

Federal *Budget 2017*¹ Policy

Issue

The Government of Canada should outline a clear path to balanced budgets, while preparing the Canadian economy for success in a global context.

Background

Canada's Economy

The Canadian economy is beginning to recover, following weakened export activity and the full ripple effects of severe commodity price fluctuations. The OECD estimates that the Canadian economy will grow by a modest 2.4% in 2017. The national unemployment rate has dropped below 6.7% for the first time in two years.² While oil prices have rebounded slightly since their February 2016 low of \$16.30, Western Canada Select oil still sells for approximately 30% less than its five-year average price.³

The overall health of the Canadian economy is dependent on robust trade opportunities. Currently, three-quarters of Canadian exports remain destined for the United States. Canadian governments (federal and provincial) and industry leaders have long recognized and championed the merits of having diverse export opportunities and open markets. With the uncertainty created by the United States' current approach to trade (withdrawal from the TPP, application of North American border tariffs, NAFTA renegotiation, etc.), the need for Canadian businesses to extend their market reach beyond the United States is critical for their stability and ongoing sustainability. The ratification of a free trade agreement between Canada and the European Union⁴ would be a major step toward diversifying Canada's export market opportunities. However, all orders of government (led by the federal government) together with businesses in all sectors must actively continue to explore trade opportunities worldwide to ensure the long-term growth of the Canadian economy.

Economic Diversification and Innovation

To spur innovation and economic diversification, the federal government has allocated \$950 million in *Budget 2017* for the Innovation Supercluster Initiative⁵ over the next five years (2017–2022). This funding is intended to incent the creation of focused and innovative industry ecosystems as seen in regions such as Silicon Valley, Berlin and Tel Aviv.

Groups will compete for this funding, and eligible sectors include:

- Advanced manufacturing
- Agri-food
- Clean resources
- Clean technology
- Digital technology
- Health and bio-sciences

¹ <http://www.budget.gc.ca/2017/home-accueil-en.html>

² CANSIM Table 282-0087

³ Alberta Economic Dashboard

⁴ Canada-European Union Comprehensive Economic and Trade Agreement (CETA):
<http://www.international.gc.ca/gac-amc/campaign-campagne/ceta-aecg/index.aspx?lang=eng>

⁵ <https://www.canada.ca/en/innovation-science-economic-development/programs/small-business-financing-growth/innovation-superclusters.html>

- Infrastructure
- Transportation

While \$950 million is a significant investment, the federal government will need to allocate these funds wisely to maximize future gains. If funding is spread too thinly, the results may be negligible. The federal government should instead target regions (e.g., multiple cities working together on a particular innovation theme) that are experiencing growth within those industries. By limiting the number of industries receiving funding, the federal government will realize greater returns through focused investment.

Investment Attraction

Canada also has much to gain by using the tax system optimally to promote employment, productivity and higher living standards. Reducing our heavy reliance on economically damaging income and profit taxes, broadening the tax base, creating a more neutral business tax system and reducing compliance costs for taxpayers will enhance Canada's international competitiveness.

The following are long-standing principles of good tax policy:

- **Tax Neutrality:** Economic activities should bear similar tax treatment to encourage the best allocation and profitable use of resources in the economy.
- **Tax Equity or Fairness:** A tax system should distribute its burdens fairly. There are two dimensions to equity. The first facet is that people in similar economic circumstances should receive the same tax treatment (horizontal equity). The second aspect is based on the notion that the more an individual earns, the more income tax the individual should pay (vertical equity).
- **Efficiency:** The tax system should minimize adverse effects on taxpayer behaviour that undermine the efficiency of the economy.
- **Simplicity:** The system should be simple, transparent and easy to understand and comply with.
- **Minimize Compliance Costs:** The *Income Tax Act* continues to become more complex and this complexity creates additional compliance burdens and costs to many privately held companies.

It is of crucial importance that the Government of Canada continue to closely monitor changes to taxation and the regulatory burden in the United States. If the United States applies significant cuts to corporate taxes and weakens environmental protections, Canada may find itself at a competitive disadvantage when attracting international investment.

Infrastructure

The Canadian Chamber of Commerce has been a strong supporter of Canada's investments in trade-enabling infrastructure. One such initiative, Canada's Trade and Transportation Corridors Initiative, seeks to upgrade aging trade-enabling infrastructure, which will spur Canada's economic growth. As part of this initiative, the federal government should work with provinces and municipalities to secure transportation / utility corridor (TUC) rights of way across Canada. A trans-Canadian TUC would also create future opportunities for high-speed transportation, transmission lines and new freight networks.

The announced development of a Canadian Infrastructure Bank (CIB) is a positive development for all orders of government. The CIB would allow provinces and municipalities to borrow for capital projects using the federal government's preferred interest rate. The CIB would also attract institutional investors, such as international pension funds, to provide a new stream of revenue to draw on for investments in public infrastructure. Alternate infrastructure funding models, like the CIB and public-private partnerships (P3s), will become increasingly important as they can provide opportunities to replace aging infrastructure without increasing levels of public debt across Canada. The federal government should work with all orders of government to promote the applicable use of these alternate funding models.

Fiscal Responsibility

While increasing capital funding is the right move during these difficult economic times, increasing operating costs is not. Considering global and local factors and the cumulative impact of policy decisions influencing business competitiveness, the Edmonton Chamber of Commerce believes it is imperative that the federal government re-examine its fiscal priorities by focusing on long-term economic sustainability, while enabling businesses to remain competitive. One of the best ways to sustain business competitiveness is to show leadership with fiscal restraint and to foster investor confidence with a detailed plan to return to balance.

While the economy is beginning to recover⁶, weaknesses remain in the areas of business investment and international trade and increasing the long-term debt burden on Canada's economy will not encourage growth in either investment or trade.

Recommendations

That the federal government:

Economic Diversification and Innovation

1. Distribute "supercluster" funding to a limited number of emerging industries, not limited by geographic location, ensuring funds are sufficiently focused to create significant economic spin-off.

Investment Attraction

2. Monitor tax changes and other investment attraction tools being undertaken in the United States, ensuring that Canada remains a strong competitor in global trade.

Infrastructure

3. Through Canada's Trade and Transportation Corridors Initiative, work strategically with other orders of government to secure transportation / utility corridor rights of way throughout Canada with the potential for rapid transit, freight networks, telecommunications, transmissions lines and pipelines, which will improve access to national and international markets for all Canadian products.
4. Promote and provide information on alternative infrastructure funding models for Canadian provinces and municipalities, such as public-private partnerships and the proposed Canada Infrastructure Bank.

Fiscal Responsibility

5. Establish a long-term plan to achieve a balanced budget by limiting operational expenditure growth. Maintain this policy until Canadian economic performance is generating sustained government revenues sufficient to support increased spending with overall rates of taxation and fee collection at levels similar to the existing regime.
6. Negotiate government labour agreements due for renewal with a target of no operational cost increase.
7. Achieve and maintain a debt-to-GDP ratio below 30% with financial contributions to debt reduction as necessary to sustain that position.

⁶ http://www.conferenceboard.ca/press/newsrelease/17-05-08/improved_economic_outlook_for_canada_but_weaknesses_remain.aspx