Chambre de commerce
du Montréal métropolitain
Board of Trade of Metropolitan Montreal

February 8, 2010

The Honourable James M. Flaherty
Minister of Finance
Finance Department
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Subject: Pre-budget recommendations

Dear Mr. Minister:

On behalf of the Board of Trade of Metropolitan Montreal, I would like to submit our recommendations for the Government of Canada's next budget.

The global recession has had unavoidable repercussions on Canada's economy and public finances. Still, thanks to, among other things, the government's recovery plan, the efforts of the provinces, a solid banking system and a diversified economy, Canada seems, on balance, to have been less affected by the crisis than most of the other G7 nations. Our fairly robust economy is also due to the strong resilience exhibited by most of our companies.

Now that the worst is behind us and the Canadian economy has finally turned a corner, it is time to define a clear and realistic plan to balance the budget. Of course, since GDP growth is still fragile, we recommend a gradual rebalancing. Simply put, we believe that the government should continue with certain stimulus measures until growth is sustained and the pace picks up.

We think the Government of Canada must also consider the challenges awaiting the country in the years ahead, notably, as regards productivity and the aging of the population. Although planning major spending restraint and cuts, the government must nevertheless continue with measures that help make our economy more competitive so as to ensure more solid long-term growth, and by extension, healthier public finances.

As such, the Board of Trade's recommendations revolve around three broad orientations:

1. **Maintain strategic public infrastructure investments in the near term.**
2. **Pave the way for a gradual return to a balanced budget and streamline spending.**
3. **Give priority to measures that contribute to the productivity and competitiveness of the Canadian economy with a view to ensuring its long-term growth.**

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Orientation #1: Maintain strategic public infrastructure investments in the near term

Although the Canadian economy started growing again in the third quarter of 2009, the turnaround remains tenuous and the labour market is still fragile. This means that we must continue supporting the recovery in the short term. To this end, the Government of Canada must forge ahead with investments deemed a priority and strategic even as planning for a gradual return to a balanced budget.

We recommend continuing the accelerated spending on infrastructure projects. These investments are a priority given the genuine need for infrastructure renewal and modernization; the condition of Montréal's underground infrastructures clearly illustrate the crying need for such investments, which in the near term would stimulate economic activity and hiring and in the long run make us more competitive.

Moreover, since Canada's six largest urban centres account for over 40% of the country's GDP, their economic development should take precedence.

In the case of Montréal, we recommend that the government proceed as quickly as possible with the following four priority projects, in which it plays a vital catalytic role:

- **The next phase in the development of the Old Port of Montréal must begin without delay.** One of the most popular tourist attractions in the country, the Old Port is a Montréal treasure. Kick-starting the development of this federal project would be an excellent and tangible way for the government to help enhance Montréal's appeal.

- **Construction of a rail link between Montréal-Trudeau Airport and downtown must begin now**. Once the optimal route is chosen, the work should not be delayed. In a globalized, highly competitive world, rapid, regular and reliable access to the airport is an absolute must. As it does elsewhere in the country, the Canadian government must take a leadership role in this project.

- Studies on the work **required on the Champlain Bridge must also begin without further delay.** We need a plan and detailed assessment for the replacement or rehabilitation of Canada's busiest bridge as soon as possible, keeping in mind efforts to increase public transit use. Montréal must be able to plan for repairs to and the eventual replacement of this key link in the road network.

- The Canadian government must **help Montréal bolster its expertise in life sciences** by participating financially in projects to develop economic sectors of excellence around the research centres associated with the future superhospitals.

Orientation #2: Pave the way for a gradual return to a balanced budget and streamline spending

To ensure its long-term economic prosperity, Canada must restore its fiscal health. Consequently, the federal government must present a realistic schedule for balancing the budget. The task is as essential as it is difficult.

The process to eliminate the deficit will be taking place at a time of still tenuous economic growth and added pressure on public spending brought about by an aging population that is also reducing tax revenues for the government. Given that the provinces will also have to put their public purse in order and will surely see health expenditures rise in the years ahead, the Board of Trade considers it essential to maintain transfer payments to the provinces.

As such, the anticipated growth will not likely be enough to eliminate the deficit and could well trigger a vicious circle of structural deficits. However, it is absolutely essential that the process of restoring public finances not discourage wealth creation. In other words, the government must ensure that the fiscal framework remains conducive to business competitiveness and hence favourable to growth.

The Board of Trade therefore considers that the government must:

- **Rebalance its finances without increasing the tax burden.** Increasing the tax burden would harm competitiveness and could discourage wealth creation at a time when businesses are still fragile. Increasing the tax rate could have even more dire consequences on the private sector and thus compromise future growth. In our opinion, the deficit must not be financed by raising taxes except for inflation indexing.

- **End the temporary economic stimulus measures according to the planned schedule, provided, however, that the recovery is firmly entrenched.** The federal government's economic action plan was created to minimize the impact of the recession. Now that the economy has turned the corner, the measures must be gradually eliminated.

- **Comprehensively review and slash public spending.** The goal of such an exercise is to examine all expenditures in order to determine which ones are necessary and which ones should be reduced. To this end, the government will have to increase the productivity of public services and find ways to cut program costs. **Ultimately**, **spending growth must be reduced.** That said, keeping economic competitiveness in mind, the government should pay special attention to our growth sectors: aerospace, life sciences, information technology and communications. These are strategic sectors for Canada's future and the government must continue to back them.

Orientation #3: Give priority to measures that contribute to the productivity and competitiveness of the Canadian economy with a view to ensuring its long-term growth

Everyone knows that in the future, our economic growth will depend more on productivity than on labour force growth. Canada will therefore have no choice but to improve its productivity if it hopes to have a robust economy in the long term and a healthy public purse. In a context where the federal government must curtail spending, we recommend maintaining those measures and efforts that focus on enhancing business productivity and competitiveness, namely:

- **Support investments in human capital.** Considering Canada's greying population and the fact that its productivity is lagging behind the U.S., boosting worker productivity must become a priority. Accordingly, the government should continue with measures aimed at improving the performance of our human capital such as the fight against school dropout and professional development. We also recommend maintaining measures that encourage the immigration of qualified workers, their integration into the workforce and their settlement in Canada. The fact is that investing in integration helps enhance the productivity of foreign workers, which in turn increases their contribution to our economy.

- **Maintain the support measures for research and innovation.** At a time when our currency is likely to remain near parity with the U.S. dollar, our businesses have no choice but to become more competitive. One of the best ways to do this is to continue investing in research and innovation, both in the high-tech and traditional sectors. More specifically, we recommend that the federal government pay special attention to the forestry industry. Accounting for 60,000 direct and some 130,000 indirect jobs in 2008, this core industry on which many Quebec regions rely, is in serious trouble. Because of its vital importance for the Quebec economy, the government must continue supporting this sector. We recommend solid backing for projects that seek to incorporate wood into materials and production processes.

  Measures to encourage international collaboration are also important. Due to increasingly short product lifecycles and intense global competition, we must develop international partnerships not only to raise our international profile but also to keep tabs on new world-class research and innovations, and by extension, benefit from these spin-offs. In this regard, the Board of Trade reiterates the importance of including the issues of research and talent mobility when negotiating free-trade agreements with Europe.

- **Continue efforts to support Canadian businesses on international markets.** Canada is a trading nation whose exports account for roughly 35% of GDP. Against a backdrop of strong trade integration and greater competition, a country's economic performance also depends on its ability to compete abroad. More heated foreign competition, particularly from emerging countries with low production costs, along with the loonie's appreciation, could have a negative impact on the competitive position of Canadian companies. About 98% of Canadian businesses are small enterprises (with fewer than 100 employees) that usually require considerable financing, particularly when heading into higher-risk emerging markets. Encouraging SMEs to diversify their markets is therefore a strategic choice to improve Canada's competitiveness abroad. **For this reason, the government must continue initiatives that support and coach SMEs with export projects as well as those that facilitate access to financing.** The government must also ensure that the economic climate remains conducive to competitiveness and international trade. Accordingly, we recommend Ottawa continue with its trade policy and increase the number of free-trade agreements, which facilitate trade between Canada and the rest of the world and make our companies more competitive.

We are well aware that the Government of Canada will have to balance the budget in a context of an as-yet tenuous economic recovery and an aging population. Still, we maintain that its priority should be to grow the economy and enhance its competitiveness. Boosting our productivity is the number one pre-requisite to more robust growth down the road and healthy public finances.

The Government of Canada can always count on the Board of Trade's full cooperation on any matter likely to further Canada's development.

Sincerely,

Michel Leblanc
President and CEO