Merit Canada Submission in Advance of the 2024 Federal Budget

Merit Canada is pleased to provide this submission setting forth our recommendations for the 2024 Federal Budget. By way of background, Merit Canada is the national voice of the country's provincial open shop construction associations which, collectively, represent approximately three-quarters of all employment in the construction sector.

Last year, Merit Canada developed a blueprint outlining what it will take to support a strong Canadian construction sector; accelerate the efficient building of much-needed new infrastructure along with the maintenance of existing infrastructure; bolster long-term confidence in Canada among domestic and foreign investors; and enable shared prosperity.

That national policy document – ***Building Significant, Sustainable & Shared Prosperity*** – was organized around a handful of pillars that we believe will shape Canadian prosperity in the post-pandemic world. These include tackling Canada's housing supply and affordability crisis; the urgent need to improve the competitive environment for new investment and business growth; advancing responsible natural resource development; addressing Canada's growing infrastructure deficit; and, recruiting and training tomorrow's work force.

Below, we include recommendations for the 2024 Budget that draw selectively from Merit Canada's 2023 policy paper.

The Context for Budget 2024

Construction has a vital role in moving Canada forward in a fast-changing, increasingly competitive world. It is the country's fifth largest industry and accounts for 8% of employment – almost 1.6 million jobs. In 2023, construction investment spending amounted to 12% of Canadian GDP.[1] The construction industry's contributions to economic prosperity and community well-being became more apparent in the last few years as citizens, policymakers and business leaders increasingly were forced to grapple with the consequences of supply chain bottlenecks, infrastructure "deficits," a nation-wide housing shortage, and escalating building and development costs. Making progress on these issues depends on the presence of a modern, flexible and growing Canadian construction industry.

The foundation for Canada's prosperity traditionally has rested on hard work, resilience, entrepreneurship, fairness, and compassion. Our country is at its best when these attributes and

[1] Desjardins Economics, "The Construction Industry: Key to Solving the Housing Crisis," January 11, 2024.

values are championed -- and when they coalesce to create opportunity and unleash the potential of our human and natural resources. In the decades since the Second World War, Canada has leveraged these assets to build one of the world's most successful countries. However, stresses in our economy are starting to raise concerns about Canada's ability to compete and generate long-term prosperity.

As documented by the C.D. Howe Institute, the Fraser Institute, and the OECD, among others, Canada is losing ground to peer jurisdictions on many core metrics of economic well-being – GDP per person, productivity growth, business start-ups, business investment per worker, foreign direct investment, and overall competitiveness. Of particular concern, the OECD predicts Canada will rank last among all advanced economies in the growth of real GDP per person over the rest of this decade -- and possibly beyond. For a country with Canada's advantages and resources, that's not good enough. Canada also scores poorly on some other indicators of citizen well-being, including the cost of housing relative to median incomes and the accessibility of health care services.

Recommendation #1: Budget 2024 should acknowledge that Canada is falling short on key measures of economic success and clearly signal the federal government's determination to improve the country's performance and global ranking over the balance of the decade.

Fiscal Policy Choices

Merit Canada agrees with former Bank of Governor David Dodge[2] and leading Canadian public finance experts that the federal government needs a well-specified "anchor" at the heart of its fiscal policy. The Fall Economic Statement set a target to keep the annual deficit at or below 1% of GDP, beginning in 2026. However, the current-year deficit looks to be running closer to 1.5% of GDP, and recent statements by the Prime Minister and the Minister of Finance suggest it could easily climb significantly higher. Moreover, with federal spending rising by over 5% annually in the past eight years and the size of the public service ballooning by almost 40% during the same period, the deficit target proposed in the FES is unlikely to be viewed as credible.

According to Mr. Dodge, an optimal fiscal anchor would aim to limit annual debt-servicing costs to no more than 10% of total federal revenues. Other analysts propose to cap and then gradually reduce the federal debt-to-GDP ratio. Both of these ideas are worth considering, in our view.

Recommendation #2: Merit Canada recommends that Budget 2024 include a revised fiscal anchor that is simple to understand, achievable, and will constrain the growth of federal government debt over time.

Ensuring that Canadian taxpayers receive value-for-money in all areas of public sector activity is one way to reduce government deficits and temper the build-up of government debt. Fairness and transparency in public sector procurement is an important means to deliver value for money.

[2] David Dodge and Richard Dion, "Assessing the Potential Risks to the Sustainability of the Government of Canada's Current Fiscal Plan," Business Council of Canada, January 2023.

Merit Canada believes that governments – federal and provincial – should adopt procurement models that are open to all contractors, regardless of whether companies and their workers are non-union (open shop), non-affiliated (wall-to-wall union), members of traditional (craft) building trades unions, or organized through an employee association. An open market approach is especially crucial in the construction sector, since three-quarters of the industry consists of non-union firms; freezing these thousands of businesses and their employees out of taxpayer-funded infrastructure projects only imposes unnecessary costs on Canadians. More generally, both economic analysis and real-world experience confirm that competition and choice in markets for goods and services are the best way to safeguard the interests of consumers. The same is true for taxpayers.

We note that the 2023 Federal Budget announced new labour requirements for incentives available under the proposed *Clean Technology Investment Tax Credits, Clean Hydrogen Investment Tax Credits,* and *Clean Electricity Investment Tax Credits.* Accessing these tax credits will require that project owners pay labour rates based on the prevailing wage in building trades (BTU) collective agreements. For a number of reasons, this policy is flawed. It involves substantial and unnecessary interference in the labour market, which invariably will lead to inefficiencies and a misallocation of resources as well as higher costs for the taxpayers.

Recommendation #3: Merit Canada recommends that federal policy makers commit to open, fair and transparent procurement processes across all domains of government spending (operating and capital), to ensure the best value for taxpayers. No preference or favour should be given to any defined group of contractors or labour groups.

<u>Housing Supply and Affordability</u>

The Canada Housing and Mortgage Commission has noted that the last time housing was "affordable" in Canada was two decades ago. It is no exaggeration to say that the lack of affordable housing – rooted in insufficient supply relative to population growth and household formation -- has reached crisis proportions in some parts of the country. The problem has been aggravated by the federal government's policy to turbo-charge population growth -- in percentage terms, Canada now has by far the fastest-growing population among all major advanced economies. In fact, the year to Q3 2023 witnessed the fastest population growth in Canadian history.[3]

Record levels of immigration are driving population growth. The permanent immigration stream is generally well-managed. The unprecedented surge in non-permanent immigrants (NPRs) is another matter. In 2023, the number of international study permits issued soared by 77% from the year before, with the stock of foreign students exceeding one million by the end of the year. This has put intolerable strain on rental housing markets in some communities.

[3] As of Q3 2023, annual population growth reached 3.2%.

Modestly scaling back the intake of new immigrants – especially international students – is warranted, as the federal government itself has belatedly acknowledged. In terms of the impact of immigration on housing demand, it is worth noting that in 2022-23 Canada welcomed more than four additional immigrants (permanent plus temporary) for every new dwelling unit that came to market. Almost all NPRs and a majority of new permanent immigrants rent upon arriving in Canada.[4] In these circumstances, the unusual tightness of rental markets in many parts of the country is not a surprise. A slower pace of in-migration should assist in dampening price pressures in the housing market, notably for rental. That said, long-term solutions to Canada's housing crisis will be found primarily on the supply side of the market.

Recommendation #4: Merit Canada supports measures announced by the federal government over the course of 2023 to encourage the construction of rental housing, to use federally owned lands to build additional housing, and to incent local governments to densify urban communities and streamline permitting and approval processes for new residential development projects. Looking forward, it is clear that more meaningful collaboration and partnerships with provincial and local levels of government will be necessary to meet the challenge of building more homes.

Based on analyses published by CMHC and various private sector economists, it is clear the pace of homebuilding needs to increase sharply in the coming years. Unfortunately, housing starts have been trending lower over the last 18 months, amid higher borrowing and construction costs and still-slow municipal permitting and approval processes.

Recommendation #5: Merit Canada believes a realistic goal for nation-wide housing starts is 400,000 units per year, to be met by the late 2020s. We urge the federal government to embrace and champion this target -- and to take the lead in forging a consensus among all levels of government to aggressively pursue it.

We recognize that 400,000 starts per year is well below the 800,000 starts suggested by the CMHC if Canada is to return to a situation of truly "affordable" housing. But Canada has struggled to hit 225,000-240,000 housing starts, and we don't believe it is realistic to think the country can build 3 or 3.5 times more dwelling units annually within a few years. It is sobering to recall that back in 1972, with a population of roughly 22 million, Canada managed to build 230,000 new homes. Fifty years later, housing starts were hovering near 220,000 -- even as the population approached 40 million. Simply put, Canada has become a much harder place to build houses (or anything else) than it was four or five decades ago. If the housing crisis is to be solved, or even significantly lessened, that will have to change.

Improved coordination of policies and government initiatives within and across the three levels of government would help to boost housing supply and address concerns around escalating development, permitting and building costs. In 2023, the Federal Minister of Housing announced the removal of the GST on new purpose-built rental housing projects – a measure that Merit

[4] Most permanent immigrants typically transition to home ownership within a few years of arriving.

Canada endorses. However, in March 2022 the Federal Minister of the Environment and Climate Change unveiled a new *Emissions Reduction Plan* as part of the government's evolving climate strategy, calling for homes built in 2025 and later to be 61% more energy-efficient than those constructed in 2019. Leaving aside the potential benefits of this proposal, it will increase the cost of constructing new housing at a time when affordability has reached an all-time low. The Canadian Homebuilders Association estimates the energy efficiency measure will add approximately 8% to the cost of new homes (including rental units), more than offsetting the tax reduction from eliminating the GST on new rental housing.

Recommendation #6: While the federal government does not control the cost or market prices of housing, it should nonetheless review its policy and regulatory priorities through a "housing affordability and supply lens," with a view to expediting the construction of new housing and reducing construction and development costs wherever possible. Other levels of government should follow suit.

Returning to the impact of above-average population growth on housing demand, the most acute shortfalls in housing supply are found in the rental segment of the market. Canada is especially short of purpose-built rental homes offering long-term security of tenure. Indeed, the country literally needs millions more rental homes if policymakers hope to make significant progress on the housing affordability file.

Recommendation #7: Merit Canada recommends that the government immediately introduce new tax-incentives aimed at encouraging the private sector to develop purpose-built rental homes.

Attracting Investment and Strengthening Competitiveness

While it is by now well understood that Canada confronts a housing affordability and supply crisis, there is less awareness of how poorly the country is doing on another important dimension of economic performance: business non-residential investment. According to tracking by the C.D. Howe Institute,[5] business investment has been trending lower on a per employee basis for almost a decade. The net result is that by 2022-23, Canadian businesses collectively were investing less than 60% as much as their American counterparts on a per worker basis; our firms also trail the average for all OECD countries. The categories of investment included in the C.D. Howe Institute's analysis are machinery and equipment; buildings, factories, research labs, and other structures; advanced technology products; intellectual property; and engineering infrastructure.

Canada's alarming investment shortfall has dire implications for future living standards. Absent a stepped-up pace of investment in the tools, equipment, structures, technologies, and infrastructure that enable workers to become more productive, the prospects for real wage gains will be dim. Moreover, the already sizable productivity gap between Canada and the U.S. will

[5] C.D. Howe Institute, Working Harder for Less: More People but Less Capital Is No Recipe for Prosperity, November 2023.

increase further unless Canada becomes a more welcoming place for productive private sector investment and entrepreneurial wealth creation across all industry sectors – not just the handful of politically favoured industries that have garnered the attention of federal policymakers in the last two years.

Unfortunately, there is no quick fix for Canada's investment crisis. Getting to grips with the problem will require a sustained effort stretching over several years. For Budget 2024, Merit Canada offers the following recommendations. We believe these recommendations, if adopted, would improve the environment for investment, business expansion, job creation and innovation in Canada.

Recommendation #8: Launch a review of the Canadian tax system and how it influences the overall environment for business investment, growth and innovation. A major re-think of Canadian tax policy has not occurred since the Carter Commission in the 1960s and is by now long overdue. And given the competitive pressures bearing down on Canada in the post-pandemic world, it has become an urgent task.

Recommendation #9: Commit to significantly boost long-term public and private investment in trade-enhancing infrastructure, using the Canada Trade Infrastructure Plan, the Canada Infrastructure Bank and other vehicles available to the national government. With trade (exports plus imports combined) amounting to two-thirds of Canada's GDP, the country desperately needs efficient, resilient, and up-to-date trade-enabling infrastructure. Currently, we are falling short in many areas.[6]

Recommendation #10: Merit Canada recommends that the federal government designate critical trade ports (all air, and water ports, international border crossings and rail corridors) as essential services. In these sectors, labour disputes should be managed under a legal framework that is free from strikes, lock-outs, and protests.

Recommendation #11: Review the Canada Labour Code to ensure that it provides for labour market flexibility and balanced labour relations and employment standards suitable to the contemporary world of work and technology. This should begin with the restoration of a worker's right to a secret ballot vote during union certification processes in federally regulated workplaces – there is no more fundamental democratic value than the right to a secret ballot, and Canadian workers should have that right when they are deciding on union membership.

Recommendation #12: Amend the Impact Assessment Act following the Supreme Court of Canada's 2023 ruling that parts of the Act are unconstitutional and involve federal "over-reach" into areas of provincial jurisdiction over the management of lands and natural resources. Also, repeal Bill C-48, which imposed a sweeping ban on oil tankers off the west coast of Canada (but

[6] Canada West Foundation, "National Infrastructure Assessment," Submission to the Government of Canada, July 21, 2021; Action, Collaboration, Transformation: Final Report of the National Supply Chain Task Force, 2022.

not the east coast). Taking these steps would provide a concrete signal that Canada is open for business and responsible natural resource investment and development.

Recommendation #13: Embrace the opportunity to leverage Canada's abundant, low-cost natural gas reserves to develop a large-scale Canadian LNG industry that can supply a relatively low-carbon energy source to European and Asian countries looking to shift away from reliance on coal in their electricity sectors. To date, the federal government has been reluctant to accept the place of LNG in Canada's energy mix and has stood aside as the United States has become a leading global LNG producer and exporter. LNG has a vital role to play as the world gradually transitions to a lower-carbon future. Canada should be doing everything we can to be part of this burgeoning sector.

Recommendation #14: Act decisively to bring Indigenous leaders, other levels of government and the private sector together to develop a sensible framework and policies to ensure Indigenous communities are full partners in the opportunities, investment and jobs that flow from a strong and growing natural resource economy.

Recommendation #15: Find ways to invest an appropriate portion of the assets of Canada Pension Plan (CPP) in critical trade enabling infrastructure. Currently, the CPP invests in infrastructure in foreign countries but does not do so in Canada. Canada can no longer afford to forego the use of the pension assets of its citizens to make investments aimed at enhancing Canadian competitiveness and building our long-term prosperity.

Recruiting and Training Tomorrow's Builders

Merit Canada believes skills, training and education are foundational for building a talented workforce to move our country forward, especially as many Canadians reconsider their job and career options following the COVID-19 pandemic. This is a shared responsibility of governments, business, and individuals.

Federal policy makers have an important role to play to help ensure Canada has a skilled, trained, and well-educated workforce. Though education and skills training lie mainly within provincial jurisdiction, the federal government can and should collaborate with the provinces to provide funding and incentives to enhance skills, training, and job-relevant education for Canadians.

Like other industries, construction is feeling the effects of population aging. CIBC Economics recently reported that the average age of retirement in construction is 60, with one-fifth of current construction workers aged 55 or older. That same report also revealed that only 2% of all recent new immigrants to Canada appear to be pursuing a career in the construction trades. With close to 1.5 million permanent immigrants expected to enter Canada over the period 2023-2025, there is a risk that comparatively few newcomers will end up joining the construction workforce, despite the fact that projections by BuildForce showed 60,000 – 80,000 construction job vacancies across the country as of mid-2023.

Recommendation #15: Merit Canada believes the selection criteria for new permanent immigrants to Canada should be modified to put a greater emphasis on skills, experience and credentials relevant to the construction industry. As noted above, construction accounts for 8% of all jobs in Canada. It would seem appropriate to increase the share of newly admitted immigrants with construction-relevant skills to at least 5% by the end of the decade.

Conclusion

The headwinds facing Canada's economy are numerous – elevated levels of government spending and debt; a festering housing supply and affordability crisis; low levels of business investment and waning competitiveness; the growing difficulty of matching the skills gaps in our economy with those seeking to call Canada home; and, fragile global supply chains and a changing geo-political landscape. All of this is working to create uncertainty for many sectors of our economy and poses significant risks to Canada's future prosperity.

With Budget 2024, the federal government has an opportunity show leadership on the critical public policy files that will influence the country's long-term economic success.

About Merit Canada

Merit Canada is the national voice of Canada's provincial Open Shop construction associations. Open shop contractors employ approximately 75% of the 1.6 million men and women who work in construction in Canada.

Merit Canada was created in 2008 to advocate for a strong construction sector, for fairness and transparency in government infrastructure procurement, and on behalf of construction contractors and workers. Through its provincial partnerships in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia, Merit Canada helps Open Shop employers develop the next generation of construction trades workers.