



Re: Summary of pre-budget recommendations

This document summarizes the Board of Trade of Metropolitan Montreal's pre-budget recommendations to the Québec government. These recommendations are consistent with the Board of Trade's previous positions and revolve around four action areas.

Action area #1: Hasten the pace of public infrastructure investments

Stepping up the pace of public infrastructure investments will have two fundamentally structuring effects on our economy: (1) soften the negative impact of the recession and (2) boost the competitiveness of the economic base in the metropolitan region and Québec in the context of a tenuous economic recovery.

In our view, the government should focus on the following three sectors:

1. Continue and even step up the pace of its investments in transportation infrastructures. Priority should be placed on four projects:
 - Reconstruction of the Turcot Interchange should not be delayed for budget reasons.
 - Modernization of Notre-Dame Street East—at the very least the work involving access to the Port of Montréal—must proceed promptly. The port's strategic importance and the need to ensure smooth merchandise flow cannot be overstated.
 - Construction of the rail shuttle between Montréal-Trudeau Airport and downtown must kick off as soon as possible. Once the optimal route is chosen, the work should not be delayed for budget reasons.
 - Lastly, we believe the government should continue and even increase spending on public transit improvements, namely, replacing metro cars.
2. We encourage the government to reiterate its commitment to begin construction of Montréal's super-hospitals in 2010, notwithstanding budget constraints. The positive socio-economic and psychological spinoffs of this project easily justify making the estimated investments even at a time when the government is trying to balance its budget.
3. Lastly, we recommend rapidly finalizing Phase II of the Quartier des spectacles and embarking on Phases III and IV. This highly structuring urban development project could well redefine Montréal's brand image and give impetus to the economy recovery. The Board of Trade would like all the partners involved to understand the importance of executing this project as soon as possible.

Action area #2: Support investment in human capital

In our view, the human capital challenge is the most important issue for the future of the metropolitan and provincial economy. Indeed, investing in human capital is the key to boosting business productivity.

As such, for the next few years, the Board of Trade believes the Québec budget should address this issue and provide specific measures to strengthen our collective human capital. The Québec government should:

- Boost university funding. Our ability to form a highly qualified labour force that can help improve business competitiveness is tied directly to the performance of our universities, and by extension, the financial resources at their disposal. This will require a planned, gradual unfreezing of tuition fees along with measures to improve the loans and bursaries program. To ensure the effectiveness of these measures, the Québec budget should never reduce the public funding portion.
- Step up efforts to attract, integrate and retain qualified workers. In fact, this measure is critical given the greying of the population and its impact on the labour market. Additional funds will be required to achieve this goal.

Action area #3: Improve our economy's productivity through research and innovation

Faced with an impending major economic recovery and the prospect of a near-par Canadian dollar, we absolutely must improve business productivity. In our opinion, this can best be done by investing more in research and development. In this regard, the Board of Trade believes the Québec government should support the following measures:

- Encourage businesses to systematically adopt innovations developed here and elsewhere. Productivity statistics for the metropolitan and provincial economy are disappointing and the situation has deteriorated over the last decade. We recommend an approach that provides financial incentives for developing productivity improvement plans that call for adopting recent innovations, especially in traditional sectors. Furthermore, to optimize the use of our research and innovations, it is important to ensure that employees have the knowledge required to properly integrate the new technologies, especially SMEs. To this end, the strategy must also strengthen measures supporting professional development so that employees can incorporate new processes and adopt innovative technologies.
- The Board of Trade would also like to see an increase in the university system's contribution to innovation and additional mechanisms to better align academic research with corporate needs. The creation of the Consortium for Drug Discovery is an extremely promising initiative as was the creation of the Consortium for Research and Innovation in Aerospace. Similarly, the PRIVAC program developed by Génome Québec encourages better alignment between academic and private research efforts. These initiatives must be maintained and reinforced as needed, and above all, properly evaluated so that the takeaways can be applied in other areas, for example, in the green technology sector.

Action area #4: Pave the way for a gradual return to a balanced budget without stifling an as-yet tenuous recovery

The return to a balanced budget and eventually, a reduction in the Québec debt ratio are two essential objectives for the province's long-term economic vitality. Québec's ability to grow and be prepared to weather another economic storm in the future—and there will undoubtedly be one—requires a cutback in public spending once the current crisis is over.

That said, moving too quickly to balance the public purse could stifle growth. In the short term, it is therefore important to continue with the stimulus measures and gradually introduce initiatives that will rebalance the budget. This exercise requires vigilance and clear-sightedness.

To rebalance the budget, we encourage the government to immediately contemplate the following actions:

- An in-depth review and a sharp cutback in public spending. The purpose of such an exercise is not to abandon or rethink elements currently considered an integral part of the government's mission but rather to systematically and continually seek to achieve efficiency gains and to identify positions or programs that are no longer relevant.
- The turnaround in public finances should be accompanied by measures to boost revenues, starting with an increase in the sales tax—the least damaging from an economic perspective. This increase should be spread out over time so as not to hinder the tenuous recovery.
- We encourage a review of the income tax system with a view to making the Québec tax environment more conducive to business competitiveness and hence economic growth. In this regard, we support the elimination of the tax on capital as scheduled as well as a reduction in the payroll tax. We also support the government's proposal to introduce an investment tax credit.
- Lastly, with a view to making optimal use and allocation of our resources, the Board of Trade endorses the idea of gradually raising the prices of certain goods and services to market rates. When public finances are precarious, we believe that it is especially relevant for citizens and businesses to be more aware of the value of the public goods and services they consume. This initiative should be driven by a desire to save resources and demonstrate transparency by showing how the increased revenues will be used. The transition should be made gradually to minimize the impact on vulnerable individuals.

Conclusion

The Québec government is facing the challenge of rebalancing its budget without stifling what is still a fragile recovery. To this end, it should invest in measures that will boost our economy's competitiveness and ensure its long-term growth. Infrastructure investments will help stimulate the local economy while those in human capital, research and innovation will allow Québec and its businesses to become more competitive both at home and abroad.