



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

***Pre-Budget Submission
in Advance of the 2018 Federal Budget***

Submitted to

House of Commons Standing Committee on Finance

August 2017

1. Introduction

The Greater Charlottetown Area Chamber of Commerce (GCACC) appreciates the opportunity to provide input to the Standing Committee on Finance in advance of the 2018 federal budget. The focus on productivity and competitiveness highlights the importance of the relationship between increasing productivity, international competitiveness and raising the standard of living of Canadians in all regions of the country.

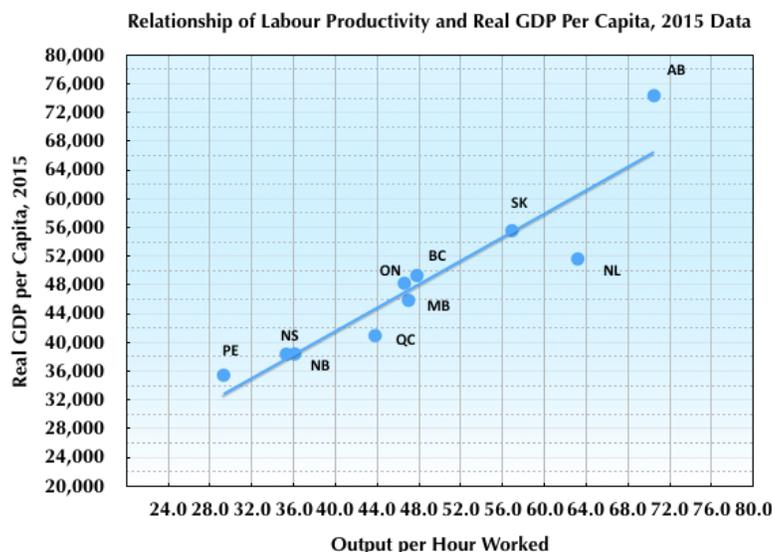
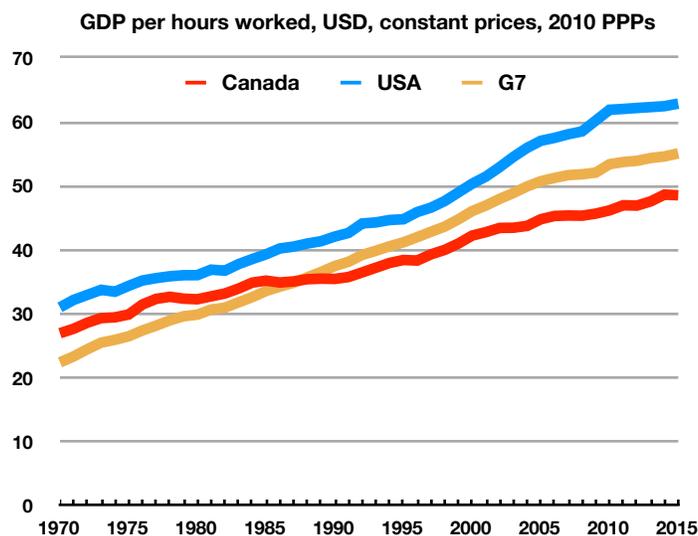
Canada's Real GDP per hour worked has been historically below the USA.¹ Although Canada's productivity was above the G7 until the late 1980's, it has since waned. There are concerns that these gaps may be widening.

Not only is the absolute gap of concern, Canada's annual growth rate in labour productivity is in decline, as it is in most other industrialized countries. To close the absolute gap with the USA, Canada's annual growth rate must be higher than the USA, and as trading patterns change, the G7. This is a challenge indeed given the illustrated long-term trends.

The differences in labour productivity among provinces² compound the issue. These strongly suggest that increasing labour productivity is central to raising real GDP per capita. As well, the differences in labour productivity across industries are as marked as they are among provinces.

In summary, Canada's labour productivity:

- is below the USA and the G7
- rate of increase has been slowing
- varies significantly across provinces
- varies significantly across industries



¹ OECD on-line data bases

² Cansim Table 383-0033

This points to the complexity of our productivity challenge and the need for targeted federal programs to address the root causes, whether provincial or national.

The Chamber suggests that a workable and effective strategy to address our productivity challenge should follow the maxim “think globally but act locally”³. While there are important national policies and instruments to be considered, productivity gains will depend on the actions of the private, for profit, sector acting locally, albeit in a global market.

2. Issues of Concern

The GCACC’s submission addresses five specific issues which have a direct bearing on productivity and competitiveness: i) taxation ii) demographics/immigration iii) education/skills iv) international trade and v) economic diversification and supporting infrastructure.

2.1 Taxation

As a productive economy depends on business investments in machinery, equipment and new technologies, the tax system can have a direct bearing on productivity. Given that Canada’s firms “invest less than their peers in the major countries”⁴, particularly in business enterprise research & development spending⁵, it is important that the tax system be both competitive internationally (and provincially) and not distort specific business investment decisions.

Canada’s tax system is highly integrated between the provincial and federal governments at both the personal and corporate levels. While the federal corporation tax system is national in scope (with the exception of provisions that apply to specific regions or industries), it is the combined federal/provincial tax regimes which must be considered by business when assessing the profitability of capital investments necessary for increasing productivity (increasing the capital/labour ratio). There are both strong theoretical and practical reasons for believing that a lower corporation income tax burden, with the right incentives, will lead to economic growth and enhanced productivity, for both large and small firms. The GCACC suggests that:

the Committee examine the corporation tax system (including the integration and linkages to provincial systems) to determine whether changes are required to:

i) encourage additional capital investments

³ Attributed to René Jules Dubos (February 20, 1901 – February 20, 1982)

⁴ Canada Department of Finance

⁵ <http://www.conferenceboard.ca/hcp/provincial/innovation/berd.aspx>

- ii) *encourage the reinvestment of profits*
- iii) *encourage and support entrepreneurship and risk taking (e.g. loss consolidation among related corporations, better tax deductions for investment losses, and targeted tax incentives)*

In addition, it is recommended that the federal government review past changes to the Scientific Research and Experimental Development (SRED) Program to ensure that they have not had negative impacts on accessibility.

The GCACC will be following the Consultations on Tax Planning Using Private Corporations closely, as this is an issue with possible significant impacts on our membership.

2.2 Demographics, Population & Immigration

Atlantic Canada is facing a demographic challenge. Deaths outnumber births, and without positive net migration, either from other provinces or internationally, population will stagnate with consequences on labour supply, economic growth, productivity, and growing the tax base to support an aging population.

Prince Edward Island is the leader in Atlantic Canada in population growth, primarily due to its success in attracting international immigrants as a proportion of its small population base. This effort, accompanied by the Atlantic Immigration Pilot of the Atlantic Growth Strategy, should have a positive impact well into the future. The Chamber appreciates the importance of this renewed Atlantic focus in advancing the economies of the Atlantic Provinces and congratulates the Federal Government for establishing the initiative.

Increasing population through international immigration has immediate impacts on consumption. The impact on production (and productivity), however, depends on retention of skilled talent⁶, new business start-ups and labour force participation. The Chamber has been actively pursuing this through its PEI Connectors Program and the Island Advance Initiative. Interest and activity are high and opportunities for integrating international migrants into the provincial economy are developing.

In growing the province's population, it is also important to reduce out-migration to other provinces and to repatriate previous residents who have moved. These are integral parts of the Provincial Government's population strategy, a strategy fully supported by the GCACC.

Given that future population growth in Atlantic Canada is dependent mainly on attracting, retaining and integrating international immigrants into the local economies,

⁶ *Immigration For A Competitive Canada, The Canadian Chamber of Commerce, January 2016*
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the Chamber suggests the Committee endorse the provision of regular summary reports on Atlantic Provinces and ACOA international immigration program status including: numbers, retention, business type and size and skill level (NOC) under the Atlantic Immigration Pilot, and utilization of the Atlantic International Graduate Program.

2.3 Education, Skills and Productivity

The importance of educational attainment and skill levels in economic growth and productivity enhancement is beyond refute. But education advancements and up-skilling must be linked with the needs of employers.⁷ As an advocate of business, the GCACC has been active and consistent in recommending continuous improvement in the Prince Edward Island K-12 system, and improving linkages among Post Secondary Education providers and the business community.

In terms of adult literacy, Prince Edward Island performs relatively well⁸, although the data is dated (2012). Nevertheless, absolute improvements are desirable.

Transitioning 'graduates to work' remains a concern of the GCACC. Research into PINES (Poorly Integrated New Entrants)⁹ suggests that successful transition is negatively affected by:

- the hourglass nature of the labour market; high knowledge based jobs requiring strong PSE credentials - middle level jobs that require work experience but not necessarily a degree or diploma - entry and low skill jobs that don't require PSE or much work experience
- an education/labour market disconnect leading to over-qualification and too many with the same qualifications chasing a limited number of jobs¹⁰
- a lack of effective incentives

The GCACC suggests that the Committee examine all federal programming directed at the transition of school to work to ensure that the level of funding and program designs are meeting current labour market challenges and needs. Particular attention should be given to work experience and work

⁷ Fragmented Systems: Connecting Players in Canada's Skills Challenge, The Canadian Chamber of Commerce, September 2015

⁸ <http://www.oecd.org/skills/piaac/>

⁹ Improving the Labour market Success of Poorly Integrated New Entrants, Canadian Career Development Foundation, 2012

¹⁰ "The Parliamentary Budget Office estimates that based on educational credentials, the proportion of workers with a university degree who were over qualified in their current position has been on an upward trend since the early 1990's, reaching 40 per cent in 2014." (Labour Market Assessment 2015)

permit requirements for international students, a growing population who now represent over 20% of UPEI's enrollment.

2.4 International Trade and Trade Agreements

The relationship of trade to productivity again is well founded - "trade and trade-enhancing policies have improved the productivity performance of the manufacturing sector. This applies broadly to exporting and importing as well as to international and interprovincial trade."¹¹

In 2016, seventy percent of Prince Edward Island merchandise exports went to the USA (\$.92 billion out of \$1.3 billion). From New England to Texas to California, PEI's export reach is geographic and product diversified. On a percentage increase basis, PEI has led the country in merchandise export growth.

The Chamber is keenly interested and concerned over the upcoming NAFTA negotiations. While, in volume terms, a minor player in Canada's exports to the USA, exporting is central to the continued economic growth of Prince Edward Island and to enhancing productivity.

The Chamber wishes to register its concern to the Committee, with the intent of providing information from a local/provincial perspective.

2.5 Economic Diversification

Economic diversification is central to the continued expansion of the PEI economy and improvements in productivity. Sectors like advanced manufacturing, biosciences, value-added food production, and information technology have become important growth sectors, with increased investment in research and development, and successful commercialization of new products and services. Economic cluster partnerships involving businesses, academic and research organizations, and government agencies have led the transformation.

The current federal government's 'Innovation Agenda' has established important support mechanisms for these initiatives, including enhancement of business-led incubator and accelerator services, centres of excellence, infrastructure funding for universities and colleges, and cluster funding and business loan support through federal regional development agencies. As strategic infrastructure funding that directly enables economic growth and diversification is a critical part of continuing to increase productivity and competitiveness, the Chamber:

¹¹ Redesigning Canadian Trade Policies for New Global Realities, Institute for Research on Public Policy

recommends that new federal infrastructure funding focus on enabling infrastructure including world-class business accelerators, scale up facilities, and specialized manufacturing space that can be made available to early stage and growth-stage businesses at internationally competitive rates.

3. Conclusion

The 2018 Federal Budget could prove to be pivotal. With uncertainties surrounding trade arrangements, US/CAN exchange rate, and higher interest rates, caution and flexibility should be exercised. The 2017 budget projected an accumulated Final Budgetary Deficit of \$143 billion for the period 2016/17 to 2021/22, a significant change from the previous few years. While investments in 'Skills, Innovation and Middle Class Jobs' are sound and should have positive impacts on productivity, the trade off is a higher debt burden on future taxpayers.

The GCACC supports the need for a firm plan to address the federal deficit. Federal Finance long-term projections¹² show that the Federal Debt to GDP ratio is sensitive to growth in productivity and federal spending. A combination of low productivity and high spending over the long-term results in a significant increase in the ratio. Again, caution and fiscal prudence appears to be an essential ingredient to budget deliberations, now and into the future.

Thank you for the opportunity to contribute to your deliberations.

Greater Charlottetown Area Chamber of Commerce

¹² <https://www.fin.gc.ca/pub/ltefp-peblt/report-rapport-eng.asp>
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Executive Summary

The productivity and competitiveness focus of the Committee's consultations is both timely and critical, given their importance to growing the economy and increasing living standards.

While the relative poor productivity performance of Canada is well documented, there is no pan Canadian strategy to address the issue. Given the significant differences in labour productivity across provinces and industries, a successful strategy needs to be based on 'local and industry specific' conditions.

Key components should include:

- the role of the corporation (& personal) tax regimes, both federal and provincial, in advancing productivity through capital investments, entrepreneurship and risk taking
- growing population through immigration
- ensuring labour skill levels can meet the challenges of an expanding and challenging economy
- approaches to address 'school to work' transition
- appropriate trade policy
- economic diversification and supporting infrastructure
- a federal fiscal position which is supportive but not burdensome