2016 Federal Pre-Budget Submission

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ABOUT THE BOARD

Founded in 1845, the Toronto Region Board of Trade (the Board) is the chamber of commerce for Canada's largest urban centre, connecting more than 12,000 members and 250,000 business professionals throughout the Toronto region. The Board plays a vital role in elevating the quality of life and global competitiveness of Canada's largest urban centre. To this end, the Board provides evidence-based advice each year to the Federal Government (the Government) through its budgetary process. This document is intended to serve this purpose.

The Board appreciates the opportunity to provide advice to the House of Commons Standing Committee on Finance on the direction of the 2016 Federal Budget. As well, the Board would welcome the opportunity to provide a presentation to the Committee on its recommendations this fall.

EXECUTIVE SUMMARY

The Toronto region continues to be one of the world's most prosperous city-regions. The region, which annually generates nearly 20 per cent of Canada's GDP, is expected to attract 120,000 new residents and skilled workers for years to come.[1] Yet, despite its well-earned reputation, the region cannot afford to take its prosperity for granted. Competition between global cities has never been more intense. It is for this reason that all levels of government should make continuous improvements to the economic competitiveness and attractiveness of the Toronto region – Canada's economic engine and most populous urban centre.

This submission advances four recommendations for the Government`s consideration. The Board`s recommendations relate to four of the Government's priority themes, and are based on consultations with its membership and key stakeholders from the Toronto region. The Board believes its recommendations strike a balance between maintaining the global competitiveness of the Toronto region, while enhancing the quality-of-life of all Canadians. Taken collectively as a package, these recommendations can assist in creating the conditions required to help Canada's largest urban centre compete with the world's best-in-class city-regions.

Recommendation #1: The Government can boost Canadian productivity by promoting international trade, by investing in urban transportation infrastructure and by supporting the transfer of international employees to Canada.

Recommendation #2: To maximize the social and economic impact of new capital investments, the Government is encouraged to allocate available funding toward improving transportation infrastructure in urban centres, particularly the Toronto region.

Recommendation #3: The Government is encouraged to further enhance its labour market information to maximize job creation and income for Canadians.

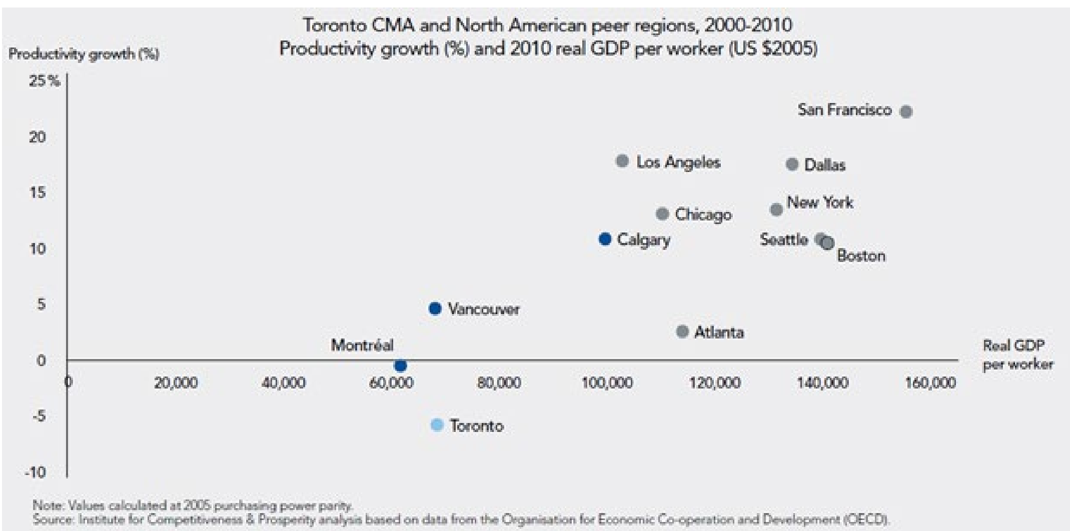
Recommendation #4: The Government is encouraged to maintain its fiscal discipline and to reduce its GDP to debt ratio to pre-recession levels as quickly as possible.

GOVERNMENT THEMES & RECOMMENDATIONS

Theme #1: Increasing Canada's rate of productivity

Recommendation #1: The Government can boost Canadian productivity by promoting international trade, by investing in urban transportation infrastructure and by supporting international transfers of employees.

One of the greatest economic challenges the Toronto region faces is diminishing productivity. Report after report from the Board, researchers and economists emphasize the same challenge. Declining productivity is holding back our region's economy and keeping it from fulfilling its enormous potential. As illustrated by the following graph, productivity across the Toronto region diminished by six per cent between 2000 and 2010.[2] This was the weakest performance amongst Toronto's North American metropolitan peers.[3] This fact should be of great concern to the Government because weaker productivity suppresses wages, employment growth and general prosperity.[4]



The Board believes tackling this challenge requires a greater focus on promoting international trade. It is widely recognized that low productivity is caused, in part, by a lack of growth in traded clusters.[5] Put simply, trade exposes companies to international competition and best practices, which in turn motivates them to innovate and grow. For example, a 2012 Statistics Canada study found that Canadian manufacturers exporting to global markets had annual productivity gains that were seven times greater than non-exporting manufacturers.[6]

Despite the Government's efforts, the vast majority of Canadian companies are still not trading. With only five per cent of export-viable companies in Canada trading globally, the Board sees opportunity for boosting productivity by increasing the amount of trade undertaken by Canadian firms. Now is the ideal time for Canadian firms to export globally. A lower Canadian dollar, limited domestic growth and a strengthening U.S. economy have established the right conditions and impetus for Canadian firms to go global.

To help Canadian firms increase their export potential, the Board has launched TAP GTA, a trade accelerator program that gives Canadian firms access to Canada's top exporting advisors, resources and contacts. The Board encourages the Government to financially support collaborative ventures, like TAP GTA, which bring together leading private and public export resources into a one-stop-shop for Canadian firms seeking to export.

The Board also encourages the Government to continue tearing down trade barriers and encourage regulatory coordination whenever possible. In this regard, the Board believes it is imperative that the Government conclude its Trans-Pacific Partnership negotiations. This landmark opportunity would give Canadian businesses access to a market of nearly 792 million people.[7] While the Government deserves credit for concluding nine free trade agreements since 2006, and initiating eight others, which it should work to conclude in a timely matter – the Trans-Pacific Partnership will be the most significant deal by far.[8] Therefore, it is imperative that the Government quickly work through existing roadblocks that stand in the agreement`s way.

Trade is only part of the solution for addressing lackluster productivity gains. The Government must invest locally in transportation infrastructure. Traffic gridlock is taking an enormous toll on our region's economy and commuters' quality of life. Toronto region drivers currently spend the equivalent of 40 days a year behind the wheel.[9] While reduced congestion would directly benefit the region's 670,000 daily commuters (drivers and transit users), the greatest benefit would be to our region's economy.[10] Studies by the Board and the C.D. Howe Institute illustrate how inadequate transportation infrastructure is costing our region up to $11 billion a year in lost economic activity. Therefore, the Government must continue to apportion its capital funding toward enhancing transportation infrastructure in the Toronto region.

Lastly, additional productivity gains can be achieved by supporting the flow of international employees with specialized knowledge to Canada. International companies, whether Canadian or other, commonly transfer employees with specialized skills from country to country to develop internal talent and spur business growth. To help businesses based in Canada compete at the international level, the Government is encouraged to examine the impact stringent visa requirements are having on productivity and investment losses. The Board believes it is essential that Canadian based companies be allowed to easily develop their human capital and to rapidly respond to competition from global markets.

Theme #2: Ensuring that communities have the infrastructure they need

Recommendation #2: To maximize the social and economic impact of new capital investments, the Government is encouraged to allocate available capital funding toward transportation infrastructure in urban centres, in particular the Toronto region.

Urban centres have become the engines of Canada`s economy. Roughly half of Canada`s gross domestic product is produced in Canada`s six largest cities.[11] Toronto alone, comprises nearly 20 per cent of Canada's GDP.[12] For decades, people and businesses have relocated to Canadian urban centres to capitalize on rich social and economic opportunities – made possible, in part, through concentrated levels of transportation infrastructure.[13] Today, more than 80 per cent of Canadians live in metropolitan areas – compared to 20 per cent at the time of Confederation.[14] With such density it is little wonder why cities have become engines of economic opportunity.

The Government cannot afford to take the prosperity of Canada's urban centres for granted. Rather, the Government must continuously improve the transportation infrastructure of Canadian municipalities to help them compete against other global cities. It is for this reason that the Board congratulated the Government for introducing the *Public Transit Fund* – a new long-term and dedicated stream of funding for public transit projects, beginning in 2017. The Board believes it is crucial that the $1 billion annual *Public Transit Fund* remains permanent, and that the Toronto region receives at least $200 million per year for its transit projects, commensurate of its share of GDP. This substantial investment, which was announced in the 2015 Federal Budget, builds on the Government's track record of providing unprecedented levels of capital funding to Canadian municipalities.

With tepid domestic growth forecasted for the foreseeable future, the Government would be wise to continue its capital investments. However, to ensure the Government maximizes the social and economic return on its investments, the Board strongly encourages the Government to allocate funding available through the *Building Canada Plan* and the *Public Transit Fund* to improve transportation infrastructure across urban centres, like the

Toronto region. Not only does transportation infrastructure substantially benefit disadvantaged populations by helping them connect to employment and educational opportunities, but it also delivers in the biggest economic impact. For instance, the Conference Board of Canada specifies that every dollar invested in transportation infrastructure increases real GDP by $1.19.

Finally, the Board recommends that Toronto region airports are also considered for future transportation investments by the Government. According to Richard Florida, airports are much more than places to catch planes – rather they are vital economic contributors to metropolitan areas.[15] For instance, the direct economic impact by Toronto Pearson International Airport today is $35.4 billion – which is equal to 5.6 per cent of Ontario`s gross domestic product and is expected to grow to seven per cent by 2030.[16] As such, the Board encourages the Government to invest in the service and growth of airports across the region, particularly: Toronto Pearson International Airport, Billy Bishop Toronto City Airport and Hamilton International Airport.

Theme #3: Helping Canadian residents secure employment

Recommendation #3: Canada's economic prosperity and high-quality of life is also contingent on fostering a world-leading labour force. One way of achieving this is through access to superior labour market information, which allows employees and employers to make smarter decisions, notes the Canadian Council on Chief Executives (CCCE).[17]

Like the CCCE, the Board has been a steadfast advocate for human capital development. For instance, the Board led a discussion in 2014 around closing the region's prosperity gap and improving the distribution of employment opportunities for the region's youth and newcomers. Through the research it conducted in collaboration with the United Way of Toronto, the Board examined trends that have eroded the quality and availability of employment opportunities across the region. The Board concluded that better labour market information would help these demographics secure more and better paying jobs. Moreover, superior labour market information would also help governments of all levels target their investments to help marginalized groups.

The Board therefore encourages the Government to enhance its labour market information to maximize job creation and incomes for Canadians. This is critical because properly matching skills to work increases wages and productivity.[18] Additionally, **the Government would see a significant return on a modest investment through additional tax revenue from higher wages.**

Theme #4: Balancing the federal budget to ensure fiscal sustainability and economic growth

Recommendation #4: The Board's Members overwhelmingly agree that government deficits harm our economic attractiveness and global competitiveness. As such, we applaud the Government for the work it has done to reduce the federal deficit. Even a modest surplus would allow the Government to redirect revenues towards programs that encourage economic growth and jobs, such as transportation infrastructure. Broadly speaking though, the Government is encouraged to maintain its fiscal discipline, and to reduce its GDP to debt ratio to pre-recession levels as quickly as possible.

ENDNOTES

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