

## **Desjardins Group**

### **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?*

Canada stands out from the other industrialized countries with its plan to return to a balanced budget in 2015-2016, and the federal government must be encouraged to stay the course. In the current risk-averse environment, the enviable situation of Canada's public finances is attracting foreign investors. As a result, total foreign purchases of federal bonds over the past 12 months have rebounded since the calm period observed in 2011. Certain basic conditions for economic development must be viewed as having priority, in particular the maintenance and development of public infrastructure that meets the needs of Canadians and a competitive tax system. Although Canada's economic prospects depend to a large degree on global economic developments, the federal government should pay particular attention to certain imbalances to prevent them from having a significant negative impact on the economy. Sharp increases in real estate prices and the consequent high levels of household indebtedness are a major concern. Although the Department of Finance has of course introduced a fourth series of measures to restrict mortgage credit, caution should nevertheless still be exercised. The government must not hesitate to announce new measures if the recent ones prove inadequate to stem undesirable developments in the Canadian real estate market. Note that the global economic and financial situation will make it very difficult for the Bank of Canada to raise key interest rates over the next few quarters. In the meantime, credit conditions must be tightened by other means, and the restrictive measures announced by the federal government are a very effective response to that objective. Lastly, if the Canadian economy were to suffer more from the effects of international contagion over the next few quarters, the federal government could consider introducing a new recovery plan including domestic demand stimulus. Canada has a certain degree of flexibility in its public finances (its debt load is below the average for the industrialized countries), and the last recovery plan produced quite decisive results.

#### **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?*

The Canadian government should promote greater diversification in the Canadian economy. In international trade, Canada remains highly dependent on trade with the United States. In the circumstances, current negotiations with the European Union could result in greater access to that region's enormous market and thus facilitate greater diversification of Canada's foreign trade. The federal government is therefore encouraged to reach a free trade agreement with the European Union as soon as possible. Other agreements could also be brought forward. In addition, Canada's upcoming involvement in the current negotiations in the context of the Trans-Pacific Partnership and the start of talks with Japan are good news. Canada's foreign trade is also based to a large degree on raw materials. This is an advantage when global demand for natural resources is high, but the situation leaves Canada's economy vulnerable in the event of a global slowdown. Canada would do well to expand its exports of

processed goods, particularly since they are usually higher value-added products. Special attention should therefore be paid to the manufacturing sector, which has become less competitive as a result of the rising Canadian dollar. The government could thus consider measures to facilitate investment in manufacturers, such as enhancing venture capital programs. In fact, all measures promoting corporate development and the creation of new businesses in promising sectors are job creation sources. Cooperatives are excellent job creators, sources of innovation and vectors of stability serving communities, often operating in sectors and communities less well served by conventional businesses. Their role in the economy and society in general is undeniable. Unfortunately, the structure of cooperatives is still poorly understood or disregarded in the context of government decisions. As a result, access to capital is a significant impediment to the start-up and development of this type of business and one that the federal government must address through adequate support. The federal government should ensure that support equivalent to that provided for other forms of businesses is also available to cooperatives and mutual, and, for that purpose, there would be distinct advantages in assigning responsibility for cooperatives to Industry Canada.

### **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?*

Growth in the labour force will slow significantly over the next few years. The federal government may certainly consider measures to increase immigration or raise the age of retirement, but these actions will not be enough to maintain a labour force growth rate similar to that observed over the past decade. We must therefore accept the obvious fact that labour force growth will inevitably slow and act accordingly. Generally speaking, an economy's growth potential can be broken down into two factors: changes in the labour force and variations in productivity. As labour force growth is bound to slow down, Canada must therefore improve productivity gains if it wants to retain the same rate of increase in its production growth potential. However, productivity gains are still very disappointing in Canada. The federal government should therefore put measures in place to promote productivity gains within businesses (see our answer to question no. 4 for more details). Another way to mitigate the effects of the aging population and labour shortage is through better education and training planning. At the time of writing, more than one million Canadians are looking for employment. Consequently, the federal government could target the sectors most likely to be experiencing a labour shortage and put programs in place to facilitate the labour force's education, training and transition to those industries. To a lesser degree, Canada could more effectively target immigration based on future needs.

### **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?*

Although a number of measures have been taken in recent years to address the problem of low productivity, results have been mixed. Investment must be facilitated and a way must be found to urge businesses to modernize their existing facilities. Even though corporate investment has increased significantly in recent quarters, productivity gains remain limited because most non-residential investment in the country has focused on the development of new production capacity, largely in the natural resource sector. In the circumstances, it is particularly important to target the manufacturing sector, where modernization is needed to counter the harmful effects of the rising dollar. However, the sectors lagging farthest behind in productivity for a number of quarters now are mostly in the service industry. The solution for those sectors is less clear. Increased investment could certainly result in slight

productivity improvements, but that would mostly be in less capital-intensive sectors than manufacturing. Service businesses must therefore be encouraged to find new operating methods in order to improve their productivity performance. The rapid integration of new technologies in businesses and improvements to communication systems are options that should be considered as a way to achieve quick productivity gains in the Canadian economy. We also encourage the federal government to continue its efforts to provide direct support for research and development, as set out in its 2012 budget. Once again, the cooperative and mutual models are an innovative and effective way to meet the needs of Canadians. As the mission of those organizations is to meet their members' needs, they contribute to the economic and social development of their members and of the communities where they operate. They make a significant contribution to employment development. Without favouring one model over another, the federal government can help extend this alternative model to capitalist businesses.

## **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?*

The provinces, such as Quebec and Ontario, where natural resource production forms a smaller part of the economy are having greater difficulty in the current situation. To address that situation, the government must focus on the cause of the problems: weakness in the manufacturing sector. The issue here is ultimately the need to increase manufacturing productivity gains. The remote regions and their populations (particularly Aboriginal populations) are often overlooked. Those regions must be opened up and provided with the most modern means of communication and the infrastructure necessary for their populations to have easy, low-cost access to all resources available in the major centres, such as education and training. Technology and communications must become the driver of Canada's economic development. Transfers to individuals consist essentially of employment insurance and Old Age Security benefits. In these areas, the federal government is the largest issuer of cheques in the country. Without reducing service, but to raise productivity, the government would do well to put measures in place to promote the use of direct deposit and electronic payment methods. However, employment insurance must be self-funding over the long term. That program is essential to ensuring greater economic stability and reducing the economic and social impact of job losses. As for Old Age Security, many seniors live at the poverty line, and the government must continue paying benefits, even though the aging of the population will inevitably result in higher program costs in the coming years. Cooperatives and mutual benefit societies have a higher survival rate than other types of businesses. It is essential that a legislative and regulatory framework be put in place to promote their development and make demutualization an option of last resort, and one that prohibits any undue monetary gains. In a sound economic dynamic, it is better for society to maintain a vigorous cooperative and mutual sector to encourage all industry players to address the needs of individuals. It is therefore in the public interest for every Canadian to have access to high-quality services in the best possible conditions. Lastly, out of a concern for intergenerational fairness, the government could focus more on the medium- and long-term issue of environmental protection and climate change.