THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

Pre-Budget Submission to the House of Commons Standing Committee on Finance

August 2012

Introduction

The Canadian Chamber of Commerce welcomes the opportunity to participate in pre-budget consultations and to share our views on the questions posed by the House of Commons Standing Committee on Finance:

1. Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

2. As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

3. What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

4. With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

5. With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

We note that the answers to these questions are interlinked and, therefore, public policies must be implemented consistently with due regard to possible trade-offs and complementarities.

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The decades-long experience of OECD countries has shown that a strong policy framework based on four principles—inflation control, fiscal prudence, trade openness and structural reform—is key to sustaining economic growth. A sound financial system is the anchor since the ability of households and businesses to hold and transfer financial assets with confidence is a fundamental building block of any economy.

With this in mind, the Canadian Chamber of Commerce calls on the federal government to:

- Continue to support the Bank of Canada's inflation-targeting framework. Low, stable and predictable inflation is a prerequisite to a well-functioning economy. Consumers and businesses have greater certainty and confidence to plan for the future because they know the purchasing power of their savings and income will not erode over time. Low inflation helps keep interest rates low enabling households to spend on big-ticket items and businesses to finance their day-to-day operations, expand and invest in machinery and equipment.

- Balance the federal books by 2015 by restraining annual government spending growth. As we have seen in Europe, deficits can quickly spiral out of control triggering a financial and economic crisis. Investors and markets need assurance that the government will not veer away from the current plan to return to surplus in the medium-term. We also need to get our finances in order to regain the financial flexibility to deal with an aging population and tackle areas that are crucial to Canada's long-term competitiveness, like reducing high and uncompetitive marginal personal income tax rates that discourage people from working, saving and upgrading their skills.

- Pursue an ambitious, comprehensive and forward-looking strategy focused on boosting Canada's trade and investment ties with other nations. Openness to trade and integration into global markets is a potent stimulant for higher and sustained growth. Competition fosters efficiency, fuels innovation, raises productivity and leads to better paying jobs.

- Remove long-standing structural impediments to productivity and economic growth, especially internal barriers to trade and mobility, work disincentives

- including those imbedded in Employment Insurance, and burdensome regulations. A more responsive and flexible economy will deliver higher growth.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

To create quality, sustainable jobs, Canada must embrace a culture of innovation. Innovation has led to new industries and new jobs in high-tech and advanced manufacturing sectors like aerospace, nanotechnology, life sciences and alternative energy. More jobs have also been created in support-related fields; for example, jobs related to the building of broadband networks and advanced infrastructure.

Yet, when it comes to the capacity for innovation, Canada ranks 19th in the World Economic Forum's *Global Competitiveness Report*.

To foster innovation, the government should:

- Develop and maintain one of the most skilled, educated and entrepreneurial workforces in the world.
- Foster stronger linkages between the public, private and academic sectors undertaking R&D to accelerate the pace of discovery and turn Canadian research efforts into successes in the marketplace.
- Strengthen Canada's intellectual property rights regime.
- Consult with industry and other key stakeholders before making any changes to the SR&ED Investment Tax Credits program. A misstep could cause a massive loss of the high-value added employment and investment in Canada that is needed to sustain our recovery.

To promote job creation, we must also diversify our international trade portfolio. While the U.S. remains the world's largest economy, it is not growing as fast as it use to. Emerging-market economies remain the engines of global growth and are expected to continue to outperform Western nations. For Canada, emerging-market economies constitute a vast reservoir of untapped demand. In 2011, only

3.8% of Canada's merchandise exports went to China, accounting for just 1.1% of Chinese goods imports. Similarly, just 0.6% of Canada's merchandise exports headed for India, supplying just 0.8% of India's import demand.

Like trade, foreign direct investment is an important tool for building economic prosperity. It creates jobs in the host country, facilitates economic expansion, helps to create a more competitive business environment and contributes to productivity-enhancing investment in machinery and equipment. For these and other reasons, most countries are eager to attract direct investment from around the world. Canada has much to gain by reducing uncertainties around the foreign investment review process by making it more transparent and predictable.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

With the oncoming retirement of the baby boomer generation, immigration's role in the Canadian economy will grow. Addressing integration issues—inadequate language skills and credential recognition—is crucial to immigrants' success in the labour market.

To achieve better labour market outcomes for newcomers, we urge the government to proceed with the proposed changes to the Federal Skilled Worker Program—i.e. increasing minimum language thresholds and points for language; making changes to the assessment of education points to reflect a foreign educational credential's value in Canada; and assessing and verifying credentials before applicants arrive in Canada. As a longer-term goal, the government should work to establish a single, national regulatory body tasked with assessing foreign credentials for each regulated profession using a national qualification framework.

The government is also exploring an "expression of interest" system (as implemented in Australia and New Zealand) to select skilled immigrants. Individuals interested in migrating to Canada for employment would record their details online. Employers and federal and provincial/territorial officials would select from the pool of candidates those who meet their criteria. Those selected would be invited to make formal applications. If the government adopts such a system, it should affirm the employer's role in the immigrant selection process.

Skills and labour shortages can also be addressed, in part, by leveraging the youngest and fastest growing segment of Canada's population—Aboriginal peoples. The 2006 Census reported almost 470,000 Aboriginal peoples under the age of 20. Lower levels of education remain a major obstacle to their full participation in the workforce. The federal government funds programs for First Nations and Inuit peoples to attend post-secondary institutions and, therefore, has an important role to play to remove barriers to post-secondary education faced by Aboriginal youth. The extension of funding to Métis peoples would also assist in leveraging the potential of that segment of our population.

It is also imperative that the government provide further funding for First Nations on-reserve education to bring it on par with the appropriate per-student provincial funding for elementary and secondary education. Additional funding should be provided when new provincial/territorial education initiatives are implemented.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Improvements in labour productivity can mitigate the negative impact an aging population and a declining labour-force participation rate can have on Canada's economic growth.

Over the past 25 years, successive government in Canada have done many things right to support productivity growth—they have negotiated free trade agreements, increased funding for R&D, reduced business taxes, eliminated capital taxes, eliminated import tariffs on a broad range of machinery and equipment and invested in public infrastructure.

There remains plenty of room for additional productivity-enhancing reforms. For example:

- Many low- and modest-income Canadian families pay higher effective marginal tax rates on their labour earnings than individuals at the top of the income spectrum. Punishingly high marginal tax rates discourage people from working, saving and undertaking further education and training, thus, negatively affecting productivity. Pro-growth tax reform is needed.

- Canada's Employment Insurance (EI) system, with its variable entrance requirements, allocates benefits based on local unemployment rates across 58 regions. Where benefits are less accessible, Canadians who lose their jobs are unfairly treated. Where they are more accessible, they discourage labour mobility both within and among provinces and dissuade some workers from pursuing skills development or education. This undermines overall economic output and hampers productivity. The government should move toward a nationally standardized EI system.

- Only workers eligible for EI benefits, or recent EI recipients, can access training programs funded by EI premiums. As a result, many unemployed Canadians who are not eligible for EI do not have access to training. Additionally, given the very different levels of EI coverage across Canada, federal support for training varies widely across Canada. To help support the development of human capital and, thereby, boost productivity, the government should remove the training component from EI and fund all training through a general revenue-funded transfer to the provinces/territories.

The private sector also needs to do more in terms of investing in R&D, in new and better machinery and equipment, in information and communications technology and in the development of new processes. It needs to continue to focus on workplace training and on implementing innovative business practices.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Economic uncertainty poses the biggest challenge to businesses, individuals and communities. A deteriorating global backdrop is holding back business sentiment and household confidence and is affecting spending, hiring and investment in communities across the country.

For Canadians, managing record-high household debt levels is a major challenge. We believe the government's decision to tighten mortgage insurance rules is prudent and will help address the risks stemming from personal debt.

Businesses also face challenges. As a result of slow productivity growth and a strong dollar, Canadian unit labour costs have increased sharply compared with other countries, eroding the competitiveness of Canadian-made products. Additionally, Canadian businesses are facing greater direct competition as emerging-market economies move up the value chain. The end result is increased import penetration into Canada and a loss of market share in key export markets. The best thing the government can do is put in place policies (as outlined in our submission) that will enhance businesses' competitiveness.

Communities are under increasing pressure to find effective ways to respond to the growing needs of their citizens. They must not only find local revenue sources to pay for quality services and build and maintain quality infrastructure, they must also manage shrinking budgets with greater efficiency. We applaud the federal government's commitment to a new, national infrastructure investment plan designed to meet on-the-ground challenges and we encourage all levels of government to work together to address the fiscal challenges facing communities across the country.

Remote communities provide the natural resources that fuel our economy and sustain our society. These communities face serious challenges due to sparse and (with the exception of Aboriginal peoples) aging populations, distances from markets, limited infrastructure, and the perception that government spending directed to them is a "subsidy". Government needs to communicate the economic importance of remote communities to all Canadians. It can also attract private sector investment to remote communities and improve their long-term economic/social prospects by ensuring skills/training programs meet employers' needs and are flexible enough to accommodate communities' social realities; by engaging the private sector in infrastructure projects; and by continuing to streamline regulation.

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