

## Brain drain blamed on pay, not tax

*Business dean Roger Martin says role of taxes is exaggerated in explaining flow of talent out of Canada*

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The Globe and Mail, Toronto

**B**usinesses looking for a culprit behind the so-called brain drain should look to themselves before attacking Canadian tax rates, the dean of University of Toronto's Rotman School of Management said yesterday.

At a panel on the brain drain held in Toronto and sponsored by the Globe and Mail, Roger Martin said employees in Canada are significantly underpaid for the work they do compared with their counterparts in the United States.

Using salary figures he said were obtained from Nortel Networks Corp., Mr. Martin showed that after taxes are paid, a junior engineer working for Nortel in Canada takes home about \$12,600 (U.S.) less than the same employee working for Nortel south of the border.

Even after adjusting for the lower cost of living in Canada, the Canadian engineer's take-home pay has \$7,100 less purchasing power than that of the equivalent employee in the United States.

But Canada's tax rates have no effect on that income differential, Mr. Martin's analysis showed. Instead, the problem is that Nortel pays its employees in Canada significantly less.

In Canada, a starting graduate engineer makes \$49,000 (Canadian). The same employee in the United States makes \$53,000 (U.S.).

"These same engineers are working on exactly the same things for exactly the same markets," Mr. Martin said.

Mr. Martin chose to examine Nortel because John Roth, the company's president and chief executive officer, has blamed Canada's tax rates for the brain drain.

But Mr. Martin said the brain drain sends a clear signal to Mr. Roth and other Canadian business leaders that they have to do something to fix their pay differentials.

"The market is telling him that



Roger Martin says the brain drain tells Canadian business leaders they have to fix their pay differentials.

the clearing point in Canada is too low. And you've got to get that up," he said.

At higher salary levels, taxes begin to play a bigger role, Mr. Martin showed. But he suggested that even at these higher levels, salary differentials may still play a bigger role than tax rates.

In his analysis he doubled, then quadrupled the starting pay levels for an engineer to get a rough ap-

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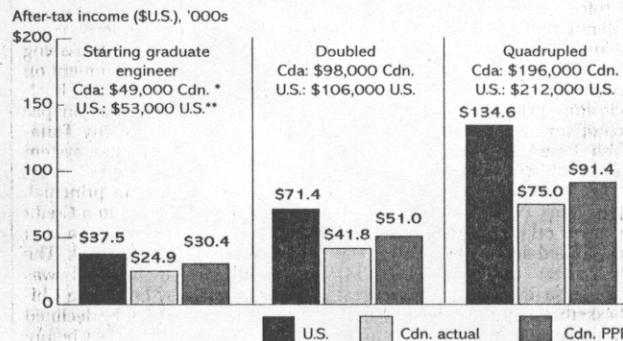
proximation of what senior engineers might get paid.

At double the starting salary, an engineer in Canada goes home with a purchasing level \$20,400 lower than the same worker south of the border. At that pay level, taxes account for 19 per cent of the gap, Mr. Martin said.

Assuming that a very senior engineer makes four times what a beginning engineer would make, the wage gap increases to \$43,200. Although the Canadian engineer

### NORTEL'S INCOME GAP

The chart below compares after-tax income (\$U.S.) of Nortel engineers based on starting salaries in Canada and the United States, assuming a 68-cent Canadian dollar. It also shows after-tax income for Canadian engineers based on the purchasing power parity (PPP) value of the Canadian dollar. PPP, calculated to be 83 cents (U.S.), is determined by taking a hypothetical basket of goods and services in the two countries, tallying up the price and working out the ratio between the two tallies.



\* Nortel Network personnel department

\*\* Assumes Ontario and California residents. Single, only personal exemption.

Sources: Roger Martin, Ernst & Young, Kathy Halliday

would be taxed at the highest marginal tax rate, taxes still only account for 28 per cent of the differential, he said.

Officials of Brampton, Ont.-based Nortel were unavailable for comment.

In Ottawa yesterday, Mr. Roth conceded that Canadian businesses share the blame for the salary gap. But he maintained that the way stock options are taxed in Canada is a big factor driving Canadians south.

In an interview last week, he acknowledged his firm's own pay structure was partly to blame for making the United States more attractive. He said Nortel has taken steps to correct the inequity.

Mr. Martin, a Canadian, took a drastic cut in pay — 90 per cent — when he left his job at a Boston consulting firm to become Rotman's dean last year. He said he believes Canada's general income tax levels are too high, even if they aren't the main factor driving skilled people south.

He said Canada's high corporate tax levels may contribute to the

problem, by making it tougher for corporations to pay the same salaries in Canada that they pay in the United States.

But a bigger factor, he said, is the complacency of Canada's business leaders, who are content to copy what everybody else is doing instead of being innovative.

He said Canadian firms must work to set up industry clusters, where several firms in one industry are grouped in a geographical area.

The brain drain panel was part of the third CEO Forum, which focused on human resources strategies.

All panel members agreed there are too many well-educated Canadians moving south to work, but some found the term "brain drain" misleading.

Paul Alofs, another Canadian who recently returned to Canada from the United States, said he prefers the term "brain wave" because people are moving all around the world to work, including to Canada.

"There is an ebb and flow of Canadians and other citizens of the world moving across borders,"

Mr. Alofs, who had moved to California to work for Walt Disney Co., said he went to the United States to learn, to earn more money and to enjoy a California lifestyle.

Now a would-be venture capitalist in Toronto, he said he believes Canada's taxes keep a lot of good people outside of the country.

Scott Murray, a director at Statistics Canada, said that although tax levels in Canada are too high, tax cuts are a blunt instrument to use to stem the flow of people south.

While panelists disagreed on the extent to which taxes contributed to the brain drain, all agreed on one thing — that the flow of people across borders will continue as the world's economy becomes increasingly globalized.