Budget 2017 consultation submission

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Business Council of Canada

Around the world, countries are wrestling with increased economic volatility and uncertainty.

The global financial crisis of 2008-09 has left a legacy of high debt, weak growth and rising protectionism. At the same time, sectarian conflict, violence and terrorism have stoked isolationist attitudes and fears of immigration. Canada, however, has been to a large extent untouched by these negative forces. Our country has a well-deserved reputation for sound fiscal management, financial stability, inclusiveness and openness to the world.

With Budget 2017, the federal government has an important opportunity to build on our country's economic and social strengths, positioning Canada as a magnet for trade, investment, innovation and people. To promote sustainable and inclusive growth, we recommend the following:

Trade as the engine of growth

Canada's engagement in the global economy, facilitated by multilateral, bilateral and regional trade agreements, sustains our country's prosperity and quality of life. In an era of slow growth and increased volatility, it is critical that Canada do everything possible to find new customers for our exports and new economic opportunities for our citizens. The best way to do this is to position Canada as one of the world's most open and global markets. A renewed trade policy that reflects the following priorities will make Canada a global trade and investment hub:

Ratify and implement CETA and the TPP – The implementation of recently negotiated trade agreements with the European Union and members of the Trans-Pacific Partnership (TPP) would give Canada preferential access to more than 60 per cent of the global economy, nearly 90 per cent of our country's existing export markets, and three of the world's four largest economies. Canada would be the only G7 nation with free trade agreements covering the United States, Mexico, Europe, and the Asia-Pacific region.

Canada must make every effort to support the timely ratification and implementation of these world-class trade agreements. Over the longer term, Canada's ability to take advantage of both agreements will depend on concerted trade promotion efforts and dedicated resources provided in the budget to help Canadian entrepreneurs and exporters seize new and expanded market opportunities.

We recognize that the TPP's success is not guaranteed. To guard against the possibility that the agreement fails or is delayed due to political opposition in the United States or elsewhere, we recommend that Canada conclude bilateral trade negotiations with Japan. The federal government should also consider launching trade negotiations with the Association of Southeast Asian Nations (ASEAN), a group that includes four TPP members plus the emerging market economies of Indonesia and the Philippines.

Develop a China strategy - Canada urgently needs a strategy to expand commercial relations with China, our country's second-largest two-way trading partner after the United States. According to economists Laura Dawson and Dan Ciuriak, a Canada-China free trade deal would generate $7.8 billion in additional economic activity within 15 years.

A more comprehensive China strategy would include following through on commitments to deepen bilateral communication and cooperation on issues such as foreign relations, energy policy, agriculture and economic governance. As well, Canada should join Australia, the United Kingdom, France and other leading economies as a member of the Asian Infrastructure Investment Bank.

Strengthen the North American marketplace – Working with our U.S. and Mexican counterparts, Canada must lead efforts to strengthen the North American partnership. This is particularly important in the face of rising anti-trade sentiment in the United States, which threatens Canada's long-standing and mutually beneficial relationship with our country's largest trading partner.

North American prosperity can be enhanced by modernizing borders through the adoption of data-driven traceability of goods, enhanced information-sharing in exchange for more substantial benefits for "trusted traders", and investments in much-needed border infrastructure.

Building the world's most talented workforce

Canada's success depends on the knowledge and skills of its people. In an uncertain global economy, the federal government must work closely with other levels of government to make the most of our human talent and to attract more skilled people from other parts of the world. Canada should strive to position itself as a magnet for the world's most creative, entrepreneurial, and skilled people.

A top priority is to assist young Canadians in transitioning successfully from the classroom to the labour force. Through the Business/Higher Education Roundtable, some of Canada's leading employers are partnering with universities, colleges and polytechnics across the country to promote a wide range of experiential learning opportunities that prepare students and graduates for meaningful and rewarding careers. In parallel with these efforts, governments need to make it easier for companies and educational institutions to bring in top talent from outside the country when needed.

Innovation through partnerships

Fostering a more innovative Canada is critical to the economic growth and prosperity of the country. Business leaders in Canada recognize this fact and are committed to helping the government make it happen.

There are a number of factors that contribute to the country's economic growth that should be aligned and coordinated under the federal government's Innovation Agenda. These include programs that provide capital and support to entrepreneurs, policies that provide incentives to small start-ups and businesses to grow in Canada, and simplification of federal supports for business R&D including the Scientific Research and Experimental Development tax credit. And in some cases the best thing the government can do is stay out of the way, allowing business owners to decide for themselves where and how to invest in new products or processes.

Shared objectives and strong partnerships with the business community, educators and civil society – as well as provinces, territories and municipalities – are critical. Here, too, the Business/Higher Education Roundtable can play a role, by deepening collaboration and harnessing the strengths of our world-class companies and post-secondary institutions.

Thriving in a low-carbon economy

Creating a lower-carbon economy is both necessary and achievable. Canada's business leaders support carbon-pricing as a means of ensuring that our country makes a responsible commitment to global efforts to reduce greenhouse gas emissions.

The federal government should work with the provinces to establish a national approach to climate change that is efficient and cost-effective. To the extent possible, we must avoid the creation of a patchwork of carbon-pricing systems. Canada's climate policy must also be aligned with those of our major competitors to ensure that jobs and investment do not simply move to less restrictive jurisdictions, with no net reduction in carbon emissions.

New and innovative advances in clean technologies will complement and ease the transition to a lower-carbon economy. This will help Canada meet its emission targets while spurring the creation and growth of new companies and establishing Canada as a leader in innovation and clean tech. Governments can accelerate the transition to a low-carbon future by ensuring that carbon-pricing revenues are offset by reductions in other taxes, and by offering financial incentives for the development and adoption of lower carbon technologies.

Leveraging infrastructure investments

A competitive economy requires world-class infrastructure to connect businesses to customers around the globe. Budget 2016 included a commitment to invest $120 billion in infrastructure over 10 years. To ensure that this spending has a measurable impact on the Canadian economy, we recommend the following:

Prioritize projects that have a direct and measurable impact on the Canadian economy - This includes productivity- and trade-enhancing infrastructure projects such as investments in ports, rail, roads, and airports. Given the important role the energy industry plays in the Canadian economy as a source of jobs and tax revenue, infrastructure that delivers our natural resources to tidewater must be a top priority.

Support public-private partnerships (P3) - Canada has an extensive track record of successful P3s: 236 projects over 22 years, worth a combined $94 billion. Well-designed P3s can result in significant cost and time savings in construction, substantially greater focus on minimization of the costs of infrastructure delivery across the life-cycle of the assets and reduce the burden of risk on governments.

Implement user-pay models for infrastructure - User fees allow municipalities to pay for new infrastructure and reduce demands on the federal government for funding. Furthermore, user-pay models ensure that infrastructure is planned and used efficiently.

Create entities to assess large-scale infrastructure projects – We endorse the recommendation by Philip Bazel and Jack Mintz to create independent entities to assess large-scale infrastructure projects. Such institutions would develop a common process to evaluate and prioritize competing infrastructure priorities to maximize spending efficiency and minimize waste.

Provide adequate resources to regulatory and consultation processes - Given the government's vision for robust regulatory and consultative processes to precede approvals of major infrastructure projects, it is important that funding is adequate to the task and conditional upon these processes being completed in a timely fashion.

Sound fiscal management

According to a study by McKinsey & Company, the total stock of debt held by individuals, companies and governments around the world has increased from $142 to $199 trillion (U.S.)

since the global financial crisis. This rapid build-up of debt poses a serious risk to global financial stability.

In this uncertain environment, prudent fiscal management can set Canada apart from other advanced economies, creating a stable environment for business investment and job creation. While running deficits in the short term can help stimulate growth, we recommend that the federal government set a goal of achieving a 25 per cent debt-to-GDP ratio by 2021. Among other benefits, this would bolster the government's capacity to respond in the event of another serious global downturn, while addressing the long-term challenges of an aging population.

Tax reform for the 21st century

A competitive tax system can strengthen Canada's ability to attract jobs and investment. After a decade of progress in reducing the tax burden on business investment, Canada has recently fallen behind in tax competitiveness. In 2012, according to the Global Tax Competitiveness Report, our country had the 19th-highest tax burden on new business investments among 34 OECD countries. By 2014, Canada ranked in 14th place, in large measure because other countries had instituted significant reforms.

Meanwhile, piecemeal revisions to the Canadian tax system over the past 50 years have created an increasingly unwieldy and less efficient tax code. A recent PwC survey of 89 large Canadian companies found that, on average, they employ the equivalent of 19 full-time staff and spend $4 million annually to comply with Canada's tax system. Moreover, those same companies collectively paid a total of 68 different taxes, fees and other payments to the three levels of government across Canada.

By simplifying and modernizing the tax code, Canada could spur new investment, promote job creation and significantly reduce the cost to governments of administering the tax system. The overarching objective of reforms to the tax system should be to reduce preferences, broaden the tax base and lower rates to position Canada as a global investment destination.

An important component of tax reform should be efforts to digitalize tax administration. Governments around the world are looking to increase revenues and improve efficiency by adopting digital platforms to gather and analyze tax information in real time. The federal government can take a leadership role in close consultation with the business community to create a more efficient, less costly, digital tax administration regime.