

## Carney pushes tax incentives to boost spending

By Kevin Carmichael

October 31, 2012 – *The Globe and Mail*

Bank of Canada Governor Mark Carney nudged lawmakers to consider tax incentives that might persuade cash-rich companies to boost investment.

In testimony at the House of Commons finance committee Tuesday, Mr. Carney said “there is some advantage” in studying the “merits of tax measures” aimed at encouraging companies to spend on things that would boost productivity.

The suggestion – made ever so gingerly, as central bankers are loath to be seen influencing fiscal policy – represents Mr. Carney’s latest attempt to spur business investment, which is crucial to economic growth because debt-heavy consumers and governments are reducing their spending. Central bankers have expressed dissatisfaction with the level of business spending. Canadian companies are sitting on some \$250-billion in cash, a hoard that Mr. Carney in August called “dead money” because interest rates are so low. Earlier this month, Tiff Macklem, the No. 2 at the Bank of Canada, told an audience in Winnipeg that recent growth in business investment had been “solid but not spectacular.” Many executives pushed back, saying their reserves are a prudent response to a highly uncertain outlook for the global economy. A recent survey of businesses by the Bank of Canada showed executives planned to ease investment spending over the next 12 months to the slowest rate of growth since the end of 2009.

“It’s for firms to decide, but what we do have in Canada are tremendous opportunities that don’t necessarily exist elsewhere,” Mr. Carney told the finance committee. “There’s an opportunity to boost productivity. There’s an opportunity to build market share in major emerging markets. There’s an opportunity to take advantage of the strong Canadian dollar to buy machinery and equipment.”

Mr. Carney acknowledged the federal government already is using tax policy to leverage more spending from business, including the capital cost allowance.

The finance committee is in the middle of its annual pre-budget consultations. Mr. Carney’s comment on tax measures was prompted by a question from James Rajotte, the Conservative chairman of the committee, suggesting there could be interest in exploring how tax policy could be used to generate more business spending.

At the same time, Finance Minister Jim Flaherty has indicated in recent weeks that the government feels it has done plenty to put companies in a position to invest. Canada’s federal corporate tax rate, for example, is among the lowest in advanced economies. “We’ve done a lot through the tax system to encourage Canadian executives, business people, to start utilizing some of the capital they have on their balance sheets,” Mr. Flaherty said in August. “At a certain point, it’s not up to the government to stimulate the economy, it’s up to the private sector, and they have lots of capital.”