

## **Recommendations of the Board of Trade of Metropolitan Montreal as part of prebudget consultations by the Government of Quebec (May 2014)**

### **Introduction**

The Board of Trade's recommendations are being made in a context that remains precarious. The global economic situation is still fragile and hard to read, not to mention that Quebec and its largest city continue to face major structural deficits that threaten their prosperity.

Low business productivity, the impact of the aging population on labour supply, the appalling condition of public infrastructures and the precarious state of public finances in Quebec are of great concern to Greater Montréal businesses. The Board of Trade's message is clear: the Government of Quebec must show resolve and take immediate action to stabilize public finances, create an environment conducive to private investment and bolster the city's economy.

#### **I. Balance the budget within the original timeframe of 2015-2016**

The last recession was the least severe Quebec has seen in the postwar period. It was weaker and shorter than in Ontario, the United States and other OECD countries. The jobs lost during the recession were all recovered by March 2010. In fact, Quebec's economy has resumed growth for over four years. Yet the government still has not managed to balance the budget.

Not only did the government postpone balancing the budget by two years in the fall, but also a recent expert report on the state of the province's public finances, the *Rapport d'experts sur l'état des finances publiques du Québec*, suggests that this new target will be more difficult to achieve than anticipated. This shows that Quebec is struggling with a structural deficit. Combined with a high level of debt, this makes us extremely vulnerable to any sharp, unexpected downturn in the economy. On average, we have seen recessions every five to eight years since World War II.

- **The Board of Trade stresses the need to balance the budget by 2015-2016.** Another delay would be dangerous and irresponsible. It would show a loss of budgetary control and send a negative signal to investors and banks. It would inevitably lead to our credit rating being downgraded and therefore a higher borrowing rate and debt servicing costs – when debt servicing already represents more than 12% of public spending. We must avoid this destructive spiral for our economy and our public finances.
- **The budget must be balanced through tight control of public spending rather than by increasing the individual and corporate tax burden.** The only responsible choice is to ensure that spending growth is slower than economic growth. Beginning in 2015-2016, the rate of spending growth should track that of the economy.
- **Once the budget is balanced, we ask that the government respect its commitment to allocate half of the surplus to debt repayment and the other half to relieving the tax burden.** To restore our financial leeway to deal with inevitable cyclical downturns in the Quebec economy, the government must respect

targets to reduce the debt-to-GDP ratio by 2026. If the surplus is insufficient to reduce our debt, the Board of Trade believes that the full or partial privatization of certain government corporations should be evaluated.

## **II. Provide competitive taxation that encourages economic growth and job market participation**

The government's commitment to put in place a committee to review the province's tax regime is in line with our recommendations. We encourage the government to announce the committee's creation as soon as possible.

Quebec's fiscal framework must do more to encourage investment, work and effort. This is essential for healthy public finances in the long term, particularly given the aging population. **To do this, we encourage the government to respect four guiding principles in reviewing the tax regime:**

- **Decreasing income tax, tax on corporate profits and payroll taxes must be a priority.** High tax rates create an exodus of the most mobile capital and resources, just when our economy is suffering from a lack of capital investment and there are concerns about a skilled labour shortage. And experts agree that payroll taxes discourage hiring and investment and, as a result, are particularly detrimental to economic growth.
- **The right price signals must be sent by making greater use of fees for public services, and the sales tax should be increased.** Public fees that send a better price signal more effectively orient consumer behaviour, thereby avoiding overconsumption of goods and services delivered by the government and government corporations. Furthermore, as many experts have pointed out, sales tax is less of a deterrent to hiring and investment and is therefore less harmful to economic activity than other fiscal tools such as income tax.
- **Fiscal and financial measures and programs for business have to be reviewed,** retaining only those that have a positive impact on business innovation and productivity.
- Finally, **any change to the fiscal framework must be gradual and announced in advance** to ensure a predictable business environment and give agents time to adapt.

The main objective of this reform should be to rebalance the tax regime to better support wealth creation and stabilize public finances. The Board of Trade could contribute to this effort by enlisting its members to help the government identify the most strategic tax tools from the point of view of business.

Once the budget is balanced, the government should reduce the corporate tax burden as promised. As many experts have shown, Quebec's fiscal pressure is above the average for OECD countries. To improve the competitiveness of the business environment, we therefore need to reduce the tax burden, particularly among companies.

### **III. Maintain strategic initiatives that have a direct impact on the competitiveness of companies and the economy**

We applaud the government's commitment to create a standing committee to review programs and their delivery. This initiative will help improve the government's productivity and efficiency.

That said, the government must be vigilant in restricting spending to avoid compromising economic growth. To do this, **it must maintain strategic programs and initiatives that have a positive impact on private investment, productivity and the competitiveness of companies in Montréal and the rest of Quebec.**

The Board of Trade asks the government to maintain and reinforce the following priority initiatives:

#### **A. Complete major transportation projects in the city in a timely manner**

We applaud the government's commitment to reinstate the Quebec Infrastructures Plan credits. We encourage it to move quickly in completing priority transportation projects to improve the flow of goods and people.

1. The following **public transit** projects must be a priority:
  - Implementing preferential treatment for buses
  - Implementing the Pie-IX BRT
  - Extending the blue line to Anjou
2. **The following road projects must receive particular attention and be completed as soon as possible:**
  - The reconstruction of infrastructures along the road link between Montréal-Trudeau Airport and downtown, including the Dorval Interchange, the Turcot Interchange and the other interchanges along that route
  - Improve access to the Port of Montréal
  - Cover the Ville-Marie Expressway

#### **B. Strengthen the quality and increase the availability of human resources for businesses**

1. Improve the attraction, integration and retention of qualified immigrants:
  - **The government must select immigrants based on job market needs.** As such, it must focus on immigrants who have experience and skills in sectors and professions in high demand, who have a command of French and therefore whose experience and expertise are easily recognized. Should the situation require it, the government should also focus on immigrants who have at least a working knowledge of English.
  - **The government must continue to support key organizations in the city that promote contact between local businesses and organizations and immigrant workers.** In this area, the Board of Trade's Interconnection program has already proven its worth. A total of 680 immigrant professionals and 340 businesses have participated in networking activities in the past eight months (with an employment rate among immigrants surveyed of 65%).

- **The government must increase the volume of immigration in Quebec by 60,000 to 65,000 people per year** to maintain our demographic weight in Canada and ensure the availability of labour for businesses in the longer term.
2. Strengthen the city's institutions of higher learning

Given the demographic and productivity challenges, the city's universities will more than ever play a critical role in our economic development.

**The government must follow through on its commitment to increase funding to universities. It must ensure that they receive adequate, stable and predictable funding.** It must therefore correct the structural underfunding of universities so that they can compete with major North American universities.

### **C. Support entrepreneurship and the next generation of entrepreneurs**

Quebec creates fewer businesses than elsewhere in Canada and is facing a major challenge in succession planning for businesses. The government must therefore:

- **support entrepreneurship by improving access to financing and continuing initiatives to reduce administrative and regulatory red tape for SMEs.**
- **facilitate the transfer of companies by modifying taxation so that the next generation of entrepreneurs all have the same advantages regardless of the choice of successor.** Under current rules, it is more advantageous to transfer a business to a third party than to a family member. This handicaps the next generation of entrepreneurs in Quebec, particularly given that 60% of SMEs in Quebec are family businesses.

### **D. Better support and protect our economic flagships**

The development of a pool of large Quebec-owned companies must be part of our growth strategy. In addition to the wealth that these companies generate with their activities, they play an important economic role because of the presence of their head office in Quebec, particularly in the metropolitan area.

Head offices play a significant economic role in the city. They create many high-quality, well-paid jobs and contribute to the sales of a large network of local suppliers, particularly in professional services.

The Government of Quebec should put in place measures to protect the flagships of our economy. Local companies are particularly vulnerable when targeted by unsolicited takeover bids. This situation can be corrected by applying measures that already exist in other jurisdictions in North America. As such, the next budget must clarify the government's intention with respect to:

- **the timely implementation of the recommendations of the report of the *Task Force on the Protection of Quebec Businesses*, released in February.**
- **the adoption of the amendment to Quebec's *Business Corporations Act* to better equip boards of directors to deal with unsolicited takeover bids.** Such measures consolidate the city's role as a decision-making centre and help retain our head offices, which are essential to the city's development.

## **E. Leverage the development of natural resources**

The balanced, sustainable and responsible exploitation of natural resources is a tremendous asset for Quebec and Montréal. The Board of Trade has produced two studies that demonstrate the importance of natural resources and metals processing for Greater Montréal.

The first study<sup>1</sup> puts the potential spinoffs of exploiting natural resources in the order of \$51.8 billion, with over 14,000 jobs created or maintained in the city in the next 25 years. The second<sup>2</sup> shows that the economic spinoffs of metals processing for Greater Montréal are in the order of \$1.8 billion per year, maintaining 19,000 direct and indirect jobs.

We are pleased to see that the government has committed to resuming natural resource development by putting the Plan Nord back into action.

**The Board of Trade asks the government to quickly clarify its plan for investing in natural resources and ensuring that related transportation infrastructures are developed.**

**The Board of Trade also encourages the government to foster oil development and exploitation to reduce our trade deficit and supply refineries with Quebec oil. Oil royalties could be used to supply the Generations Fund, thereby reducing our debt.**

## **IV. Strengthen Montréal as Quebec's largest city**

A prosperous Quebec depends on a prosperous central city. But Montréal is facing major challenges, including the maintenance deficit for its road and water infrastructures and funding its employee pension plans. These two factors place a great deal of pressure on Montréal's financial framework and its ability to create a competitive business environment. The Board of Trade asks the government to correct a fiscal and structural situation that is penalizing the city. It must:

- **quickly negotiate a new *Entente Québec-municipalités*.** This new agreement must preserve what was gained in the 2007-2013 agreement, increase the total budget, include provincial sales tax revenue sharing and thereby grant the Ville de Montréal new sources of revenue.
- **table a bill on supplemental pension plans as soon as possible** to allow the Ville de Montréal and other municipalities in the metropolitan area to institute new cost sharing for pension plans between the cities and their employees (including new deficits).
- **table a bill to provide Montréal with special metropolitan status.** This status must give it more power and greater autonomy. Additional powers would include greater regulatory leeway in planning within its territory and **greater autonomy in establishing new sources of financing that do not depend on property taxes alone.**

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<sup>1</sup> BOARD OF TRADE OF METROPOLITAN MONTREAL. April 2012. *Natural Resources: Leverage for the City's Growth*.

<sup>2</sup> BOARD OF TRADE OF METROPOLITAN MONTREAL. February 2013. *Metal Processing and Greater Montréal: A Sustainable and Promising Alliance*.

## **Conclusion**

The government must announce measures to balance the budget by the original deadline of 2015-2016. It must also reform taxation and review programs to ensure healthier public finances in the long term.

The government must further lay the groundwork for the Quebec of tomorrow by implementing strategic initiatives to support private investment and wealth creation. It must pursue its investments in structuring and priority infrastructures, ensure the availability and quality of human capital for business, support entrepreneurship and responsibly exploit natural resources. Finally, the government must grant Montréal the powers to allow it to fulfill its role as Quebec's largest city, starting with new sources of financing. A strong city is essential to a prosperous Quebec.