Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Calgary Chamber of Commerce

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Government Fiscal Management through a Smart Spending Bandwidth Federal fiscal policies can have a substantive impact on the economic competitiveness of Canada. In particular, the government's approach to expenditure management, deficit and debt can significantly influence our country's investment attractiveness and economic performance. The Calgary Chamber urges federal leaders to apply prudent fiscal management policies relating to program expenditures and debt levels, to position the economy for stable, long term growth. With moderate economic growth forecast for the Canadian economy in 2012-13, the Chamber suggests that government adopt a bandwidth approach to spending. We recommend targeting expenditure increases within a range delineated by population and inflation growth, and real GDP and inflation growth. For 2012-13, this 'smart spending bandwidth' is expected to be between 2.5 and 4.2 per cent, with government spending remaining within this range at 1.7 per cent. However, given the sizeable spending increases of recent years, the five-year average is between 2.6 and 3.0 per cent, with program expenditures at 4.9 per cent. By establishing future spending parameters in the context of past and current fiscal climates and spending constraints, aiming for the five year average rather than the annual bandwidth sends a credible signal to the business community and Canadians that the federal government is committed to returning Canada to balanced budgets in the near future, and maintaining them over the long-term. By targeting the program expenditures to be at the lower end of the bandwidth, about $240.3, Canada can continue to grow the economy at a sustainable pace, while positioning itself favourably for international investment and economic growth by paying down the debt. The Calgary Chamber recommends that the Government of Canada adopt a bandwidth approach to government spending, by targeting expenditure increases within a range delimited by population and inflation growth, and real GDP and inflation growth. This range is between 2.6 and 3.0 per cent for 2012-13, using a five-year average and, by targeting the lower end of the bandwidth, about $240.3, Canada can continue to grow the economy at a sustainable pace.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Amend the Employment Insurance to allow for better labour mobility The Employment Insurance (EI) program was created in the aftermath of the Great Depression to provide financial assistance to those who had become unemployed for extended periods of time. However, over the last three decades, the social program components of the EI Program have expanded. In 2008, workers receiving regular EI benefits accounted for about 65 per cent of total EI beneficiaries, while 35 per cent supported other benefits for various purposes such as long-term illnesses, maternity leave, fisheries support, work-sharing, adoption, parental leave, and training. The Chamber suggests that the federal government operate the EI Program as a true insurance program with the social program aspects of EI placed in other program spending, as was done in Quebec through the Quebec Parental Insurance Plan (QPIP). Under the QPIP, the provincial government began charging for and delivering parental and adoption benefits separately, correspondingly reducing the EI premiums for employers and employees in Quebec. This approach facilitates reductions in EI premium rates, thereby reducing real wage costs to employers, increasing the real wages received by employees, and creating a stronger link between amount paid and benefits received. To further strengthen the program and remove systemic disincentives to improve employment opportunities, the Chamber proposes that the federal government adopt variable premium payments for the EI program, based on the program's 58 established economic regions. Areas of consistently high unemployment (and correspondingly higher benefits paid) would pay relatively higher premiums. Correspondingly, areas of low unemployment, with lower benefits paid, would pay lower premiums. This approach is consistent with a true insurance program model, and would eliminate the implicit redistributive properties of the EI program that discourage employers and employees from finding solutions to chronic unemployment challenges. From a funding perspective, even with the maximum caps on EI premiums, the yearly break-even period for EI poses a challenge, since the premiums always have to increase during periods of high unemployment to ensure that the revenue collected will be equal to the benefits paid. This pro-cyclical outlook of the CEIFB is counter-intuitive, and imposes an unnecessary burden on Canadians during tough economic times. One alternative is to adopt a counter-cyclical approach, in which higher premiums are collected in good times, to be paid out during the bad times. EI program disparity is also seen through the differential premium rates for employers and employees. Employers pay about 1.4 times the employee premium rate, and the rationale that employers should bear a higher overall share of program costs is not unwarranted, as they have traditionally had greater control over layoff decisions and should have to pay a component of the social costs of unemployment. But when the premiums have been increasing in the past decades due to non-unemployment related costs, it is difficult to justify why employers have to pay significantly more into the system than employees. This imbalance also fails to capture the culture shift that has occurred since the creation of the EI program. With more occupational choices, reduced barriers to labour mobility, and improved employment supports, employees have become increasingly more selective with their employment choices. Moving towards a more equitable ratio of premium payments ensures employees appropriately bear more of the responsibility for their choices. The Calgary Chamber recommends that the Government of Canada adopt the following changes to the Employment Insurance program: • Restructure the EI Program to be a true insurance program that focuses primarily on providing employment related benefits, and fund current EI social program benefits through other mechanisms. • Introduce a variable premium payment system, whereby higher premiums are paid in geographic regions where higher benefits are paid. This will remove disincentives for employers and employees to finding solutions to chronic regional unemployment challenges. • Adopt a counter-cyclical approach to EI premium rate setting, allowing the program to break-even within 5 years to better align with economic cycles.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Increasing Productivity through expanded trade relations With the global economy still facing challenges due to volatile commodity prices and a subdued growth trajectory consistent with global growth projections, there is a need for Canada to invest in aspects of the economy that go beyond our borders. By focusing on international trade and allowing foreign investors to trade and invest within our borders, we are able to promote the attractiveness of our domestic companies, making it easier to raise necessary capital which in turn improves liquidity and leads to more robust valuations on international exchanges. This access to capital also allows us to mitigate barriers to Canadian productivity through more organic means. In the report entitled "Falling Behind", Statistics Canada told the Standing Senate Committee on Banking, Trade and Commerce that "businesses that export have increased their productivity as they entered export markets, grew much more rapidly after doing so, and introduced new technologies more quickly." Removing barriers to trade also encourages specialization in high capital and technology intensive sectors since developing nations have a comparative advantage on low-skilled, labour-intensive operations due to lower wage rates. By expanding our trade links to other states, we can expose Canadian innovators to the newest ideas in the global marketplace. For example, due to the limited number of competitors in the Canadian ICT sector, there is a lack of willingness to "develop or adopt superior solutions in their market." By moving past short-term protectionism, the decision to let businesses compete in the world market will provide significant positive spill-over effects as overall business costs go down and efficiencies are realized. Bilateral trade agreements allow Canada to build relationships in key strategic markets and use our comparative advantages. They not only have the advantage of taking less time to conclude, since there are only two countries involved, but they often enable countries to take advantage of additional benefits that can go beyond just tradable goods. For example, Canada's recent bilateral agreement with Colombia highlights the fact that Colombia is a strategic destination for Canadian direct investment, especially in the mining and oil and gas sectors with investments exceeding $824 million. Similarly, Canada entered into talks with Morocco, as Canada's first trade agreement with an African country, since this relationship is crucial not only in introducing Canadian goods to the African market, but also to access a key entry point for value-added agricultural markets. In order to achieve a superior trade balance with our current and future trading partners, where Canadian businesses have access to international markets and enjoy a higher rate of return than is achievable locally, the federal government must be prepared to leverage Canadian domestic market access in return for reciprocal treatment abroad. To this end, Canada needs to update and provide more clarity around foreign investment rules in Canada, in order to be perceived as a stable and predictable place to do business, particularly for the world's emerging economies. Currently, the foreign investment "net benefit" test as administered by Industry Canada is vague, and decision-making tends to be mercurial, and subject to the preferences of the government of the day. Key considerations of the test include the impact on Canadian competitiveness and employment levels, based on the annual threshold levels. A review of the Investment Canada Act is long overdue; as this legislation was introduced in 1985. The Calgary Chamber recommends that the federal government conduct a stand-alone review of the Investment Canada Act, apart from the Budget Implementation Act, that would further clarify the "net benefit" test, the definitions of the Act, and increase the transparency of decisions. The proposed $15 billion acquisition of Nexen Inc. by state-owned Chinese National Offshore Oil Corp. (CNOOC) is likely only the beginning of a long line of foreign takeovers of Canadian energy assets. Consequently, it is important to update our foreign investment policies now so that we are well-positioned to respond to future proposals to achieve the best economic benefit for Canadians and

Canadian businesses. The Calgary Chamber recommends that the Government of Canada: • Improve the international trade and investment climate for Canadian businesses by pursuing reciprocal arrangements and continuing to negotiate strategic bilateral trade agreements. • Update foreign direct investment policies and undertake a stand-alone review of the Investment Canada Act with the objective of expanding the net benefit approach to include considerations of reciprocity in trade relations.
5. Other Challenges *With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*