



GREATER KITCHENER WATERLOO
Chamber of Commerce

www.greaterkwchamber.com

2007 FEDERAL PRE-BUDGET SUBMISSION

TO

THE STANDING COMMITTEE ON FINANCE

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80 Queen Street North, Kitchener, Ontario N2H 6L4

Tel: (519) 576-5000

Fax: (519) 742-4760

admin@greaterkwchamber.com

www.greaterkwchamber.com

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Executive Summary

As one of the largest chambers in Ontario, the Greater Kitchener Waterloo Chamber of Commerce serves over 1,800 members representing all sectors of the local business community. Our membership includes small, medium, and large employers who provide 63,000 jobs in one of Ontario's most progressive and economically diverse regions.

The Greater Kitchener Waterloo Chamber of Commerce annually develops a Federal Pre-Budget Submission through the work of our Federal & Provincial Affairs Committee, a volunteer group of senior business leaders who represent key industries in our Region.

The recommendations within this document reflect the concerns of the business community and have been divided into three sections dealing with:

- *the federal and provincial significance of our local economy;*
- *recommendations for creating a competitive fiscal environment; and*
- *strategic investment initiatives to fuel growth and competitiveness, and enable city-regions such as the Greater Kitchener Waterloo area to boost the national economy.*

1. Greater Kitchener Waterloo: An Economic Profile

This section highlights the contribution our local economy makes to national and provincial prosperity. Our growing population base, the diversity of our economy, and the attractiveness of our region to international investment are important factors to consider within this report's recommendations.

2. Fiscal Recommendations for Renewed Economic Growth

Outlined in this section is a series of fiscal recommendations that provide the foundation for renewed economic growth including the need for debt reduction, proposals on program spending, personal income tax cuts, corporate tax reform, and the fiscal imbalance.

3. Strategic Investment for Renewed Economic Growth

We propose, in section 3, a number of strategic investments that government can make to help dynamic urban centres such as Greater Kitchener Waterloo create jobs and prosperity.

Notwithstanding the challenges facing the federal government in establishing priorities for the 2007 Budget, the Greater Kitchener Waterloo Chamber of Commerce is confident a plan of strategic investment and prudent fiscal programming in this year's document will set Canada on a course that fosters productivity growth and renews prosperity.

Section 1: Greater Kitchener Waterloo: An Economic Profile

The Greater Kitchener Waterloo area is one of the largest Census Metropolitan Areas (CMA) in Canada with a population of approximately 500,000 projected to grow to more than 729,000 within the next 25 years, and a labour force now at more than 270,000. The region is ranked as the 10th largest urban area in the country and 4th largest in the province. According to the Conference Board of Canada, the region's dynamic and diverse economy was Canada's fastest growing in 2005. Furthermore, the CIBC World Markets Metropolitan Economic Activity Index (December 2005) indicates Waterloo Region registered the highest rating among all Canadian cities for the second year in a row.

Strategically located in the centre of Canada's Technology Triangle (CTT), our region is well positioned as an international centre of excellence originating from our universities, high-profile companies, local philanthropists and significant technological advancements. The Intelligent Community Forum (ICF) recently named the City of Waterloo among the Top Seven Intelligent Communities from around the world, the only Canadian city on that list.

Recognized as one of three pre-eminent technology centres in Canada, the region boasts more than 380 high-tech enterprises that employ more than 26,000 people. Key firms include Research In Motion, Com Dev International, Open Text, DALSA Corporation, Descartes, Northern Digital Inc., ATS Automation Tooling Systems, AGFA, Sandvine and many others. Another local firm, Reqwireless, was recently acquired by internet search engine giant Google Inc.

Not only a high-tech centre, Waterloo Region has developed a diversified economy, home to such international "think tanks" as the Perimeter Institute for Theoretical Physics and the Centre for International Governance Innovation, two world-renowned universities, and Ontario's number one-ranked college. The head offices of Manulife Financial, Equitable Life, Economical Insurance Group and other important firms make our region an insurance and financial services centre. We are home to Toyota's Canadian operations and 270 auto and transportation related companies. Food manufacturing, including Schneiders, Piller's and Dare Foods, is also a key industrial sector.

Through Oktoberfest, along with the Elmira Maple Syrup Festival and its many community events, Waterloo Region's tourism sector is also very vibrant. St. Jacobs Country, one of Ontario's finest destinations, welcomes more than 3 million visitors each year.

Waterloo Region plays an important role in fuelling the Canadian economy. With a regional GDP exceeding \$19.4 billion, our prosperity is a key contributor to provincial and national prosperity.

Section 2: Fiscal Recommendations for Renewed Economic Growth

2.1 Program Spending

In fiscal 1999-2000, program spending at the federal level amounted to \$110 billion. Six years later it has reached \$175 billion. This represents average annual increases of 8% at a time when revenues did not grow at a comparable rate. The 2005/2006 Public Accounts indicate a slight decrease in program spending from the prior year, a commendable achievement by the government. Continued growth in spending makes a path of debt reduction and tax relief difficult, ultimately restricting economic prosperity. Spending increases should be linked to both population growth and inflation.

The federal government must allocate resources to areas that have a direct impact on our productivity and competitiveness as a nation while limiting or cutting spending in areas that do not. The Expenditure Review Committee of Cabinet is active in reviewing existing expenditures and should continue in this capacity.

Recommendations:

1. The federal government allocate resources to areas that have a direct impact on our productivity and competitiveness, while limiting or cutting spending in areas that do not. Successful strategic investment in education, health care and infrastructure are critical in raising productivity and overall economic growth.
2. Program spending must be constant in real per capita terms, at an average annual rate of about 3% based on anticipated growth in population and inflation. New priorities must be accommodated within this budget constraint.

2.2 Tax Reform

The global marketplace needs a strong signal that Canada is committed to further reducing the tax burden. We need a long term tax strategy to create a stable investment climate.

Personal Income Tax Reductions

We place a high priority on personal income tax reductions. Canada's personal income tax (PIT) burden (i.e. personal income tax revenue-to-GDP ratio) is the highest among G7 nations. The top marginal personal income tax rate in Canada (federal/provincial combined) averages 46% compared to 38% in the United States. Moreover, Canada's top marginal tax rate is effective at a much lower level of income than the top marginal rate in the United States. In 2006, the top marginal personal income tax rate is US\$ 168,000, after allowing for deductibility of mortgage interest. In Canada, the top marginal personal rate is effective for income in excess of C\$118,000, with no deduction allowed for mortgage interest.

High marginal tax rates on labour reduce the incentive to work and stay in Canada. We face an increasing challenge of attracting and retaining skilled workers that are essential to our international competitiveness. In order to reverse this trend, much more needs to be accomplished in providing relief for individuals at the top end of the tax spectrum.

We note that Budget 2006 introduced piecemeal personal tax credits for a myriad of items. We believe this only serves to complicate the tax system, and relief should be delivered more broadly through rate reduction on increasing the bracket thresholds where the next tax rate is levied.

Similarly, more resources need to be directed to providing tax relief for low-income earners. For these individuals, high marginal tax rates discourage work effort because many of the public benefits they receive end up being clawed back.

We ask whether the 1% reduction in the Goods and Services Tax rate was the "correct" method to effect a decrease in overall personal tax burdens. Generally, consumption taxes are preferable to income taxes, therefore we recommend reductions to personal income taxes rather than consumption taxes.

Recommendations:

1. Increase the threshold at which the top marginal personal income tax rate starts. The Canadian Chamber of Commerce has recommended an increase in 2007 from \$118,000 to \$150,000, and ultimately to \$200,000 as fiscal conditions permit.
2. Provide tax relief for low-income earners at a rate that does not discourage work effort because of clawbacks. Start by reducing the lowest personal income tax rate to 15% in 2007.

Corporate Income Taxes

In Canada, the average general corporate income tax rate is 35% (on a weighted average basis amongst the provinces). While this rate is lower than that of the U.S., it is still higher than most OECD countries. In order to attract more foreign direct investment, create new jobs, and benefit from an infusion of innovative technologies and new management/workplace strategies, it is imperative that Canada be at the forefront of corporate income tax rate reductions to make it more productive for businesses to locate here.

We strongly support the removal of the corporate capital tax. In addition, we commend the move to decrease the personal tax paid on corporate profits distributed as dividends. However, we believe the following changes would place Canada in a more competitive position.

Recommendations:

3. That the federal government lower its general corporate income tax rate to 20% in 2007 to put Canada, and Waterloo Region, in a stronger position to attract businesses.
4. That the federal government introduce a more favourable tax depreciation regime to boost investment in capital by businesses. The first steps could be removing the "half year rule" (whereby assets are only eligible for 50% of the tax depreciation allowed in the year of acquisition) and creating a 100% deduction for a maximum amount of capital invested in each year, for example the first \$100,000 spent.
5. That the federal government make all Scientific Research and Experimental Development (SR&ED) Investment Tax Credits (ITCs) one-hundred percent refundable. Allow companies to apply their unused SR&ED ITCs to offset other taxes owing, such as payroll remittances. Consider excluding SR&ED ITCs from taxation.

2.3 The Fiscal Imbalance

In August, 2005, the Ontario Chamber of Commerce (OCC) released a report entitled *Fairness in Confederation - Fiscal Imbalance: Driving Ontario to "Have-Not" Status*. The report indicated that there exists a \$23 billion deficit between what Ontario pays to the federal government in taxes and what it receives back in services. This deficit represents about 4.5% of Ontario's GDP. With the expected growth rate of the province's GDP estimated to be 2.3%, it is clear that Ontario cannot continue on this path. In fact, the OCC report indicates that if current trends continue, Ontario will be in the "have-not" category by the year 2010.

In November 2005 the OCC released the second phase of its report entitled "*Fairness in Confederation - Fiscal Imbalance: A Roadmap to Recovery*". Encapsulated in this report are recommendations that outline the measures that both the federal and provincial governments should take to restore a true sense of balance and fairness to Canada's wealth redistribution system. The following recommendations characterize the steps we believe the federal government needs to take to help close the fiscal gap.

Recommendations:

1. That the federal government publicly review the relationships among the net fiscal imbalance and consumption, investment, productivity and savings within Ontario.
2. That the federal government ensure that new negotiated agreements also include an estimate of the full cost of the agreement to provincial taxpayers and an analysis of delivery data for similar agreements in all other provinces. This will help ensure that the programs covered by agreements are being offered at approximately the same level of consumer accessibility across Canada.

3. That the federal government put in place a national plan within one year to reduce the fiscal gap.
4. That the federal government direct the Auditor General of Canada to conduct an independent review of whether there are adequate and transparent measurements in place to determine the effectiveness of the equalization and overall federal transfer programs.

2.4 Debt Repayment Plan

In total, \$76 billion of debt has been paid off over the last nine years, resulting in a current annual interest saving in excess of \$3 billion. In 2005/06 alone, a further \$13 billion was applied against the debt. This action is commendable.

The primary issue remains the overall accumulated debt burden of \$481 billion at March 31, 2006, which represents 35% of GDP. Once the debt burden is under control and interest savings continue to materialize, increased government investment in strategic areas can occur and taxes can be further reduced.

This is our window of opportunity to continue to reduce our accumulated debt and subsequently reduce future interest charges that constrain our ability to fund strategic investments, reduce taxes and deal with the future economic challenges posed by demographics.

Recommendation:

1. The government of Canada should strive to reduce its debt-to-GDP ratio to less than 25% by 2012.

2.5 Employment Insurance (EI) Surplus

We note that the premiums collected in 2005/2006 were \$2.1 billion in excess of what was required to fund the program.

Another concern is the employer multiple implemented in 1972 as a part of the *Unemployment Insurance Act*. The multiple of 1.4 was set as the default for all employers until an experience rating system was implemented. Although the enabling provision for experience rating was removed in 1977, the 1.4 employer multiple has been retained. There is little justification for requiring employers to pay more for these benefits than employees do.

Recommendations:

1. That the federal government operate the EI program as a true insurance program, facilitating a further reduction in EI premium rates.
2. That the federal government reduce the employer multiple so that the employer premium rate equals the employee premium rate.

Section 3: Strategic Investments for Renewed Economic Growth

3.1 Eliminating Barriers for Internationally Trained Professionals & Trades People

Statistics Canada estimates that by the year 2011, 100% of Canada's net labour market growth will be provided by immigrants. Data from the 2001 Census demonstrates that immigrants are more likely to possess post-secondary education than Canadian-born individuals. In 2001, an average of 37% of immigrants aged 25-49 across Canada had a university degree as compared to an average of 23% of Canadian-born residents. Despite these statistics the 2001 Census reports that the unemployment rate was 9.4% for immigrants and 4.3% for Canadian-born citizens. A paradoxical situation has occurred

where employers in Canada need more skilled and educated people to fill their vacancies, while at the same time there are talented newcomers who cannot find employment or are underemployed.

The federal government's active involvement is required to help immigrants overcome their employment barriers. We recommend:

1. Include credential pre-assessment as part of the immigration process, along with links to information regarding: provincial regulatory bodies for the occupation; requirements to practice in different provinces; information regarding alternative employment in the field (non-regulated occupations); labour market forecasts for these occupations; and information regarding provincial and local programs and support available.
2. In cooperation with the provinces and territories, provide support for the creation of a consistent, comprehensive system that supports: provincial/territorial credential recognition (both before and after arrival to Canada) and labour force mobility (consistent standards, systems and processes across the provinces and territories), along with the provision of training programs, income support and professional services to bridge any gaps in education, training and experience, in the context of relevant Canadian standards.
3. Provide clear and current information about the Canadian education, credentialing and employment system before potential immigrants apply for immigration to Canada, and after arriving provide them at the point of entry with relevant information and links to services and resources for the area of desired residence.
4. In cooperation with the provinces and territories, support the creation of a system that encourages employers to recognize global experience and education assessments by internal designated institutions.

3.2 Strengthening Canada's Urban Public Transit System

Rising demands in the absence of increased investment cannot continue without jeopardizing the operating ability of Canada's public transit systems. Traffic congestion impacts our ability to attract and secure new investment, as businesses report that access to roads and public transit are key factors in their business location and expansion decisions.

Shifting from personal vehicle use to public transit is important in reducing congestion. Strengthening and expanding public transit networks will reduce gridlock, ensure a cleaner environment, manage urban growth, and provide economic returns.

We recommend:

1. As fiscal circumstances permit, provide an additional \$1 billion per year through the Strategic Infrastructure Fund to support public transit investment in Canada.

Given the importance of Waterloo Region as one of Canada's fastest growing urban centres, investment in the Region's transportation strategy is critical. While we appreciate that the federal government committed to a joint federal-provincial investment in technical studies and an environmental assessment for a Rapid Transit project to serve Waterloo Region, we urge you to:

2. Make a further commitment, subject to the outcome of these technical studies and environmental assessments, to the Region of Waterloo's transportation strategy which includes investment in a Rapid Transit System within the region's Central Transit Corridor.

3.3 Health Care Reform

Health care is one of the top public policy priorities in Canada. Quality health care provided on a timely basis is also vital to the productivity of our workforce and a prerequisite to a healthy economy. Improving the health of workers and workplaces improves the bottom line of businesses by increasing productivity through less time lost to absences. Healthy workplaces also enjoy increased employee satisfaction and commitment, and decreased employee turnover.

A report by the Fraser Institute, *How Good is Canadian Health Care* (2004), compared health care systems and outcomes of OECD countries whose systems are based on universal accessibility and public funding. After adjusting for population, Canada spends more than any other industrialized country, with the exception of Iceland, yet we rank relatively low on several key measures such as wait times and access to technology.

Further improvements are required in the areas of efficiency, accountability, delivery, workplace health promotion and wellness. We recommend that the federal government:

1. Ensure that current expenditures are spent as efficiently and effectively as possible.
2. Develop and deploy new information technology, including collaboration with the provinces/territories to facilitate information sharing and expand innovation and best practices.
3. Make “accountability” a principle of the *Canada Health Act*. Accountability for funds spent, with a clear focus on patient choice, satisfaction of needs and patient outcomes, must be on the table.
4. Develop common indicators and benchmarks to measure and track the performance of the health care system. Use this information to make educated decisions on how to allocate resources and to illustrate that the additional funds injected into the system are producing value for money spent.

Addressing Canada’s Physician Shortage

A second report by the Fraser Institute, *Canada’s Physician Shortage: Effects, Projections and Solutions* (2006), indicates that without a significant addition of foreign-trained doctors, the Canadian physician-to-population ratio will decline between now and 2015. A potential solution to Canada’s physician supply problem is to allow qualified Canadian students to acquire the education and training necessary to become physicians able to practice in Canada and remove restrictions on the volume of services they are able to deliver. Allowing physicians to employ international medical graduates (IMGs) in training (as apprentices), and other qualified health professionals to assist in the expansion of the volume of services delivered would help alleviate the current shortage in the near term.

We recommend that the federal government:

5. Encourage the provinces/territories to allow qualified Canadian students to acquire the education necessary to become physicians able to practice in Canada and to remove restrictions on the volume of services they are able to deliver.

3.4 Improving Canada-U.S. Border Infrastructure & Addressing the Need for Open Borders

The United States and Canada share the largest trading relationship in the world. An estimated \$US 1.2 billion in trade crosses the US-Canada border daily, with over 40% of it at the five international, land-border crossings in the Detroit/Windsor Region. However, growing trade volumes and an aging infrastructure have placed heavy pressures on the system. If no improvements are made by 2030 to border crossing capabilities in the Detroit River area, losses could total 70,000 Canadian jobs and combined U.S./Canadian annual production of \$CAN 19.4 billion.

With annual exports in excess of \$12 billion, approximately \$10.7 billion of which is to the U.S., Waterloo Region's economy also relies heavily on the effective functioning of this border crossing.

We recommend that the federal government:

1. In cooperation with the provincial and municipal governments, lead all levels to undertake an expedited Environmental Assessment process to address all regulatory requirements associated with identified solutions to build a new Windsor-Detroit Border Crossing before 2011.

The business community across Canada recognizes that a new global security reality exists and within this new regime all nations will take measures they deem necessary and appropriate to protect their citizens and national integrity. The Western Hemisphere Travel Initiative (WHTI) will require citizens of the U.S., as well as Canada, Mexico and the British Overseas Territory of Bermuda, to have some form of secure documentation to either enter, or re-enter, the U.S. These new requirements are to be in place by December 31, 2006 for all air and sea travel and December 31, 2007 for all land borders. We recommend that the federal government:

2. Work with governments at the U.S. federal and state, as well as Canadian provincial and territorial levels, to develop mutually acceptable secure travel documentation criteria. This process should include:
 - a. Identification of the necessary prerequisites for acceptable documentation that would be deemed acceptable under WHTI.
 - b. The secure documentation criteria must allow for the flexibility of any form of documentation that meets the established criteria, including multiple documents.
3. Work with the U.S. government to implement the immediate expansion of the NEXUS and FAST programs, which facilitate the border crossing of pre-approved, low risk travellers, with the intention of having them accepted at major border crossings by 2008 or the implementation date of the WHTI.

3.5 Funding Post Secondary Education

Higher education is one of the best strategic investments a government can make for improving economic growth. Post secondary graduates are future leaders and vital to a workforce dedicated to creating and building. They provide talent, skills, knowledge, creativity and adaptability.

We recommend that the federal government:

1. Continue a co-operative strategy of investment in education and ensure that money is spent effectively in providing high quality programs that are accessible to the broader population. In particular, new money needs to be injected into Canada's post secondary education system, with the funds going to colleges' and universities' operating grants.
2. Further review the Canada Social Transfer (CST) with a view to increasing its allocation of funds for colleges and universities.

Conclusion

The Greater Kitchener Waterloo area makes a strong contribution to Canada's economy. Growth in its economic performance over the past decade has led the nation and it is now one of the three pre-eminent technology centres in Canada. The strength and diversity of this region can play an even larger role in improving Canada's economy with a few specific and strategic federal actions.

Strategic federal investment will reap the most economic benefits if built upon a strong fiscal foundation. Government must, first and foremost, be accountable to Canadian taxpayers in ensuring public funds are spent and invested wisely and effectively. It is critical that a debt management plan be put in place so that

future generations can also prosper, and that program spending, personal income tax cuts, corporate tax reform, and the EI surplus be addressed.

In addition, if Canada is to go forward on a path of renewed productivity growth and prosperity, strategic investment in initiatives that enhance innovation, remove barriers for foreign trained workers, expand public transit, improve health care and build cross border infrastructure is required. Productivity growth promotes prosperity and allows urban centres such as the Waterloo Region to thrive and become more globally competitive.

In summary, the Greater Kitchener Waterloo Chamber of Commerce is confident that these strategic actions can position our region as a shining example for Canada. Our optimism for the future does not minimize the challenges that face Canada in setting priorities for the upcoming year. We therefore encourage the federal government to use the 2007 Budget as an opportunity to set Canada on a rejuvenated course of productivity growth.