Business Council of Canada

BUDGET 2018

Pre-budget consultation submission

What federal measures would help Canadians to be more productive?

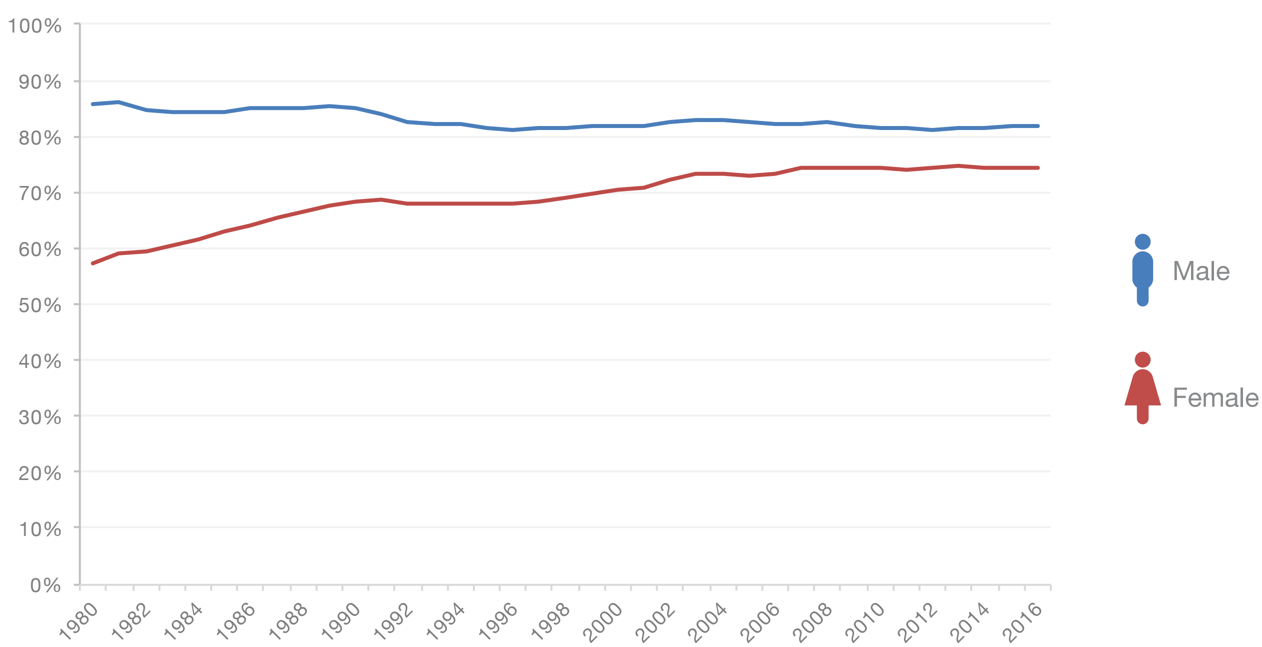
Canada's labour productivity lags that of comparable countries and restrains Canadians' standard of living. While no single policy or program would boost productivity across the board, encouraging greater female labour force participation, supporting women in STEM fields, enabling seniors to work for longer and helping Canadians to navigate the changing job market would help.

Increase female labour force participation

The share of Canadian women aged 25 to 64 with post-secondary education is growing at a faster pace than that of men, rising from 15 per cent in 1991 to 35 per cent in 2015. Bringing more highly educated women into the workforce would help offset the shrinking labour force, boost growth potential, and raise living standards for all Canadians.

A recent IMF study suggests that a one percentage point increase in labour force participation by women with advanced degrees would boost Canada's overall labour productivity by 0.2 to 0.3 percentage points a year. If the current gap of seven percentage points between male and female labour force participation were eliminated, real GDP would be about 4 per cent higher. A separate analysis by the Advisory Council on Economic Growth estimated that Canada's GDP would grow by $13 billion if the workforce participation rate of women aged 25 to 54 with children under 16 was on par with the rate for men of the same age – 93 per cent.

Labour Force Participation Rate *(Age 15-64)*



Source: OECD

On average, Canadian mothers spend approximately 4.5 hours a day caring for their children, twice as much time as fathers. Yet Canada only spends between 0.2 and 0.34 per cent of GDP on early childhood education and care, half of the OECD average and one-third of the international recommended minimum of one per cent for public funding of education and care for children under five.

While the Business Council of Canada applauds the government's efforts to create a National Framework on Early Learning and Child Care, more can be done to ensure families in need receive assistance to offset the cost of childcare. Economists Alexandre Laurin and Kevin Milligan have recommended replacing the existing Child Care Expense Deduction with an income-tested, refundable tax credit, an approach we endorse. Laurin and Milligan estimate that some 13 to 19 per cent of stay-at-home mothers would enter the labour force if childcare costs were lower.

Support women in STEM

Despite some progress over the past three decades, women account for just under 30 per cent of individuals in Canada with a post-secondary STEM credential. In addition, women with STEM credentials are 12 per cent less likely than men to work in STEM fields after graduation. As in other countries, the overall percentage of women in STEM fields decreases as their careers progress – a phenomenon some refer to as "the 'leaky pipeline".

STEM skills are critical to innovation and productivity growth. Encouraging and supporting more girls and women to pursue STEM education will increase the supply of skilled talent in Canada. Business leaders applaud the government's support for STEM programs, including the PromoScience Program and targeted interventions when women and girls are most likely to leave STEM-track careers.

Enabling seniors to work for longer

Canada's aging population implies, over time, a smaller workforce, reduced productivity, and slower GDP growth. Measures to encourage highly skilled seniors to remain in the workforce would help reduce the negative economic impact of demographic change.

Canada's pension system should not discourage people from choosing to work longer. Increasing the eligibility age for Old Age Security and the Guaranteed Income Supplement to 67 from the current 65 would address the reality of an aging society and longer life expectancy. At the same time, allowing Canada Pension Plan deferrals beyond age 70 would encourage older workers to remain in the labour force longer.

This would bring Canada into line with other OECD countries – such as Australia, Britain and the Netherlands – that have extended the age of eligibility for post-retirement support programs. Canada's labour force participation rate for people 55 and older is currently 54 per cent. According to the Advisory Council on Economic Growth, raising this level to 62 per cent – on par with the top-performing OECD countries – would add $56 billion to our country's GDP.

Help Canadians navigate the changing job market

Canada boasts one of the world's most highly educated work forces, a significant advantage in an increasingly knowledge-based economy. But the nature of work is changing. Comprehensive, accessible labour market information (LMI) is needed to help ensure that Canadians have the right mix of skills and experiences to succeed in their careers, and to help employers design training programs for new workers.

Canada has no shortage of labour market data, but the information tends to be fragmented and difficult to access. In addition, information is lacking about the long-term outcomes of various career trajectories. The creation of a comprehensive, widely promoted hub of LMI data at the national level would help post-secondary institutions, job-seekers and employers make smarter, more informed decisions.

What federal measures would help Canadian businesses to be more productive and competitive?

Improving business productivity and competitiveness is critical to Canada's long-term prosperity. In this context it is worth noting that larger enterprises tend to be more productive than small and medium-sized businesses. According to a Bank of Canada study that classifies large firms as those with 100 or more employees, the difference in firm size between Canada and the United States accounts for roughly 20 per cent of the gap in sales per employee, and roughly 50 per cent of the corresponding manufacturing productivity gap.

Efforts to promote trade, simplify the tax system, and streamline the regulatory environment would encourage companies to grow and improve Canada's attractiveness as a place to invest.

Trade performance

Canada's trade relationship with the United States underpins our country's prosperity. In the upcoming NAFTA negotiations, maintaining preferential access to the U.S. market must be the government's top priority. Other priorities include:

- **Modernizing NAFTA** - Canada should seize the opportunity to modernize its trade and investment relationships with Mexico and the United States. Opportunities exist in areas such as intellectual property, e-commerce, the treatment of stateowned enterprises, competition rules, sanitary and phytosanitary measures, telecommunications, customs procedures, labour, environment, procurement and regulatory cooperation.

- **Enhancing NAFTA** - In seeking to renew NAFTA, the three countries should strive to improve energy security, promote greater energy cooperation, increase access to lower-carbon energy sources and closer regulatory cooperation. Doing so would significantly bolster the competitive position of North American industry.

The share of Canada's exports that go to emerging markets – currently 10 per cent – is rising, but remains low in light of the fact that emerging and developing markets are expected to account for 65 per cent of global GDP in the next five years. Canada must therefore work actively to diversify its trade relationships. The Business Council recommends:

- concluding ongoing trade negotiations with Japan and India;
- launching comprehensive trade negotiations with China;
- continued engagement with the remaining members of the Trans-Pacific Partnership; and,
- exploring talks with the Association of Southeast Asian Nations, a regional economic association that includes four members of the Trans-Pacific Partnership as well as the emerging-market economies of Indonesia and the Philippines.

Canada's trade policies will succeed only if firms take advantage of the agreements negotiated. In 2016, 43,255 enterprises in Canada exported goods. Of those, 97.4 per cent were firms with fewer than 500 employees.

In the same year, firms with 500 or more employees represented 2.6 per cent of the total number of exporters but accounted for nearly 60 per cent of the value of Canadian goods exports. Policies aimed at helping companies grow, combined with tools and supports to enable SME exports, are critical to enhancing Canada's trade performance.

Tax reform

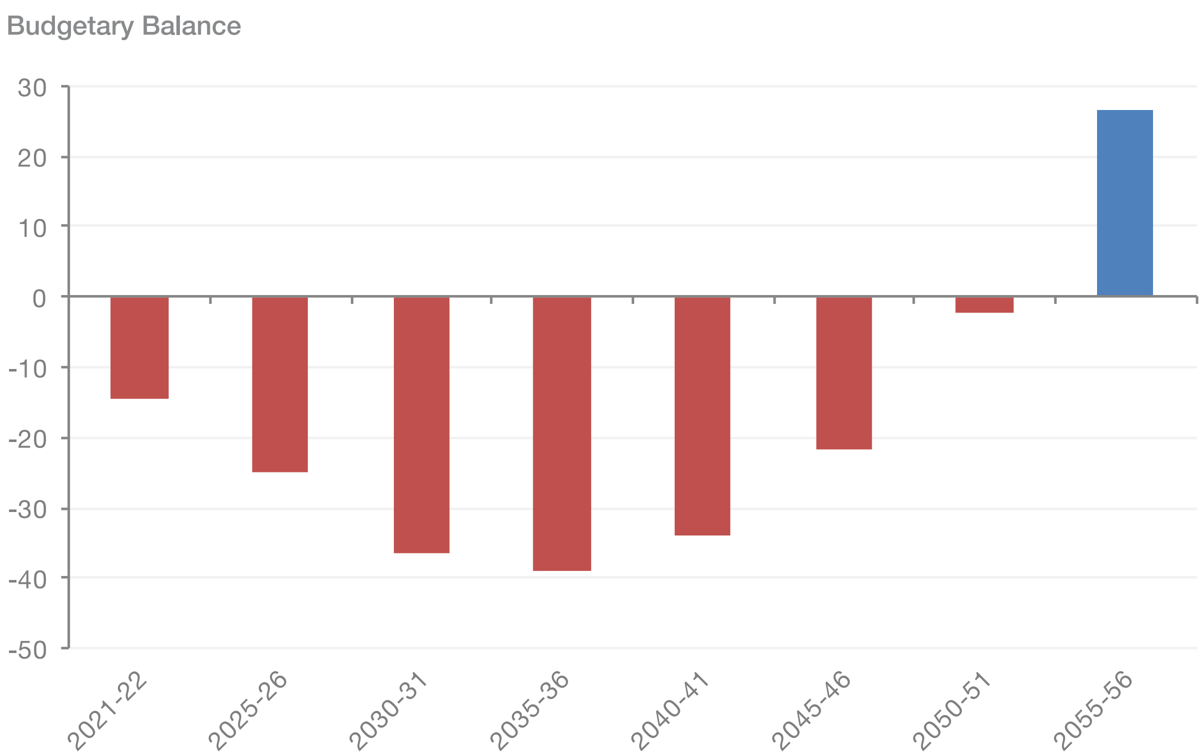
Canada's tax competitiveness is slipping, in part because provincial corporate tax rates have crept higher. Canada's combined federal and provincial corporate tax rate is above the OECD average. Canada has the 13th-highest tax burden on investments among the OECD countries.

According to an annual PwC survey that measures the full range of taxes levied on Canadian companies, large corporations currently bear a total tax rate of 37.5 per cent, the highest such rate in the four years the data has been collected. Comprehensive tax reform aimed at broadening the tax base and lowering corporate and personal rates would strengthen Canada's ability to attract and retain investment and talent.

Fiscal sustainability

The Business Council supports moderately expansionist fiscal policy that allows for investments in productivity-enhancing infrastructure, but is concerned by the federal government's failure to set a clear target for balancing its budget. The government's own long-term fiscal projections suggest that it will run deficits through 2050.

The next time Canada enters a recession, tax revenues will decline while demands for higher spending will increase. Balancing the budget would help to ensure that Canada is positioned to weather the next downturn.



Source: *Update of Long-Term Economic and Fiscal Projections*

Innovation

One of the goals of public innovation spending should be to increase commercially meaningful collaboration among industry, government, research and skills institutions. Recent reforms and additions to the portfolio of federal programs have the potential to do this at a reasonable cost, but only if they prioritize industry-led initiatives that match public funds with private investment. Initiatives should be selected based on merit through an open process that is independent from political influence.

Innovation programs alone will not achieve their objectives if federal policies in other areas are not properly aligned. Delays in approving new projects, as well as compliance costs associated with regulations, can impede innovation. To fully support private and public investments in innovation, the federal government must make regulatory approval processes more transparent, predictable, fact-based and capable of rendering decisions in a timely manner. As much as possible, the government should develop new regulations collaboratively with industry and undertake regular reviews to identify out-dated rules for elimination.

The recently concluded Canadian Free Trade Agreement is an opportunity for the federal government to pursue regulatory modernization. The agreement establishes a much-needed regulatory reconciliation process that will help to address trade barriers that companies encounter when doing business across provincial and territorial borders. The success of this initiative will depend on the timely resolution of hurdles identified by companies.

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