Wednesday, September 25, 2002.

Hon. John Manley, Deputy Prime Minister
and Minister of Finance
Department of Finance
L?Esplanade Laurier
Ottawa ON K1A 0G5 Via Fax & Post

Dear Minister Manley:

This letter is a follow-up to my earlier correspondence of July 23rd, 2002. While the CTF has not received a formal reply in response to our request for a pre-budget meeting, the phone conversations I have had with your staff in an attempt to schedule an October face-to-face meeting have been productive and I have no doubt that we will be able to meet as soon as your schedule allows.

The purpose in writing to you today is three-fold:

- To impress upon you the need for the tabling of a full budget document this fall;
- To offer our support in your quest to ensure that Canada does not return to an era of deficit spending; and
- To forward our vision for the forthcoming budget … a back to basics approach.

The Prime Minister in several recent speeches - most notably his address in the Saguenay on August 20th - has already hinted at the big-picture contents of the agenda the Government of Canada is likely to outline next week. And there is little doubt among Canadians that the forthcoming speech from the Throne will focus on the themes of inclusion, innovation and investment.

In and of themselves, these are laudable themes to underpin any government's policy agenda. However, the choice of policy vehicles and instruments to address these themes will determine the stability or instability of the government's fiscal position. This issue is of great concern to our 61,000 supporters and to Canadian taxpayers as a whole.

This is why it is imperative that you, as Minister of Finance, quickly - allowing for the appropriate pre-budget consultations to occur - follow-up next week's Speech from the Throne with a full budget document.

Allowing for important pre-budget consultations, a complete budget document could still be tabled in the House of Commons by late-November or early-December. Given this scenario, your comments after yesterday's Cabinet meeting all but ruling out a fall budget are very disappointing and quite frankly, irresponsible.

The budget is necessary to complement the generalities in the Speech from the Throne with a detailed costing of the government's agenda to offer Canadians a more complete picture of the government's plan and thereby facilite an informed debate amongst us. Moreover, tabling a budget this November would coincide with the full calendar year that has passed since your predecessor, Paul Martin, tabled his last budget on December 11, 2001. This would also facilitate provincial budget planning for fiscal 2003/2004 affording each province ample opportunity to clarify transfers and other issues with federal officials and table each of their respective budgets prior to March 31, 2003.

Waiting until February 2003 or later to table a budget will once again plunge us into the unacceptable spectacle of Cabinet Ministers parading around the country and in essence governing by press conference and ministerial fiat. Furthermore, this development would run contrary to the doctrine of accountability, transparency and legitimacy espoused earlier this summer when lecturing corporate Canada on its governance practices and shortcomings.

Turning to our national finances, we do applaud your repeated public statements that you will not tolerate Canada returning to an era of deficit spending. Indeed, even with the most severe economic downturn, this need not be an eventuality that Canada should ever face. Prudent planning through the allocation of the annual contingency reserve along with another round of program review - starting with the annual departmental re-profiling process as a baseline - would ensure that the federal government could respect its tax reduction schedule, meet key program commitments and continue to pay down debt on an annual basis.

Mr. Minister, your task in fashioning a budget will not be an easy one. You are confronted with the double challenge of meeting increased public expectations in an era of economic uncertainty and tight fiscal resources. In this sense, your task is actually more daunting than that of your predecessor in the Finance portfolio.

To this end, allow me to conclude this letter by sharing our Back to Basics: ABCDEFG budget vision with you.

A - Abolish the capital tax. Taxing plant and equipment is punitive, stifles innovation and retards economic growth. Elimination of the two classes of capital tax would remove a $1.4 billion tax burden from Canadian businesses - large, medium and small.

This move would be fairer and more immediate in terms of economic return than the government's present practice of picking market winners and losers through Technology Partnerships Canada and other "corporate welfare" schemes.

B - Basic standard of living. The federal government should rename the basic personal exemption (BPE) as the basic standard of living credit (BSLC) and lay out a three-year plan to raise this amount to $10,000 en-route to $15,000 over six years. The amount of $15,000 represents the average gross income earned presently by someone working in a minimum wage job.

If we are to raise the standard of living for all Canadians, clearly a key component of this strategy must start with allowing low-income Canadians to keep more of their income before paying the taxman.

Similar to the government's move to re-index the tax system to inflation in the February 2000 budget, changing the BPE to a more generous BSLC represents the ideal partnership of good fiscal and great social policy.

C - Corporate Welfare. To be very blunt, end it now. The government must move as quickly as possible to wind down its myriad industrial subsidy programs and regional development initiatives and replace them with equivalent business tax reductions. The examples of Ireland and several southeastern American states and their consequent economic growth are proof of the success that results from this approach.

D - Debt Reduction. We applaud the government's progress to date in reducing the debt-to-GDP ratio. However more work must be done to reduce the 24 cents of each tax dollar still devoted to annual debt interest payments. Adoption of the CTF's long-standing proposal for a legislated schedule of debt reduction - devoting a fixed minimum amount of revenue each year to actual net debt retirement - is long overdue.

E - End EI and CPP premium employer overpayments. As employees move between jobs, a whole new set of payroll taxes are paid by workers and employers. While workers can recoup this money at tax time, employers cannot and it costs them an estimated $750 million annually. Elimination of this form of double taxation would allow businesses to reinvest in their enterprises and employees, further fuelling a real and sustainable innovation agenda.

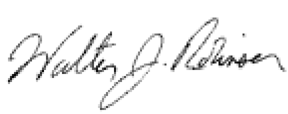
F - Forces and the Family. The federal government must begin to repair the 30-year evisceration of the Canadian Armed Forces. Adopting several of the recommendations in the recent report from the House of Commons Standing Committee on Defence and Veterans Affairs, especially in the areas of equipment modernization, would be a positive step in rebuilding our military capacity in order to achieve our security and foreign policy objectives.

The government should also explore the most appropriate manner by which it can adopt the 1966 Carter Commission on Taxation recommendation advocating that the "family" be used as the base unit of taxation.

G - Gas taxes for cities. In addressing urban agenda priorities, the federal government should adopt the CTF's Municipal Roadway Trust formula to devote $2.2 billion in gas taxes each year for the next three years to fund roadway improvements in Canada's cities.

Thank you in advance for considering our suggestions and I look forward to meeting with you next month to further elaborate on our pre-budget proposals. In the meantime, should you have any questions, I can be reached at 613-234-6554 or 1-888-236-8490.

Regards …



Walter Robinson
Federal Director