CHAMBRE DE COMMERCE
DU MONTRÉAL MÉTROPOLITAIN
BOARD OF TRADE OF METROPOLITAN MONTREAL

Recommendations of the Board of Trade of Metropolitan Montreal to the Government of Canada for the 2016 federal budget

July 2015

Preamble

The Board of Trade of Metropolitan Montreal (the Board of Trade) has over 7,000 members. Its mission is to be the voice of Montréal's business community and to promote the city's prosperity. The Board of Trade is involved in key areas of economic development, promoting a philosophy of action based on engagement, credibility, proactivity, collaboration and innovation. The Board of Trade is the largest private economic development organization in Québec.

Introduction

The Board of Trade's pre-budget recommendations come at a time of uncertainty in the global economy. On the one hand, the Greek debt crisis and its potential repercussions on the euro zone add to concerns about the outlook for global growth raised by the slowdown in economic growth among emerging countries, in particular China. On the other, the strength of the American job market and domestic demand should support the world economy.

Canada is also facing headwinds. The global economic situation and the drop in the price of oil and in investments caused the Canadian economy to contract in the first half of this year. Although a return to economic growth is expected in the third quarter, the Bank of Canada has downgraded its outlook for growth and reduced its key interest rate to 0.5% in July. This will have a negative impact on Canada's public finances.

Furthermore, divergent economic paths in Canada and the U.S. means that interest rate forecasts are out of step in the two countries. While the Bank of Canada twice lowered its key interest rate in recent months, debate in the U.S. is centred more on when the Federal Reserve will raise its key interest rate. This disparity should maintain and indeed increase the strength of the American dollar over the Canadian dollar. These circumstances should prompt the government to introduce an effective strategy to increase exports, particularly to the American market.

Oil-producing provinces are clearly feeling the hit of the drop in the price of oil. Obviously the federal budget must be sensitive to this. However, we cannot forget that Québec and Ontario, which represent close to 60% of the Canadian economy, are still very much in debt and facing a number of structural challenges. Plus, the economies of Québec and Montréal are facing major challenges in terms of demographics and productivity.

Finally, the federal government needs to show restraint in its budget planning. It needs to ensure it has sufficient leeway in the budget in the event of a more marked downturn in the economy. It also needs to create an environment that enables Canadian businesses to be poised to seize the opportunities resulting from the global economic recovery.

To this end, we recommend three areas of intervention to improve the business environment. The 2015-2016 budget should:

1) Create the financial leeway for the Government of Canada to deal with the unexpected, using that reserve to pay down the country's debt if economic conditions turn out to be favourable.

2) Increase the competitiveness of the tax regime, by pursuing the strategy to reduce the tax burden for individuals and companies.

3) Accelerate major investments in economic and strategic infrastructures.

In addition to these three major areas of intervention, the Board of Trade calls on the government to **confirm its financial contribution for Montréal's 375th anniversary celebrations to ensure the festivities are a success. This should be done as soon as possible – well before the next budget is tabled. Canada's leading historical city should receive a significant federal legacy to mark the country's 150th anniversary.** The lack of financial commitment from the federal government is perplexing given that this major milestone in Canadian history is only two years away.

I. CREATE SUFFICIENT BUDGET LEEWAY AND TARGET DEBT REDUCTION

Sound management of public finances involves three major principles: carefully managing expenses, respecting our ability to pay, creating a contingency reserve to prepare for economic shocks and implementing a well-defined debt reduction strategy.

We are pleased to see balanced budget legislation passed. Following Québec's example, this law will provide the regulatory framework for discipline in budgeting and permit deficits only in exceptional times of economic crisis. This framework will also reassure financial institutions and help maintain our credit rating.

The government has to maintain its target of eliminating the deficit in 2015-2016, after running one for seven years. That said, given that the economic situation has seriously deteriorated in the past year, the government must have financial leeway of $3 billion as in past years to face the unexpected. The last budget exercise is the best illustration of the importance of having this safety cushion. It was thanks to the $3 billion contingency reserve that the government was able to stay the course to balance the budget on time, while adopting measures to stimulate the Canadian economy.

Given the highly uncertain economic outlook, the Board of Trade would like to reiterate that the government needs to show prudence and therefore:

- **Maintain an annual contingency reserve in the order of $3 billion until 2017-2018 and not $1 billion as announced in the last budget.** If this reserve is not used during the current budget exercise, it should be put toward paying down the debt.

- **Maintain its commitment to reduce the net debt to 25% of GDP by 2021.**

II. MAKE THE TAX REGIME MORE COMPETITIVE

Weak corporate investment continues to undermine economic growth. This is why we need more competitive taxation, which encourages work, investment and productivity, and better support for SMEs. The government needs to:

- **Reduce the personal and corporate tax burden once the budget is balanced.**

    - **First reduce personal income tax**

A generalized reduction in personal income tax will encourage work and help attract and retain highly mobile strategic workers. This is crucial given the shrinking pool of potential workers.

- **Keep reducing the corporate tax rate**

The government needs to further reduce corporate tax rates to be comparable with other small open economies, such as Ireland. This would encourage companies to invest here and help attract foreign businesses and investment.

- **Reinstate the federal tax credit for labour-sponsored funds.**

Labour-sponsored funds promote the creation and growth of innovative businesses and support tens of thousands of skilled jobs every year. The *Report on the Importance of Labour-Sponsored Funds for the Economy of Metropolitan Montréal,* published by the Board of Trade in 2013, effectively demonstrated the considerable impact labour-sponsored funds have on the economy of Québec and Montréal. The report points out that more than $2.3 billion has been invested to date directly by labour-sponsored funds in the city's businesses. These investments have made it possible to create or maintain over 35,000 jobs, to say nothing of the leverage effect of these funds on other private funds. This is why the Board of Trade repeats its call to reinstate the federal tax credit for labour-sponsored funds.

III. ACCELERATE MAJOR INVESTMENTS IN STRATEGIC INFRASTRUCTURES

When the 2015-2016 budget was presented, the Board of Trade welcomed the introduction of a national transit strategy and a $750 million investment beginning in 2017-2018. However, we suggested that the government make the national transit strategy investments as early as 2016-2017, or as soon as the budget is balanced.

Given the deterioration of the Canadian economy, the Board of Trade proposes going ahead immediately with this investment so that it can stimulate the weak economy. Therefore, the Board of Trade recommends:

- **Making investments for the national transit strategy as early as 2016-2017.**

- **Leveraging port, airport and maritime development in the city.**

Port, maritime and airport infrastructures are essential for facilitating and increasing the movement of goods, thereby contributing to the commercial development of the city, which is a North American transportation and logistics hub. To do this, Montréal needs to have a way to tackle aggressive and increasing competition from ports on the east coast of the U.S. As such, the next federal budget should:

  - **Specify the budgetary contours and parameters of a program to strengthen the Ontario-Québec Continental Gateway.** The government needs to waste no time in making the investments required to make our port infrastructures more competitive.
  - **Invest in enhancing the Old Port of Montreal and building a new passenger terminal in the Port of Montreal.** The Iberville terminal cannot accommodate enough large ships, and it is showing its age. A modern new building will increase Montréal's visibility with an international cruise clientele. The Old Port is strategic for the tourism sector and the economy of the metropolitan area. **We call on the government to move ahead with modernization projects and specifically to propose innovative solutions to allow Greater Montréal to exploit the potential of silo no. 5.**

- **Reduce and even eliminate rent at Montréal-Trudeau Airport,** to make flights more competitive with those in neighbouring American states.

Conclusion

The federal government needs to ensure sound management of public finances in the longer term. To do this, it should have enough leeway for contingencies, while pursuing debt reduction. It also should reduce the corporate and personal tax burden to encourage private investment. Finally, it needs to make strategic infrastructure investments and deploy national transit strategy funds as early as next year.

Summary of the Board of Trade's recommendations

INTRODUCTION: SHOW RESTRAINT AND SUPPORT GROWTH

- The government needs to ensure it has sufficient leeway in the budget in the event of a more marked downturn in the economy, while creating conditions to strengthen the business environment.
- The government should confirm its financial contribution for Montréal's 375th anniversary celebrations to ensure the festivities are a success. This should be done as soon as possible – well before the next budget is tabled.

I. CREATE SUFFICIENT BUDGET LEEWAY AND TARGET DEBT REDUCTION

- Maintain an annual contingency reserve in the order of $3 billion until 2017-2018 and not $1 billion as announced in the last budget.
- Maintain its commitment to reduce the net debt to 25% of GDP by 2021.

II. MAKE THE TAX REGIME MORE COMPETITIVE

- Reduce the personal and corporate tax burden once the budget is balanced.
- Reinstate the federal tax credit for labour-sponsored funds.

III. ACCELERATE MAJOR INVESTMENTS IN STRATEGIC INFRASTRUCTURES

- Make investments for the national transit strategy as early as 2016-2017.
- Leverage port, airport and maritime development in the city.