February 19, 2021

**VIA EMAIL**
Honourable Chrystia Freeland
Minister of Finance, Government of Canada
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Ottawa, Ontario
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Dear Minister:

**Re: Pre-Budget Submission**

The Business Council of British Columbia is pleased to offer our advice and recommendations in respect of the 2021 budget which you will table in the spring.

Budget 2021 will come at a difficult time, as policymakers and Canadians collectively are still grappling with the unprecedented health and economic challenges created by the COVID-19 pandemic. Our members appreciate the efforts that federal government Ministers and public servants have been making to help the country get through the ongoing crisis.

Our comments are organized around three broad headings and encompass both near-term recommendations as well as some ideas intended to build a more prosperous economy over the medium- and longer-term.

**Continued support for employees, firms and non-profit organizations**
To begin, while we are confident the Canadian economy will rebound later this year and into 2022, the reality is that the pandemic continues to depress labour demand and is causing severe disruptions for many businesses and non-profit organizations. The Government of Canada has taken strong action – albeit at an extraordinary fiscal cost – to assist workers who have lost their jobs due to COVID-19, businesses which have been forced to close or sharply curtail operations, and non-profit organizations that have suffered significant revenue declines over the past year. Other federal financial assistance has been directed to provincial governments, Indigenous communities, health care services, students, and others.

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On the whole, we believe this support has been essential and that much of it should continue until business, social and educational activities are closer to returning to normal. As the International Monetary Fund noted in its recent report on Canada, "[t]he path of the recovery is inevitably linked to the evolution of the pandemic."[1] This suggests government support measures should remain in place for at least the next few months.

That said, federal deficits in the vicinity of $400 billion (17% of Canada's GDP) cannot be sustained, as the Mandate Letter you received from the Prime Minister last year made clear. This is doubly true considering that the provinces collectively are on course to post a $100 billion deficit in 2020-21. Unusual and very costly pandemic-related spending should be wound down as the crisis eases and circumstances improve. In the meantime, the Business Council favours a more targeted approach to allocating pandemic-related expenditures. In our view, the priority should be: 1) workers facing significant income declines due to job losses stemming from public health measures and partially shuttered industries, and 2) businesses and non-profit organizations in the hardest-hit sectors. Regarding the latter, we would highlight the enormous financial pressures bearing down on the air transportation, travel, accommodation, and entertainment and recreation industries. These are the key sectors that federal policymakers should be focusing on. We do not see a case for providing financial assistance to workers who have not experienced income losses due to COVID-19, or to profitable businesses that have not been significantly impacted by the pandemic.

**The need for a credible medium-term fiscal anchor**
Once the COVID crisis has abated and hard-hit sectors are fully open, the government should seek to consolidate its fiscal position by steadily lowering the debt/GDP ratio over the medium-term. Based on the Fall Economic Statement (FES) and private sector forecasts for the Canadian economy, the Business Council projects that the federal debt will reach 53-55% of GDP by March 2022, up dramatically from 31% two short years ago.

Looking beyond the next few months, the most pressing task will be to unwind current financial support programs and put the debt/GDP ratio on a downward track by sharply reducing the deficit (starting in 2021-22) and taking steps to spur private sector investment and business growth. To that end, we recommend that Budget 2021 establish a "fiscal anchor" to guide future policy decisions and reassure Canadians and financial markets that the country is on a responsible path. A fiscal anchor should be adopted quickly, while interest rates and the government's borrowing costs remain near historic lows. To quote the aforementioned IMF report: "Commitment to a well thought through debt anchor...would go a long way towards ensuring that credibility in the fiscal framework is maintained over the medium-term."[2]

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[1] IMF, Staff Concluding Statement of the 2021 Article IV Mission.
[2] Ibid.

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The Fall Economic Statement indicated the government is looking at additional "stimulus" amounting to $70-100 billion over three years on top of what is included in the existing fiscal plan, to be disbursed once the crisis is over. Few details were provided on the purposes or composition of this additional spending.

In the Business Council's view, the government has not made a compelling case for large, post-COVID expenditure increases. And we do not believe the pandemic is a reason to engineer a major, permanent expansion in the size and cost of government, along with the higher tax burden that would be necessary to pay for it. Your Mandate Letter from the Prime Minister appears to reflect a similar view, yet media reports suggest the government is considering large-scale spending initiatives, separate from the temporary measures put in place to deal with the pandemic.

If the government is committed to the additional $70-100 billion of "stimulus," as previewed in the FES, then we recommend this be directed to areas that will enhance Canada's long-term economic growth potential, make our businesses and workers more productive, and facilitate the transition to a lower-carbon economy. This calls for a greater focus on investments in infrastructure, skills, innovation, digitalization, low-carbon technologies, and smart tax reform. The Business Council also supports increased targeted funding to expand child care services for low-and moderate-income families.

To this end, the Business Council working with your colleagues and the province of British Columbia has verified that the energy and nature resource exports B.C. sells to the world on average have half the carbon intensity of like goods produced by competing jurisdictions. For a world that requires reliable and affordable energy and inputs such as copper for products like EVs, Canada should be a champion for these exports and ensure we are price competitive.

Moreover, focused strategies to reduce the regulatory and tax burden that in turn contributes to low levels of business investment in Canada while attracting ESG capital to these sectors requires more attention. These sectors are also key drivers in innovations such as hydrogen and methane reduction, inclusive of agritech and nature-based carbon sequestration. If Canada wishes to reduce global greenhouse gas emissions as a party to the Paris Agreement, we believe leveraging our strengths globally as a low carbon exporter of natural resources, energy and innovation is a key opportunity and requires action to avoid carbon leakage and help high emission jurisdictions with their own reduction efforts.

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This should include a pan Canadian policy framework for a voluntary and regulated carbon credit and offset market. Canada can be the provider of nature based and CCS solutions, provide technology and processes to verify high quality offsets, and act globally to establish our country as a place where they are transacted. This will support the increasing number of firms working to net zero 2050 while facilitating reconciliation, technology evolution and real climate mitigation.

Through a more precise climate and economic strategy based on our strengths, we can improve productivity which enables higher wages, generates revenues to help manage our large debt and deficit challenges and facilitate key programs to support those that are vulnerable and the reskilling many will require in the digital age. To this end, the Business Council also strongly supports increased targeted funding to expand childcare services for low- and moderate-income families.

**Bolster investment, innovation and productivity to raise incomes and living standards**

For Canada, strengthening the foundations of prosperity must include turning around the country's woeful investment record. A new report from the C.D. Howe Institute shows that Canada continues to trail peer jurisdictions in private sector investment in productive assets – notably machinery, equipment, advanced technologies, intellectual property products, and infrastructure. The latest estimates find Canadian non-residential business investment per worker is one quarter lower than the average for all industrial economies. And the gap is wider still with the United States. Alarmingly, measured on a per worker basis, Canadian private sector investment in machinery and equipment has been running at less than half of the U.S. level. And we are even further behind on investment in intellectual property products.[3]

Sluggish business investment means our economy will be operating with both a smaller and a less up-to-date capital stock. Unless the situation is corrected, there will be little chance of achieving the government's professed goal of expanding the "middle class" or of delivering higher real incomes for workers and households.

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[3] William Robson and Miles Wu, "From Chronic to Acute: Canada's Investment Crisis," C.D. Howe Institute, February 4, 2021.

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Canada's weak investment performance is closely linked to our lagging productivity. In 1970, Canadian GDP per hour worked was only slightly behind the U.S. benchmark and was higher than the G7 average. By 2019, Canada trailed the United States in this key measure of overall productivity by the equivalent of Cdn$18 per hour and we were almost $10/hour below the G7 average.[4] As part of its planning for a post-COVID recovery, it is imperative that the federal government commit to addressing Canada's serious and ever-growing productivity shortfall. Building a more productive economy should be at the heart of the government's policy agenda going forward.

Relatedly, we also recommend that the forthcoming budget lay out a road map to make Canada one of the global leaders in advancing the digital economy. Digitalization promises to transform how businesses and consumers transact, how people work, and how many services are provided. The COVID crisis has accelerated digitalization across multiple economic and social domains.

The good news is that Canada has assets to work with, including good universities and colleges, a technologically literate young adult population, and a rapidly growing cross-section of companies and research organizations focused on producing digital technologies and applications. Smart public investments in R&D, incentives to speed the diffusion of digital technologies and tools, and an environment that enables the formation and growth of digitally enabled businesses are necessary for the Canadian economy to expand at a more robust pace to support gains in household incomes and keep the country's ballooning debt burden manageable.

We appreciate the opportunity to provide input on Budget 2021.

Sincerely,

Greg D'Avignon
President & CEO

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[4] Sean Speer, Drew Fagan and Luka Glozic, A Post-Pandemic Growth Strategy for Canada, Munk School of Global Affairs, University of Toronto, 2020, p. 13.