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# Business expert calls for hikes to GST and HST

*Ontario should live with deficits for now and count on economic recovery to get rid of deficit, influential academic says*

By Karen Howlett

Business school dean Roger Martin's influence extends through academe, government and corporate Canada. But don't expect Ottawa or the provinces to embrace his latest provocative idea - to reverse the two-cent cut to the federal goods and services tax and return it to seven cents on the dollar.

Mr. Martin's latest advice to policy-makers is part of a broader strategy to live with deficits incurred by fighting recession, while resisting the urge to cut pricey programs like education - particularly the higher education that Mr. Martin, Dean of the Rotman School of Management at the University of Toronto, sees as key to future prosperity.

It might make sound economic sense for Ottawa to use tax increases to rebuild its fiscal house. Politically, however, it appears to be a non-starter, especially at a time when British Columbia and Ontario are already facing a backlash over plans to harmonize their provincial sales taxes with the GST.

Nevertheless, this is what Mr. Martin proposes in his latest report on Ontario's competitiveness, productivity and economic progress, to be released today.

"As odd as it may seem, if taxes must rise, we would encourage Ottawa and Queen's Park to look first at increasing the goods and services tax and harmonized sales tax rates," the report says.

As in previous reports, Mr. Martin argues that it is possible for Ontario to narrow the gap with its North American peers through increased investment in postsecondary education and tax measures that strengthen incentives to work and invest. Such steps are especially crucial at a time when competition from China and India is on the rise, the report says.

Mr. Martin has the ear of governments in Ottawa and Queen's Park. He was influential in persuading Premier Dalton McGuinty to blend the 8-per-cent provincial sales tax and 5-per-cent GST into a new value-added tax. The change, emulated shortly after by B.C.'s Gordon Campbell, is meant to lower costs for businesses while leaving consumers to pay the provincial sales levy on many goods and services that were exempt, thus shifting the tax burden on to them.

"My dream scenario is the feds take the two points of GST back up and that helps fix the federal problem," Mr. Martin said in an interview.

Many economists questioned the wisdom of lowering the GST in the first place, he said, because it did not make that big a difference to consumers and it robbed federal coffers of billions of dollars in revenues.

But Federal Finance Minister Jim Flaherty is ruling out tax hikes. In a speech last Friday, he said Ottawa will make cuts in its $100-billion program spending budget rather than raise taxes.

As for Ontario, it is not in a position to hike its proposed value-added tax for the foreseeable future. Ontario and British Columbia both signed accords with Ottawa, agreeing not to raise or lower their new retail taxes until two years after they come into effect in July.

The McGuinty government is just beginning the process of grappling with its looming deficit of $24.7-billion for this fiscal year. The Premier has hinted that restraint measures are in store for the public service, which he says has been sheltered from the global recession.

He has also said his government will tighten its belt by making selective cuts to program spending while preserving funding for priority areas such as health care and education.

This is precisely the course Mr. Martin recommends. He says Ontario should live with deficits for the foreseeable future and count on economic recovery to get rid of the deficit.

A "big chopping exercise" on program spending would just weaken the province's ability to train a skilled work force and further widen its growing prosperity gap with the United States.

In his report, entitled Navigating Through the Recovery, Mr. Martin warns Mr. McGuinty to avoid a replay of the recession of the early 1990s, when the previous Progressive Conservative government dealt with shrinking revenues by slashing spending on education - a legacy that haunts the province, he argues.

Wages increase in lockstep with education, the report notes.

Yet only about 40 per cent of Ontarians between the ages of 20 and 24 years participated in postsecondary education in 2007.

"We are concerned that political pressures will again be such that education spending is deemed expendable as the provincial government works to restore fiscal order," the report says.