Canadians make in using the surpluses will help determine the Canada of the coming century.

A Strong Economy

The evidence of our economic strength is clear:

- Since 1998, more than 600,000 new jobs have been created in Canada and average economic growth for 1999 is estimated at 3.6 per cent.
- The unemployment rate has fallen to 7.5 per cent, its lowest level in nine years.
- Inflation is low.

In fact, Canada is expected to lead the other G-7 countries – United States, United Kingdom, France, Germany, Italy and Japan – in job creation this year and next.

A New Era of Financial Flexibility

Canada's strong economic performance goes hand-in-hand with a strong financial performance. Canadians have achieved a fiscal turnaround of historic proportions – in four years we eliminated a \$42-billion federal deficit.

For the first time in almost 50 years, since 1951-52, Canada recorded back-to-back surpluses:

- \$3.5 billion in 1997-98; and
- \$2.9 billion in 1998-99.

To ensure we do not fall back into deficit, the Government annually sets aside \$3 billion in a Contingency Reserve to guard against unforeseen developments. If not needed, the Contingency Reserve is used to pay down the national debt.

As well, the Government builds an extra degree of prudence into its forecasts.

Taking the average private sector forecast of the surplus – and subtracting the \$3-billion Contingency Reserve each year and the extra

prudence, starting at \$1 billion in the first year and rising to \$4 billion in the fifth year – the estimates of the planning surplus over the next five years are:

- 2000-01: \$5.5 billion;
- 2001-02: \$8.5 billion;
- 2002-03: \$12.5 billion;
- 2003-04: \$17.5 billion; and
- 2004-05: \$23 billion.

These planning surpluses will be used for discussion and planning. But they are only projections.

No one can say exactly how the economy will evolve and what the Government's resources will be five years from today.

Because of the greater degree of uncertainty associated with longer-term projections, budget decisions will, therefore, continue to be made on a rolling two-year time horizon.

Building the Canada of the 21st Century

The Government has a multi-faceted plan to ensure Canadians better lives in the new economy of the 21st century.

The plan has four key elements, including:

- Continuing to provide sound financial management.
- Promoting economic growth and a better quality of life by reducing taxes.
- Making our economy more competitive through innovation.
- Providing Canadians security and opportunity by helping them acquire education, knowledge and skills.

Providing Sound Financial Management

Canada has won the battle against the deficit, but it must still win the war against the national debt.

Progress is being made:

- \$6.4 billion of net public debt has been paid down;
- \$16.4 billion of debt has been retired from credit markets; and
- the net debt-to-GDP ratio dropped from 71.2 per cent in 1995-96 to 64.4 per cent last year.

But much more remains to be done.

Canada's current national debt of \$576.8 billion has very real consequences for Canadians. For every dollar the federal government receives in revenue, it pays 27 cents in interest on the debt.

This represents the single largest expenditure the federal government makes each year, almost twice as much as its next largest expenditure – pensions for seniors.

It is money that could otherwise go to cutting taxes, reducing child poverty or investing in education and health care.

Reducing Taxes for Canadians

Personal income tax reduction is central to the Government's agenda.

The principles of the Government's tax plan are clear:

- Tax reduction must be fair; it must first benefit those who need it most: middle- and low-income Canadians, especially families with children.

- Broad-based tax relief should focus first on personal income taxes.
- The business tax system must be internationally competitive.
- Broad-based tax relief should not be funded with borrowed money.

Tax relief has already begun.

In 1997 and 1998 it focused on those with lower incomes.

In the 1999 budget it was provided to all Canadians, with middle- and lower-income Canadians proportionately receiving the largest tax cuts.

Together, the 1997, 1998 and 1999 budgets reduce the income tax burden of Canadians by some 10 per cent.

The employment insurance premium rate will decline from \$2.55 to \$2.40 for 2000 – the sixth consecutive annual decline.

The Government will set out a multi-year plan to cut taxes further in the next budget.

Making Our Economy More Competitive Through Innovation

The economies that will thrive over the next decade will be those that excel at innovation.

All of us have a role to play in building an economy that can innovate and compete with the best in the world.

We must continue to support the kind of ground-breaking research and development that will provide innovative ideas and methods that can generate even more economic growth 10 or 20 years from now.

That is why the Government:

- Established in 1997 the Canada Foundation for Innovation, which through partnerships will lead to over \$3 billion in world-class research facilities at universities, colleges and research hospitals.
- Increased funding to its highest level ever for the Government's granting councils, which provide research funding to universities and research hospitals.
- Promised in the Speech from the Throne that up to 2,000 new research chairs will be created in Canadian universities to provide support for the world-class researchers of today and future generations to work in Canada.

Investing in Skills and Knowledge

We must also work to expand opportunity for Canadians.

Education – skills and knowledge – is key to providing Canadians with flexibility in the face of a changing global economy.

It is also the best guarantee of higher incomes, greater job security and a better quality of life for all Canadians.

To that end, the Government attaches great importance to:

- Providing support for advanced research to enhance knowledge and foster innovation.
- Doing its part to provide our children with the best possible start in life.
- Developing a highly skilled and highly educated work force by encouraging lifelong learning.

Choices Ahead

***“Clearly, Canada has entered
a new era, one of financial surplus.***

***And clearly, a great debate
is now underway as to how
these surpluses should be used.***

This is an important debate.

***It should go to the heart
of the country’s values,
its goals and its options
for reaching them.”***

Finance Minister Paul Martin
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How can I get more information on the 1999 Economic and Fiscal Update?

Information is available on the Internet at:
<http://www.fin.gc.ca/>

You can also obtain copies of this pamphlet
from:

Distribution Centre
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