2019 Federal Pre-Budget Submission

Toronto Region Board of Trade
August 2, 2018

Executive Summary

The Toronto Region Board of Trade is one of the largest and most influential chambers of commerce in North America. Our constant flow of ideas, people and introductions to city-builders and government officials firmly roots us as connectors for—and with—the business community. We act as catalysts for the region's growth agenda, at home and on a global scale with our World Trade Centre Toronto franchise. Backed by more than 13,500 members, we advocate on their behalf for policy change that drives the growth and competitiveness of the Toronto region. We want Toronto to be recognized as one of the most competitive and sought-after business regions in the world.

The Finance Committee's focus on growth and competitiveness is timely given the global economic and political headwinds facing Canada. The government's policies must be laser-focused on supporting prosperity through a robust private sector and establishing a strong competitive advantage for our country.

To aid this, the Board calls on the Federal Government to act in three key areas:

1. Trade

While Canada has been successful in forming trade deals and securing market access, our businesses have not always been able to take advantage of these opportunities. With the serious threats to NAFTA, the government must invest in programs that encourage our businesses to export globally. At home, we need to tear down internal trade barriers.

2. Infrastructure

The federal government has made substantial commitments to investing in infrastructure across Canada, but these funds aren't being spent as quickly or productively as they could. The government must approach infrastructure spending in a new way that relieves the burden on municipalities and funds the projects that will have the greatest economic impact.

3. Competitiveness & Fiscal Management

International investment in Canada was already declining before the significant U.S. corporate tax cuts. The government needs to introduce a significant response to restore business confidence and competitiveness. Recent overspending means that doing so in a fiscally responsible way will be challenging but necessary.

Introduction

Government policy should always be focused on improving the economy's competitiveness. A strong economy generates more jobs, higher wages and greater tax revenues for governments to spend on needed social programs. However, in the current context of global economic uncertainty and protectionism, competitiveness must be the paramount objective of federal government policy.

According to Statistics Canada, investment in the economy has declined by almost 18 percent since 2014, a serious weakness that, if left unchecked, will harm our future prosperity. The next budget needs to focus squarely on measures to make Canada competitive on the world stage, both by creating a more robust policy environment for the private sector and to send a signal to markets and investors. The action taken must be significant, aimed at making our businesses more productive and substantially increasing domestic and international investment in the economy.

Trade

As a medium-sized economy with a relatively small population, Canada's continued prosperity is dependent upon our ability to export and compete in global markets. Trade focuses business on goods and services that are competitive in the global market and helps create good jobs: every $100 million in new export activity generates 1,000 jobs.

To achieve prosperity through trade, the government must do two things: secure market access through trade deals and ensure our businesses take advantage of these opportunities. The government continues to be successful on the first objective, with important agreements such as CETA with the European Union and more recently the CP-TPP deal with our Pacific trade partners. Similarly, the Board is pleased with the government's robust defence of NAFTA in the face of self-destructive protectionist pressures from the U.S. The Board continues to urge all Members and officials to work with local, state and Congressional partners in the U.S. to preserve this critical agreement.

While Canada is moving towards free trade with more than half of the world's economy, our businesses have not been able to take advantage of this market access. Only five percent of Canadian small and medium-sized enterprises (SMEs) are currently exporting, with only 500 Canadian businesses accounting for 76 percent of our international trade. If Canada increased its share of SMEs exporting to the same level as large firms (23 percent) this would mean an extra 219,000 firms generating an estimated $225 billion in new export activity. Equally important, trade must become more diversified as three-quarters of Canada's exports are currently sent to the U.S.

The government can do more to encourage trade through the following measures:

- Partner with the Board's World Trade Centre Toronto (WTC-T) to continue to expand our trade education services. WTC-T has already provided trade education to more than 350 SMEs through its Trade Accelerator Program (TAP). This gives businesses the information and tools to take their products to global markets opened up by CETA and CP-TPP. The government should work with private sector leaders such as WTC-T to expand TAP to more markets nationally and increase the number of companies participating, rather than devise new, public sector-led initiatives.

- Work with the private sector to support business scale-up programs. One of the challenges that businesses face when expanding in new markets is achieving sufficient scale to compete globally. Facilities and practices sufficient to supply the Canadian market must be greatly expanded to meet Chinese or Indian demand. To support scale-ups, the Board calls on the government to fund business-led initiatives to provide information and support for businesses seeking to grow to meet global demand.

Finally, the benefits of international trade can also be found closer to home through liberalized internal trade. As the Board noted at the time, 2017's Canadian Free Trade Agreement was a small and insufficient step in the direction of the free movement of people and goods within Canada. If the government is committed to economic growth and prosperity, it should stop tolerating internal trade barriers and assert federal jurisdiction over interprovincial trade. Doing so would allow federal authorities to create national standards for transportation, labour certification and goods that would allow a more seamless and integrated economy. Doing so will create jobs, reduce costs for consumers and give businesses the opportunity to scale-up in preparation for global expansion.

Infrastructure

Infrastructure is the foundation on which the economy functions. Canada's workers need effective public transit systems to transport them from home to work daily. Goods need sufficient road, port, airport and pipeline infrastructure to move from production centres to markets. Everyone needs a place to live and the power, water and sewage infrastructure necessary for modern society to function. Continued investment in infrastructure is needed to support a strong economy and a high quality of life.

The Board has applauded the federal government's commitment to infrastructure funding in past plans, including $20 billion for public transit in Budget 2017. Unfortunately, as indicated by a 2018 report by the Parliamentary Budget Officer, the government has not been able to spend as much as half of its infrastructure budget. This is concerning as a lack of investment hurts productivity, adds costs and reduces wages and jobs. For example, congestion costs our economy billions every year in lost productivity (as much as $11 billion in Toronto alone, according to a 2013 estimate).

To ensure that infrastructure funding gets invested quickly and in the right areas, the government can take the following steps:

- Work with the provinces to reduce the municipal share of infrastructure funding. The traditional "one-third" model of funding has led to numerous delays in transportation infrastructure projects as municipalities struggle to come up with their portion of the funds. The government's recent move to fund 40 percent of projects and reduce the municipal share to 20 percent is a welcome development that should become standard operating procedure.

- Make application requirements less onerous for municipalities, particularly smaller ones.

- Prioritize investments based on economic return and value for money. The government's recent transit funding was prioritized based on ridership to achieve the highest impact.

- Implement the National Urban Strategy. The Board, as part of the Canadian Global Cities Council—a coalition of the eight largest urban chambers of commerce—has advocated for a new approach to federal investments in major metro areas. It calls on the federal government to invest more strategically by:

    - taking the lead in measuring infrastructure quality, dissemination best practices and identifying national urban policy goals;
    - encouraging the development of long-range priority plans for urban infrastructure by city leaders; and
    - funding infrastructure plans with per-capita or near-per-capita grants, rather than funding projects or programs.

Taken together these recommendations would create a more predictable framework for infrastructure investment that would see money flow quickly to the areas where it would have the greatest impact.

Competitiveness & Fiscal Management

The current economic climate is particularly dangerous for Canada's economy. We continue to lag our closest competitors in productivity, a gap that continues to grow with regard to the U.S. Recent U.S. corporate tax changes have eroded what was once an important advantage for Canadian firms. Business investment was already falling in Canada—approximately 18 percent since 2014—and the latest American tax cuts threaten to exacerbate this further. This means more than numbers moving around corporate spreadsheets: declining investment results in fewer jobs and lower wages for our workers.

As a first step in responding to this, the government should release a comprehensive review of Canada's competitiveness and be candid about the size of the challenge and its responses. This will not only provide the basis for the federal government's response, but allow provincial and municipal governments to use the data to shape their own programs.

While the private sector will be the driving force for rising productivity and competitive advantage in Canada, the government can do much more by focusing on policies to increase competitiveness. The Board calls on the government to take immediate and significant steps to restore business confidence, beginning with taxation.

The government can make our economy more competitive by reforming business taxation in the following ways:

- Treat capital investments more favourably under the tax code. By allowing businesses to deduct capital expenditures in a single year or reducing capital gains rates, the government could create incentives to increase research and development and capital spending in Canada. These investments are crucial to building a knowledge economy and create good-paying jobs.

- Reduce corporate income taxes, payroll taxes and other levies. Rate reductions would decrease the cost of doing business for Canada's firms, allowing them to invest in needed capital or larger workforces. Moreover, they would also signal to international investors that Canada is a competitive place to do business and is not idle while other countries reduce their own taxes.

Beyond taxation, the government can also make Canada more competitive by tackling the regulatory burden businesses face. The government should recommit to removing one regulation for every new one introduced. This should be only the first step of a more complete review of government regulations, potentially on a sector-by-sector base, to target ways to reduce inefficient or obsolete regulations that make doing business in Canada costlier.

Finally, the government needs to release a plan to tackle its larger-than-expected deficits. As we noted in our report card on the 2017 Budget, "deficits may be warranted in the short term, but a clear path back to balance is necessary to ensure business confidence."

While the Board supports many of the investments that the government is making and is calling for further action to improve competitiveness, there is still a need for greater fiscal discipline. Without such discipline, a higher debt risks diverting funds away from much needed investments such as infrastructure spending. It also risks reducing needed private sector investments as businesses become wary of expanding public liabilities.