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Productivity was the loser in the federal budget

by
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TORONTO - The latest federal budget mentioned the word "productivity" more than 50 times, yet there was not nearly enough substance to address Canada's productivity challenge.

As the budget admits, demographic trends are changing Canada's economic landscape. With an aging population, an increased demand for publicly funded services is inevitable. But with a smaller proportion of the overall population in the workforce, there will be fewer taxpayers to support this new funding.

The essential choices for government are constants: reduce services, increase taxes or grow the economy. If cutting services and increasing taxes are unpalatable options, growing the economy is the positive solution. But our political leadership failed to initiate the changes that are needed to do that -- namely increasing our productivity.

Unfortunately, despite the rhetoric, many politicians and ordinary Canadians do not recognize productivity enhancement as a national priority, in part because the concept is not well understood.

Anyone who has worked with new machinery and equipment, whether it's a new computer or photocopying machine in the office, a new tractor on the farm, a new truck on the road or a new automated printing press, has had personal experience of becoming more productive and more effective. Enhancing productivity enables Canadians to work smarter. Members of the **Canadian Finance** and **Leasing Association** enable millions of Canadians to work smarter every day.

For the first time, a recent economic study by the Centre for Spatial Economics connected the dots from the financing our members make available to business customers, to the positive impact of their investment in machinery, equipment and vehicles on productivity, and then to the resulting enhancement of living standards of all citizens generated by that improved productivity.

Clearly, this kind of investment is critical, whatever its source. But the more than $120 billion in financing provided by the asset-based financing, equipment and vehicle leasing sector makes our members the largest provider of debt financing in Canada after banks and credit unions. Total financing provided has more than doubled in seven years.

Two noted economists, Jack M. Mintz, president and CEO of the C.D. Howe Institute and professor of taxation at the University of Toronto, and Jim Stanford, an economist with the Canadian Auto Workers Union, both endorsed the study.

Mr. Mintz noted that "this unique study overwhelmingly demonstrates the importance of asset-based financing to Canada's economic growth by supporting greater product financial choice and innovation. The industry contributes a disproportionate share to higher living standards."

According to the study, "the rise in asset-based financing from 1992 to 2002 improved living standards in Canada by 2.3 per cent." This industry can do even more for national productivity and standards of living if some of the policy barriers are removed.

The study makes clear that government policy in Canada is not encouraging investment in machinery and equipment to the degree that is needed. Mr. Stanford has noted that "the weak investment spending of Canadian business will become an increasingly important concern in the next couple of years."

A strategy of improving the economic climate for machinery and equipment investment should pay significant dividends in terms of stronger economic growth, higher productivity and better living standards for Canadians for many years to come.

As Mr. Mintz commented, "tax policy is critical to capital investment decisions. Several tax policy actions have good payoffs to the economy, including the elimination of provincial capital taxes, increased capital cost allowances for investments and the removal of provincial sales taxes on business capital spending."

As a tax on company assets, the federal and provincial capital taxes, for example, are effectively taxes on productivity enhancement and undermine the productivity agenda. We had hoped the federal government would see fit to speed up the elimination of the capital tax for all businesses. Unfortunately, it did not. There are also few new incentives for businesses to invest in new machinery and equipment to allow them to become more productive.

The formula seems clear. Government budgets should have a focus on reinforcing the foundations of economic growth: investment in education (human capital), in infrastructure (physical capital) and in capital assets. Specific measures must be taken to encourage businesses to invest in new machinery and equipment to increase productivity and spur economic growth.

The challenge for our political leaders is to use their budgets to encourage economic growth as a means of paying for new government spending programs. The long-term sustainability of those programs hinges on meeting that challenge. We wait with anticipation to see if our provincial leaders are more inclined to do so than our federal ones.

David Powell is president and CEO of the **Canadian Finance and Leasing Association**.