

## **Quebec Employers' Council**

### **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?*

First of all, it is important to note that, as several economists have pointed out, austerity and prosperity are not contradictory terms. A balance can be struck by adopting policies that will produce results in both the short term and long term. Quebec's employers, which are represented by the Conseil du patronat, believe that Canada's economic recovery can only be achieved through a quick return to a balanced budget. Only sound public finances will allow the federal government to maintain competitive tax rates for businesses and individuals, and therefore encourage investment in Canada. That is why the Conseil du patronat du Québec encourages the federal government to continue its efforts to eliminate the deficit by 2015-16 at the latest, as previously announced, specifically through greater control over the spending of public money, while maintaining transfers to the provinces. Quebec's employers think it is crucial that the federal government follow the example of provincial governments and implement an effective debt reduction plan as soon as the deficit is eliminated and the government has sufficient flexibility. Such a measure would demonstrate that it feels a sense of responsibility and wants a level playing field for future generations of Canadians. The Conseil du patronat du Québec was also pleased to see the federal government achieve its objective of reducing corporate taxes to 15% in 2012. This will allow Canada to position itself favourably in terms of taxation and will therefore incite businesses to invest here. The federal government should go even further with this initiative and persuade provincial governments to target an overall tax rate of 25% (15% federal, 10% provincial). These tax cuts will undoubtedly produce results in the very near future in terms of investments and jobs. It is very important to keep in mind that Canada's situation is inevitably influenced by global economies, and especially its export markets. It is also essential that the federal government review the rules regarding the funding of various federal programs paid for through payroll deductions, such as EI and CPP. High payroll taxes and deductions can have a negative impact on investment and job creation. The federal government, which is also a major employer in this country, would benefit directly from better control over the cost of these programs and from a freeze on premiums. This option must not be overlooked considering the current state of public finances. In addition to the high corporate tax rate, which was a liability for the Canadian economy, and other structural problems that must be examined, another issue is our airport situation. The current situation, specifically concerning the various fees imposed, clearly puts Canadian airports at a disadvantage, and strong competition from the US is beginning to put increasing pressure on the Canadian economy. A recent Senate report proposes a variety of potential promising solutions that must be seriously considered in the interest of the competitiveness of our economy. Lastly, it is important to remember that investment in various infrastructures, including transportation infrastructure, is one example of a policy environment that will help promote economic growth in the short and long term. Achieving a balanced budget must not happen at the expense of this investment.

## **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 Conseil du patronat du Québec encourages the federal government to pursue its efforts to diversify its economic and trade ties with various regions around the world that present significant opportunities for Canadian exporters. Quebec's employers feel very optimistic about the negotiations currently under way with a view to concluding a comprehensive economic and trade agreement between Canada and the European Union, as well as Canada's participation in discussions regarding a possible free trade agreement with India, and talks concerning the Trans-Pacific Partnership. China represents a particularly interesting potential market for our businesses in many sectors. Employers believe that greater mobility of people and goods is critical to supporting job creation in this country. In addition to natural resources, which we must continue to develop judiciously and responsibly, other sectors in which we have already made some gains and acquired some expertise could benefit from this mobility. These sectors include, for instance, agro-food, green technologies, machinery and equipment, and the transportation sector, especially the aerospace industry. In our negotiations with the European Union, it is important to ensure that Canadian regulations on intellectual property, particularly in certain industries like the pharmaceutical industry, are competitive so that Canada will be able to attract investment in these high value-added sectors. With that in mind, the federal government would be well advised to continue to relax and simplify regulatory and administrative parameters for corporations, including those proposed in the report prepared by the federal Red Tape Reduction Commission earlier this year. Thus, Canada could enjoy a more competitive regulatory environment that is more favourable to investment.

## **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?*

The challenges presented by our aging population can only be overcome by improving productivity and using our available human resources more effectively. Access to a high-quality, available workforce is a top priority for Quebec's employers. With that in mind, the Conseil du patronat du Québec believes that the federal government could take a number of steps to address this challenge, which is a growing concern. The primary instrument available to the government in this regard remains the EI program. By doing more to fund active measures within the program (in terms of ongoing training and help finding a job, for instance), the federal government could thereby invest in real measures to support the development of Canada's workforce. The program needs to be used more effectively when it comes to active measures to encourage training by allowing the use of money, among other resources, for skills recognition and training in the workplace. The Conseil du patronat du Québec also believes that some of the modifications to EI announced recently by the federal government – although the objectives are entirely commendable (more effective matching of labour market needs with workers looking for a job) – must be clarified in terms of how they will be applied in order to ensure that they do not have a negative impact on employers in certain seasonal industries (fruit and vegetable growers, for example). Some employers risk losing all access to a motivated, productive workforce when they need it. Some impact must be expected in the area of provincial employment public services, particularly a risk of "false participation" (to be exempt from the obligation to make an effort to find suitable employment). Concerns have also been raised regarding potential modulation problems between the rules that will be set and local realities when it comes to establishing standards for reasonable travel time. The Conseil du

patronat du Québec appreciates the federal government's efforts to help immigrants integrate into the workforce more easily. The Government of Quebec, which for the past few years has been increasing initiatives to enhance the economic and social integration of newcomers, could serve as a role model in that regard. Other measures, including fiscal and other incentives, to promote training for and the retention of workers aged 55 and over and the integration of immigrants into the work force would also prove to be steps in the right direction. 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 Quebec's Commission des partenaires du marché du travail. Lastly, in the most recent budget, the federal government announced plans to raise the age of eligibility for Old Age Security and the Guaranteed Income Supplement from 65 to 67. The Conseil du patronat agrees with this measure. We do believe, however, that it is crucial that talks be held with the provinces to examine the potential impact on the cost of various provincial programs and to make plans for proper compensation, if necessary.

#### **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?*

Canadian businesses will have to overcome a number of challenges over the next few years when it comes to their overall productivity, and more specifically their ability to innovate. In that respect, the Conseil du patronat du Québec believes that restructuring the assistance given to businesses – without necessarily increasing or decreasing the budget allocated for this – has a significant role to play. By implementing the recommendations made in the report prepared by the Review of Federal Support to Research and Development Panel (Jenkins report), the federal government has already begun making substantial changes in this area. The most important measure has definitely been decreasing the tax credit rate and the removal of capital assets. For manufacturing firms, these changes are huge. There are some serious concerns regarding the potential impact this could have on corporations' decisions to invest in research and development in Canada, especially decisions by large multinationals. Other future measures on the use of funds set aside through these reductions must be clarified over the next few months. This exercise is crucial: it is important to ensure that businesses that are innovating and contributing to Canada's economic prosperity are not penalized, and to encourage any other businesses that demonstrate potential. Direct assistance is less predictable, universal and objective than tax credits. However, in order for that assistance to help businesses reach their targets, we believe that priority should be given to projects that foster innovation, commercialization, productivity and the development of clean technologies, which are all factors that contribute to the creation of wealth. Similarly, the Industrial Technologies Office (ITO) could support strategic programs in the area of research and development, and innovation for Canadian manufacturing firms. For instance, the ITO could lend funds to innovating manufacturing firms that feature structured programs targeting innovation, research and development, technology transfer in industry, pre-marketing and strategic positioning of innovative products on the markets. This kind of support could support innovating manufacturing firms in the development of products, processes and services for the future based on their economic, social or environmental spinoffs. This support could be provided through loans with a repayment schedule based on the company's gross revenue growth, with a mandatory "balloon" payment obligation covering the entire financial commitment of the Government of Canada. Low levels of investment in information and communications technologies (ICT) is one of the causes of Canada's weakened productivity. In 2010, ICT investment per worker in Canada, adjusted to purchasing power parity (PPP), was just 53% of the American level. We need to find ways to do better in this area. Lastly, the EI program could also have a useful role to play in improving productivity. Consideration should be given, for example, 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.

## **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?*

Investments in transportation infrastructures remain a major concern for Quebec's employers. The quality of the transportation network and its ability to ensure the optimum mobility of goods and people, particularly in large urban centres, have a direct impact on trade and economic growth, and on the county's wealth creation. That is why the Conseil du patronat du Québec encourages the federal government to move forward, without any further delays, on plans to replace the Champlain Bridge linking the Island of Montreal to the South Shore, in order to respect, and ideally even get ahead of, the projected timeline for the operation of a new bridge by 2020. The federal government also needs to invest more in key public transit projects, which would not only help alleviate traffic congestion in the greater Montreal area, but would also demonstrate a commitment to sustainable development. As previously mentioned, it is important to keep in mind that investing in various types of infrastructure, particularly transportation infrastructure, constitutes an example of a policy environment that will help promote economic growth in the short and long term. Lastly, the Conseil du patronat du Québec would like to once again emphasize how important it is for the federal government to increase its efforts to more effectively combat the smuggling of tobacco in Canada. Given the tax losses it generates, this problem continues to deprive the government of substantial revenues and causes unfair competition at the expense of businesses that act entirely legally.