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TRAINING SUBSIDIES OR TAX CUTS?



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by

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It is imperative that public policy quickly respond to the current high-tech human resources shortage. The question remains: what is the best approach?

In this era where mega announcements of entries into Business-to-Business e-commerce occur on a daily basis, several truths remain: systems take time to build; systems can't be built, maintained or operated without skilled technicians; and the training itself takes time and is expensive.

For software developers and service providers, their assets walk through the door every night. Even for mainstream businesses that internally source technology needs, the day-to-day business is exposed to the risk posed by the mobility of scarce fully trained employees.

The reality is that, more so than in any other field of endeavour, technology employment opportunities are truly global. Worldwide systems and programming language standards have a lot to do with it, as has the fact that English has become the international language of business. One technology-oriented company in Germany has gone so far as to make English the official language for all communications, both internal and external.

A WAR OF WORDS

It is against this background that we examine the recent war of words between Canadian business leaders and the federal government on what ails the Canadian economy. Early in April, at the CEO Summit 2000, The Business Council on National Issues (BCNI) released its report on "Winning Corporate Strategies".

According to the BCNI, "Canada charges far more in personal income tax than any other major industrialized country, and tax cuts announced in the latest federal budget did not change this picture." What were the budget changes that are relevant to the new economy? In large measure, the budget synchronized the treatment of stock options with rules in the United States, with the result that capital gains are now taxed only at the time that the underlying shares are finally sold, not when the option to purchase the underlying shares is exercised. The budget also reduced the rate at which capital gains are taxed from 75 per cent to 66.7 per cent. It also removed the five per cent high-income surcharge, although only over the next five years.

The BCNI comes to the obvious conclusion that "investment in advanced technology increases opportunities for skilled people and yet again the more skills people gain, the more likely they are to move on in search of greater opportunity." The BCNI predicts that Canada suffers the chance of losing a significant number of its domestically reared head offices unless issues of productivity and taxation are addressed on an urgent basis.

A DIFFERENCE OF OPINION

Finance Minister Paul Martin responded by branding the report as "a lot of counterproductive rhetoric" and called for a more positive dialogue. According to the Finance Minister, governments can't focus on tax relief alone. On the whole, Mr. Martin seems to concede that human resources issues need to be addressed. He does, however, worry about timing and the need to address other priorities and inequities.

It appears that the biggest problem lies in the difference of opinion on the appropriate solution between business on the one hand and the general public and government on the other.

According to the results of a survey taken less than a year ago by Ekos Research Associates Inc., 40 per cent of the general public consider training, ahead of tax reform, to be their highest priority for improving Canada's overall economic productivity. The number was roughly the same for government officials. Business leaders waded in at 86 per cent in favour of tax cuts.

This debate is taking place in real time and under live conditions. In a recent seminar on e-business trends, Joseph Feiman of Gartner Group reported that less than 50 per cent of the demand for e-business system developers will be satisfied by 2003. According to Mr. Feiman, to bring an Internet developer to full proficiency, it takes two months of formal training at \$1,200 per day, followed by one year of on-the-job experience.

One significant question remains for those who would defer tax cuts in favour of significant publicly funded expenditures on training: How are we going to keep the recipients of our public funding from going to where the market, including a more favourable tax climate, beckons?

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