VIEWPOINT

Roger Martin

Paul Martin, Listen Up!

Don't spend on pre-election goodies. Spend for the future

FINANCE MINISTER PAUL MARTIN'S SCHEDULED MINI-budget provides a historic opportunity for Canada to set a new course in productivity and prosperity. As Canadians cast envious eyes south at our American neighbors, we rightly sense that we are getting left further and further behind.

How can we turn around this situation? By using the government's spectacular budget surplus to change the incentives that Canadian citizens and firms take into account when they make decisions about work, consumption and productivity. With every dollar of the surplus, Finance Minister Martin will have the choice of investing in future prosperity or consuming current prosperity while leaving incentives untouched.

What does consuming current prosperity mean? A pure example is Ontario's decision last May to spend $1 billion of budget surplus on a $200 rebate for each Ontario taxpayer. This one-time payment to Ontarians didn't change by one iota their incentives to work or invest. It simply gave them some additional spending money—about $3.85 a week.

Another example is Martin's proposal, contained in his February budget, to increase the amount Canadians can earn before they have to start paying taxes, from $7,131 to $8,000. About 95% of taxpayers earn more than $8,000, and the change put an additional $148 in the pocket of each of them. But it left completely unchanged the incentives that shape their choices while consuming current prosperity at a rate of $2.7 billion a year.

On the good-news side of the last budget, cutting the capital gains tax (which cost a mere $300 million) provided a much needed incentive for entrepreneurial activity. Similarly, earmarking $900 million for university research-and-development infrastructure through the Canada Foundation for Innovation was a definite investment in future prosperity, because it will generate higher levels of innovation that can be used by firms to compete globally.

But these few small gains fell considerably short of the emphasis we need to place on these fundamentals in order to meet the challenges of our falling standard of living. By my estimate, over 60% of the federal government's February 2000 budget measures consumed current prosperity, and less than 40% invested in future prosperity.


JONATHAN HAYWARD—CP

Martin needs to do better than he did with his February budget

Canada can't afford another budget like that. Martin should break with tradition and tilt dramatically toward investment in future prosperity, vs. consumption of current prosperity—to at least a 75%-to-25% ratio. At the top of his list should be reducing taxes that most directly influence decisions to work and invest. That would mean immediately dropping corporate tax rates to the 21% level announced in February, rather than waiting five years to phase them in, as Martin said at that time. It would mean equalizing Canadian capital gains tax levels, now at around 31% (depending on the province), with 20% U.S. levels, because high capital gains taxation is driving New Economy entrepreneurs to the U.S. It would also mean lowering the marginal tax rate for all three brackets to symbolize that the government understands that the individual choices of every Canadian make a big difference to our collective prosperity.

Finally, it would mean even further investment in creating the sophisticated human capital required by Canadian firms to compete. That doesn't mean just educating better engineers. We need better business leaders too, or else our best graduating scientists will stream to the U.S. to work for business leaders in whom they can have greater confidence.

Minister Martin should stay away from gimmicks like the trial balloon that has been floated of giving small businesses a tax credit for the first $100,000 they spend on computer equipment. This is classic consumption of prosperity. It helps the firm buy assets it would have bought anyway and doesn't change its incentives to improve productivity any further than that. If we really want to boost our participation in the New Economy, Canada needs to spend money on a first-class university research-and-development infrastructure combined with world-class business schools, the key combination that is at the center of every concentration of U.S. New Economy success.

The pre-electoral temptation is looming for Ottawa to cast goodies in all directions. But we will prosper only if we take bold action now in favor of future prosperity. Then we will continue to have the money to fund the social programs Canadians value and cherish. ■

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