



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

December 11, 2009

Raymond Bachand  
Minister of Finance  
12 St-Louis Street, First Floor  
Québec City, Quebec G1R 5L3

**Subject: Pre-budget recommendations**

Dear Mr. Minister:

On behalf of the Board of Trade of Metropolitan Montreal, I am enclosing our recommendations for the next provincial budget.

I would like to begin by saying that we should be proud that Quebec and Greater Montréal were less affected by the recession than most of North America's other large economic regions. It now seems that the worst is behind us; at least that's what we hear from our members. That said, the recovery is still tenuous, which is why we believe the government should continue making certain strategic investments and adopt measures to encourage the private sector to do the same.

We are well aware that the recession of the past few quarters has taken a heavy toll on Quebec's public purse. Now that the recovery is beginning to take shape, we need a clear, realistic plan to rebalance the budget, especially in light of the impending shrinking of the working population and the need to boost our economy's productivity.

In this context, the Quebec government must be both clear-sighted and vigilant. Clear sighted in that in order to achieve fiscal balance, a thorough review of public spending will be required—including some cutbacks—and ways will have to be found to boost revenues. Vigilant in that balancing the budget should not compromise the recovery or adversely affect our competitiveness, the key to our long-term growth.

In light of the foregoing, the Board of Trade makes the following four recommendations:

- 1. Hasten the pace of public infrastructure investments**
- 2. Support investment in human capital**
- 3. Improve our economy's productivity through research and innovation**
- 4. Pave the way for a gradual return to a balanced budget without stifling an as-yet tenuous recovery**

## **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 Quebec 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. These targeted investments generate structuring, positive spin-offs for employment and economic growth. They will also help facilitate the flow of goods, and among other things, reduce the costs associated with traffic congestion. The Board of Trade considers that the following four projects should be given priority in the budget:
  - Reconstruction of the Turcot Interchange. This project should not be delayed further. In our view, the urgent need for this project, combined with the positive spin-offs it will generate, specifically, the smooth flow of goods, justify its \$1.5+ billion price tag.
  - Modernization of Notre-Dame Street East. This project must also proceed promptly, at the very least the work involving access to the Port of Montreal. The port's strategic importance and the need to ensure the smooth flow of goods cannot be overstated.
  - Construction of the rail shuttle between Montréal-Trudeau Airport and downtown. This project too must launch as soon as possible. Once the optimal route is chosen, the work should not be delayed for budget reasons. In a context of globalization and stiff competition, rapid, regular and reliable access to the airport is an absolute must.
  - The government should continue spending on public transit improvements, namely, replacing metro cars.
2. We encourage the government to reiterate its commitment to begin construction of the superhospitals in 2010, notwithstanding budget constraints. The positive socio-economic and psychological spin-offs 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 opinion, the human capital challenge is the most important issue for the future of the metropolitan and provincial economies. In light of the greying population and Quebec's poor track record in the area of labour productivity, human capital should become a major priority. According to HEC Montréal's Centre for Productivity and Prosperity, labour productivity in Quebec ranks 20<sup>th</sup>—behind Ontario—among OECD nations. Investing in human capital is the key to boosting business productivity and furthering economic growth.

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

- Boost university funding. Our ability to form a highly qualified labour force that can help improve business competitiveness is directly tied to the performance of our universities, and by extension, the financial resources at their disposal. However, our universities are under-funded, which ultimately could reduce the quality of education and the value of the degrees conferred. This could also lead to a less productive and hence less competitive workforce. As we all know, our future economic growth will hinge more on productivity than on an expanding labour force. Boosting university funding is therefore essential. 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 Quebec 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 aging population and its impact on the labour market. In this regard, the immigration of qualified workers will be a major boon to the Quebec economy and offset some the effects of the shrinking labour force on the public purse. However, statistics show that the unemployment rate among immigrants is still very high in Quebec. Additional funds are therefore needed to better integrate new arrivals. The government has already committed to improving foreign credential recognition. We suggest it also support initiatives aimed at speedier recognition of work experience and more efficient matching of immigrant workers with businesses in need of labour.

We also encourage the Quebec government to take other measures to improve the performance of our human capital by, for example, encouraging them to stay in school.

### **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 innovation. In this regard, the Board of Trade believes the Quebec 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 small businesses. To this end, the strategy must also strengthen measures supporting professional development so that employees can incorporate new processes and adopt innovative technologies. We also encourage the government to continue with the innovation tax incentives and ensure that Quebec's tax regime is competitive with that of other jurisdictions.
- The Board of Trade would also like to see the university system's contribution to innovation increased 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 Quebec debt ratio are two essential objectives for the province's long-term economic vitality. Quebec'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. We support the government's intention to rebalance the budget in the long term. As well, measures to maintain this balance beyond 2014 should be included in the next budget.

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. In our view, government agencies with similar missions should be consolidated in order to maximize the return on the public investment and to avoid unnecessary spending.
- The turnaround in public finances should be accompanied by measures to boost revenues, starting with an increase in the sales tax. In fact, from an economic perspective, raising the sales tax is less damaging than raising income or business taxes because it does not directly discourage business competitiveness and is therefore not an obstacle to wealth creation. However, the sales tax should be increased gradually over time so as not to compromise the tenuous recovery. It should also be accompanied by measures to minimize the impact on low-income earners. Moreover, should the increase reach two percent, we believe the government should consider transferring some of the extra revenue to the municipalities.
- We encourage a review of the income tax system with a view to making the Quebec 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 taxes. Payroll taxes tend to, among other things, drive up labour costs and discourage hiring, which in the long run has a negative effect on economic growth. As well, given that right now employment is the most fragile aspect of the recovery, quick action by the government in this regard could send out a very positive signal. We also support the government's decision to increase the investment tax credit, as announced on December 11. These measures will ease the tax burden on business, encourage private investment and in turn, enhance our economic performance.
- 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 public goods and services to market rates. Given that the delivery cost of these goods and services rises in tandem with the cost of living, we feel that all government services should be systematically indexed to inflation. 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. In our view, better pricing of public services will allow the

government to realize the necessary savings to ensure their ongoing availability and maximum accessibility.

Without question, when it comes to rebalancing the public purse, the Quebec government is facing numerous challenges, including a fragile recovery and an aging population. We know it has to make tough choices in order to increase its revenues and reduce the debt burden. However, we maintain that while striving for fiscal balance, the government must not lose sight of the need to keep our economy growing and to make it more competitive, because enhancing our productivity is the number one condition for stronger long-term growth and a healthy public purse.

Please rest assured of the Board of Trade's cooperation in all matters concerning the economic development of Quebec and Greater Montréal.

Sincerely,

A handwritten signature in black ink, appearing to be 'M. Leblanc', with a long horizontal stroke extending to the right.

Michel Leblanc  
President and CEO