

Less poverty found in high-tax countries

STUDY | Nordic states are thriving, report says

BY ERIC BEAUCHESE

OTTAWA — The high-tax Nordic countries score better both socially and economically than low-tax Anglo-American countries, especially the United States, according to a Canadian social and economic policy think-tank.

Canada is falling behind a number of industrial nations in a wide range of social and economic areas, says a summary of the report being released today by the left-leaning Canadian Centre for Policy Alternatives.

The study, an attack against the crusade in Canada for tax cuts, compares four high-tax Nordic countries and six low-tax Anglo-American countries, including Canada, on 50 social and economic measures and finds the high-tax Nordic countries score better in 42 of them.

The high-tax Nordic countries have lower rates of poverty, more equal income distribution, more economic security for their workers, more leisure time and less drug use, it said. They also enjoy a higher GDP per capita, which is a common measure of relative living standards, higher household savings, more leisure time and express higher levels of satisfaction with their lives.

Further, they rank higher in measures of innovation, including research and development spending, in competitiveness, and in post-secondary education achievement, it said.

"By cutting taxes, the Conservative government is taking Canada in the wrong direction," said economist Neil Brooks, a co-author of

the study, who teaches tax law at Osgoode Hall Law School in Toronto.

"It wants to make Canada more like the United States, yet our findings show that Americans bear severe social costs for living in one of the lowest-taxed countries in the world."

The U.S., with one of the lowest tax burdens in the industrial world, falls near the bottom of industrialized countries in a strikingly large number of social indicators, and ranks as the most dysfunctional by a considerable margin, it added.

In contrast, Finland — the country the study suggests Canadians would be best off emulating — ranks near the top of the industrialized world in terms of its tax burden, at 46.2 per cent of GDP, but also ranks at the top in most of the social indicators.

Further, it notes Finland has been named the world's most competitive country by the business-dominated World Economic Forum four years in a row.

The total tax burden as a share

of GDP amounted to 33.5 per cent in Canada in 2004, two percentage points below the average of industrial nations, and more than 10 percentage points below Finland's 44.2, but well above the 25.5 in the U.S.

The relative poverty rate is 17.1 per cent in the U.S., 10.3 in Canada, but just 6.4 in Finland, it noted.

"In making their case for lower taxes, tax cutters in Canada frequently point to the United States," Brooks said. "Our findings show Americans bear incredibly severe social costs for living in one of the lowest-tax countries in the world."

Compared to other industrial countries, relative poverty is more widespread, and income more unequally distributed, with one per cent of Americans holding more wealth than the poorest 90 per cent, it said.

Also, while the U.S. has experienced strong economic growth this decade, the median income of a typical family has fallen by nearly four per cent.

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Interest rates to hold despite our weakening economy

ECONOMY |

Experts disagree on whether 2007 will see increase or cut

BY ERIC BEAUCHESE

OTTAWA — The Canadian economy appears to be weakening more than expected, the Bank of Canada admitted Tuesday, but indicated it's not yet weak enough to warrant an interest rate cut.

"Global growth has been strong, commodity prices have remained high, and employment growth in Canada and the United States has been sustained," it said in announcing it will keep its trend-setting target for overnight lending rates at 4.25 per cent.

While some recent indicators suggest growth in Canada and the U.S. may be a "little weaker" than expected, inflation has been in line with expectations, it said.

Stronger than expected increases in consumer spending and housing prices pose the greatest inflation risk, while a

sharper than expected slowdown in the U.S. poses the greatest risk to the economy, it said.

However, at this point in time those risks are roughly balanced, it added, in explaining its decision to leave rates unchanged. Still, some analysts noted the central bank has dropped its previous warning that the economy is operating above its capacity.

"The bank could obviously no longer make this statement in light of the weak growth in the third quarter and the anticipation of another lacklustre fourth quarter," National Bank of Canada economists said in an analysis.

"This is an important development as it is the first step for opening the door to... rate cuts," they said, adding the most likely scenario is that the bank will begin cutting rates early in the spring.

"While futures markets continue to price in about an 85 per cent probability of a Bank of Canada rate cut by June 2007... we continue to think that if

growth remains roughly on track with the Bank of Canada forecast and inflation tracks above the two per cent target, as we expect,

then it will likely need to warn that further rate hikes may be needed..." said Ted Carmichael, economist at J.P. Morgan.

The Canadian dollar, after enjoying a brief one-day rally at the start of this week, slipped back to the mid-87 cents US level following the bank rate announcement.

However, the dip, which came in the wake of news of surprising strength in the non-manufacturing side of the U.S. economy was more a reflection of the rebound in the U.S. greenback than weakness in the loonie.

While many economists and money markets expect the central bank will begin cutting rates sometime next year, there are those who disagree and expect it will keep rates steady throughout 2007, giving Canadians a rare extended period of rate stability.

"We continue to expect rates to remain stable through 2007," said Bank of Montreal economist Sal Guatieri.

And some warned the next move by the Bank of Canada will in fact be to raise rates further, not cut them.

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