

**Conseil du
patronat
du Québec**

WORKING TOGETHER FOR PROSPERITY

**Proposals of the
Conseil du patronat du Québec**

**submitted to the House of Commons Standing
Committee on Finance**

**as part of the pre-budgetary consultations for the
2012 budget**

August 2011

The Conseil du patronat du Québec

The mission of the Conseil du patronat du Québec is to ensure that businesses in Quebec enjoy the best possible conditions – particularly in terms of human capital – for sustainable prosperity in a context of global competition. The Conseil du patronat is the focal point for employer solidarity. Its leadership makes it an indispensable benchmark in its areas of intervention, and it exerts substantial constructive influence in favour of a more prosperous society in which entrepreneurship, productivity, wealth creation and sustainable development are the prerequisites for raising the standard of living for the entire population.

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INTRODUCTION

The Conseil du patronat du Québec is pleased to submit its recommendations preliminary to preparation of the 2012-2013 federal budget. In the following comments, we wish to reflect the concerns of the businesses and sectoral employers' associations that we represent. In today's still-uncertain economic climate, uncertain in particular as regards the economic recovery of our lead trading partner the United States and the impact of the heavy debt load of a number of European countries, vigilance must be the watchword. At the same time, and beyond the short term, we should continue to focus on actions that can afford Canada a competitive advantage and bring sustained economic growth.

1. Continue the plan to control the growth of operating expenditures with a view to reducing the deficit and returning to balanced budgets

In our view, a quick return to balanced budgets remains paramount. The Conseil du patronat du Québec encourages the government to continue its efforts to return to balanced budgets by 2014-2015, by ensuring better control of public spending, notably through the strategic review, and without affecting transfers to the provinces. We emphasize our appreciation of the government's commitment to continue the same pace of progression of the health transfers upon which the provinces depend. We hope that the same treatment will be given to transfers for post-secondary education. It would also be appropriate to immediately launch negotiations between the federal government and the provinces on the post-2014 period, out of concern for sound preparation and predictability.

2. Infrastructures and the Champlain Bridge

Investments in transportation infrastructures are essential if the economy is to function smoothly. Unlike other expenditures, these are investments that target sustained and sustainable growth. Quebec is facing historic problems with respect to its transportation network (roads and other modes) and its infrastructures. While it is neither our intention nor our habit to beg, we believe that the federal government should make a substantial contribution to solving the problem and upgrading infrastructures so that we have a safe and efficient highway system.

We are thinking in particular, though not exclusively, of the rebuilding of Champlain Bridge, which is a vital and strategic infrastructure of critical importance. Experts regard its reconstruction as urgent and mandatory. This is a major economic issue not only for Montreal, but also for Quebec and Canada.

Any plan to be considered for its renewal should guarantee that traffic flow is maintained, for automobiles and trucks alike, or else the result will be a direct impediment to the economy. Greater economic prosperity necessarily entails greater automobile and truck traffic. Finally, the government could consider the idea of tolls to help finance this project.

We also have in mind other transportation projects, such as the rail shuttle between Montreal airport and downtown, an essential project which would yield substantial economic and environmental benefits.

3. Innovation and assistance to business

The level and growth of productivity remains the Achilles' heel of the Canadian economy. In 2009, Canada ranked 18th out of 32 OECD countries for productivity per hour worked (in 2008 it was 15th).

This situation is due in particular to the weak growth of multifactor productivity, which is a general measure of effectiveness of use of labour and capital in the economy. The weakness of multifactor productivity is in turn due in large part to the low level of innovation in businesses.

Innovation is central to activities for creating and improving the competitiveness of Canadian businesses and Canadians' standard of living. It is therefore important that public policy do more to foster innovation and a greater role for innovation in contributing to economic growth. This is the more necessary for the fact that the contribution of the workforce will be diminishing for reasons of demography.

We feel that there is reason to review the way that assistance to business is structured within the existing resource envelope. It is essentially a matter of simplifying the process and ensuring that this assistance contributes more to innovation and wealth creation efforts by businesses, and hence more to the competitiveness and prosperity of the Canadian economy.

Recently many voices have been raised to say, for example, that the current assistance to scientific research and experimental development (SR&ED) is not fully meeting the needs of businesses. We concur with this observation, and feel that a review is necessary. However we must be vigilant and not throw out the baby with the bathwater. The SR&ED tax credits have their merit: they have helped out many businesses in their efforts to innovate. However the eligibility criteria for this assistance should be revised to include more truly innovative activities and recognize that innovation extends well beyond research and

development. Also, there is every interest in simplifying the process and making it more predictable, for considerable funds are often spent by businesses solely on efforts to conform to program requirements.

It must also be recognized that international marketing is presently the lead issue for innovative companies and that it must be given particular attention.

Lastly, the idea of making these credits refundable for big corporations should be considered as part of the review.

A panel of experts is examining these questions, and we hope that their work will take these aspects and these promising avenues into account.

To assist manufacturing companies in their innovation and production efforts, we also suggest extending the assistance to manufacturers that is currently offered by the Industrial Technologies Office (ITO).

Finally, government procurement policies could be made favourable to innovation and its marketing in order to step up its adoption at home and its exporting around the world.

4. Employment insurance and training

Well-trained workers are more productive and better equipped to deal with changes in the labour market. Efforts must be continued in the field of training to ensure that the problems detrimental to balance in the employment market are addressed. Here are our main recommendations in this regard:

- Now that the *Pacte pour l'emploi Plus* is approaching expiry, it must be said that there is a need to assist the job search efforts of workers who are not receiving or no longer receiving employment insurance benefits, particularly those who are 45 years of age or older, immigrant workers and young people entering the labour market. The Conseil du patronat believes that the *Pacte pour l'emploi Plus* should be renewed.
- Consideration should be given to introducing a tax credit for expenditures on formal training when new investments are set up. Investments in machinery and equipment and in technology cannot be productive if they are not accompanied by investments in human capital. This tax credit could be subsequently extended to all formal training expenses and deducted from employment insurance contributions.
- There is presently a federal tax credit for formal training expenses for apprentices in certain "Red Seal" categories. The employers we represent would like to see this measure extended to other apprenticeships managed by the Commission des partenaires du marché du travail in Quebec.

- We also believe there is reason to explore new avenues for improving the effectiveness of funds earmarked for training in the employment insurance program. It should be possible to use these, among other things, for recognition of skills and on-the-job training.

Employment insurance premiums

Employment insurance premium rates were frozen for 2009 and 2010, and this definitely helped businesses to contain their costs in this area. These rates increased by \$0.07 per \$100 insurable for employers in 2011 and will increase by \$0.14 for the years 2012 and 2013.

It seems to us fundamental to ensure that funding of the system respects the employers' capacity to pay.

Given the recent evolution of the Employment Insurance Account and its substantial initial deficit, we believe that the federal government cannot fully assume its responsibilities without contributing to this account itself. Here are two options – which can be implemented separately or in combination – which in the opinion of the Conseil du patronat should be considered for eliminating the deficit and for keeping employers' and workers' premiums at a reasonable level:

- *The federal government contributes directly to replenishing the Employment Insurance Account*

The government assumes the bulk of financing the deficit. It could increase its financial commitment to the EI Account by an investment much more substantial than the \$2 billion initially promised, by investing in the Account the amounts regularly allocated to the social measures of the EI program and those that have been used to finance the exceptional supplementary measures taken during the financial crisis.

- *The government returns to contributing to the Employment Insurance Account in a proportion of 20%, as it used to do before the Unemployment Insurance Act was passed in 1971.*

With this option, contributing workers and their employers could once again start contributing, as they used to do, in respective proportions of 40%. This sort of government contribution could be phased in, and could serve to keep workers' and employers' premiums within reasonable limits.

Failing the reintroduction of a government contribution, it would be necessary to re-establish a more equitable division of costs between employers and workers, to move progressively from the current division of 60% employer and 40% worker to a contribution of 50% for each.

5. Combatting tobacco smuggling

After an apparent reduction in the smuggling of tobacco products, there seems to have been a recent resurgence of this phenomenon. Naturally, there are many who expect the federal government to intervene to resolve the problem once and for all and thereby facilitate a fiscal environment for tobacco products that is fair for all the businesses concerned – manufacturers, distributors and retailers. We cannot bury our heads in the sand and ignore the fact that this problem is emanating from a few Aboriginal reserves. We urge the government to reinforce its action plan for more effectively combatting the smuggling of tobacco. Given the tax losses it generates, this problem continues to deprive the government of substantial revenues and to cause unfair competition at the expense of businesses that act entirely legally.

6. Taxation of corporations

The Conseil du patronat is pleased to note the government's willingness to continue the previously announced corporate income tax reduction plan (15% in 2012) with the aim of ensuring a competitive tax system for Canadian companies. This reduction will generate more private investment, both domestic and foreign, which will help improve our productivity, create quality jobs, and raise the standard of living of Canadians. Remember also that it has been estimated that the true "cost" of the three-percentage-point reduction in 2011 and 2012 would in the end amount to about \$100 million. On the other hand, it is vital to ensure that the private sector takes over from the public sector and that private investment increases so that productivity increases. Another factor explaining our low productivity is the low level of investment per worker, particularly in information and communication technologies (ICT). ICT investment per worker in Canada is less than 60% of the American level.

It is important as well that the federal government continue to encourage the provinces to attain an overall tax rate of 25% (15% federal, 10% provincial).

7. Market openness and regulatory relief

We encourage the government in its negotiations to conclude free trade agreements with other countries and other parts of the world, especially the European Union and India. We likewise encourage it to continue its efforts to lighten the regulatory and administrative burden on companies and to have a regulatory framework that is competitive with the systems of our principal international trading partners.

CONCLUSION

In conclusion, the government must strive to assist all Canadian businesses, large and small, so that they can prosper and contribute to the prosperity of Canada and Canadians.

We thank you for your attention to our proposals, and hope that you will find them useful in the process of adopting the budget policies. We are confident that they can put Canada on a path to a more sustainable recovery.