

Chair (Bryne Purchase): Now I'd like to introduce Don Drummond, Associate Deputy Minister at the Department of Finance.

Don Drummond: Thanks very much Bryne. I'd like to first say that I think it's a shame that Bryne Purchase is chairing the session rather than being one of the speakers, because I think at a productivity conference we can benefit by Bryne explaining how the Ontario Treasury became so productive under his leadership. There was a time the Ontario Treasury just used to look after the Ontario budgets. But now they are so productive that they are trying to do the federal budget as well. And he still has time to come to conferences such as this! I think that's really the definition of productivity.

Andrei gave a broad overview of all of the pieces of public policy that could have implications on productivity, so I'm just going to speak to two of them and not pretend that these alone are sufficient to generate more satisfactory productivity growth. The first one I want to speak about is macro-economic stability, a sort of meat and potatoes, I guess, in the economics field. It may not perhaps be as novel as working on some of the other aspects, but I think maybe because of this it's largely underestimated and sometimes even overlooked as an explanation of lackluster productivity growth and also as an explanation of why we at times are falling behind the U.S. I think we all are pretty familiar, the statistics are out there, with the type of damage that has been done over the last two decades because of two deep recessions. We all know about the 11 billion dollars of investment lost in early 1980s. We know about the six hundred thousand jobs that were lost. I think, however, that little attention gets paid to how long some of those repercussions were felt in the economy. And in both cases, in the early 1980s and in the early 1990s, the damage really extended throughout half a decade. Speaking of

that half a decade, it was 5 years after the recession of the early 1980s before the level of business investment was restored. And also think about the approach that the business sector and workers adopted during that period. Obviously, to enhance productivity you want businesses to be seeking new opportunities, to be making investments to realize efficiency gains. Instead they were forced to focus on survival. Workers who could have been looking to invest further in their skills were basically out searching for jobs. So, I think, one can't minimize the impact of that. As well, those recessions were much deeper in Canada than in the United States. So I think that could explain a good part of the productivity performance difference in the two countries.

The second aspect I was going to speak to is taxation. But we heard from Don Daly's survey that taxation really wasn't coming up as much of a factor. So I don't think I need to say anything about it. In fact, I think we'll stop working on that aspect of the budget plan!

There are other aspects perhaps where taxation is important. Of course to understand I think why everybody thinks taxation is important, yet you get those survey results, we have to realize we have three quite distinct taxation levels in Canada, certainly at the federal level. We have a small business rate at the federal level of 12 percent, a manufacturing and processing (M and P) rate at 21 per cent, and the rest, which is largely the large service sector, pay 28 per cent. If anything, relative to the US, that small business rate is quite low in Canada, the M and P rate is probably in the ballpark of what would be faced in many other countries and the 28 per cent is quite a bit higher. So, certainly, you could make a productivity

argument in the corporate taxation field, but it would not necessarily be in manufacturing and processing -- the focus of this conference.

The other aspect, though, that does affect all sectors and, of course, it did come out in the survey results, was on the personal income tax side. And I think we all know, and we did feature that in the Fall Update in October, that we do have the highest level of personal income taxes in Canada amongst the major countries. You also saw the commitment in the Fall Update to bring the personal income tax burden down. Of course, you bring the burden down because you want to get more money into the hands of people to increase their disposable income. But, of course, there is more to it than just that. There is a link to productivity. There is an incentive by bringing down those marginal income tax rates to help the people work and save and invest further.

There are other aspects of taxation as well. And again they may not be the key impediments in the subject you are addressing right now. The one I'll mention is the R&D tax credit. The studies that we've done, and studies other groups such as the Conference Board of Canada have done, suggest that we are at or near the top in terms of generosity if you look at Canada's R&D tax credit system versus other countries. Yet it is undeniable that the private sector effort in Canada in R&D is still quite low. So it's not necessarily tied to the tax system, but there are still some puzzles as to why the responses aren't there.

So I will end at that point.

(applause)