

**Grading Harper:
Strong on Defence, International/Interprovincial Relations,
Near Failing Grades on Taxation Policy**

**BDO Dunwoody Weekly CEO/Business Leader Poll
by COMPAS in the *Financial Post*
for Publication May 22, 2007**



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1.0. Introduction

Finance Minister Jim Flaherty appears to be a lightning rod for discontent for a government that earns strong grades in almost all areas except taxation. The government's grades on taxation policy are among the very lowest it has received on any subject by any audience in COMPAS' large normative database of performance scores.

The following are the key findings from the COMPAS business panel of CEOs and business leaders, interviewed this past week for *The Financial Post* under sponsorship of BDO Dunwoody LLP:

- Half the business panel now perceives the government's ending of tax deductibility on interest for foreign investments as harmful to Canadian business;
- The federal government's taxation policies (personal and corporate) earn near failing grades (as does its environment policy—in sharp contrast to strong grades for defence policy, relations with Quebec, financial probity, and various other areas of policy);
- All things considered, an overwhelming majority of panellists believe that the government has done as well as it can be expected given its minority government status;
- A passionate majority believes that “for all its failings, it is far better than any of the alternatives”;
- Almost half believe that “it's hard to tell what it's really like until it forms a majority government”; and
- Intriguingly, minorities believe that the government has “been weak on carrying out pre-election promises” and that “too many of its decisions reflect the view of the public service.”

These are the key findings from the past week's web survey of the COMPAS CEO and business leader panel undertaken for *The Financial Post* under sponsorship of BDO Dunwoody LLP.



2.0. Weak on Tax Policy, Strong in Defence and Other Areas

Panellists seem increasingly disappointed with the federal government's policies towards business and tax policy in particular. Disappointment is reflected in the fact that about half believe that ending the deductibility of interest on foreign investments harms Canadian business, as shown in table 2A. As one panellist puts it, "The interest deductibility approach is unbelievably naive and is out of step with our main trading partners. This is an example of an inward looking 'made in Canada policy' which fails to recognize the competitive landscape." According to another panellist, "The flip flop on interest deductibility is just another example of the Harper government's disastrous financial policies. Flaherty should be removed and someone put in his place who has some idea what is needed for our industries to operated competitively on the world stage."

Table 2A: (Q3) As you know, the federal government announced that it would end the tax deductibility on interest for foreign investment loans. After protests from business, the federal government extended the period in which such loans can be deductible though the provision will ultimately be abolished. In your view, is the current position of the government? NO

RANDOMIZATION

	%
Far too generous to Canadian companies with foreign interests	2
Too generous to Canadian companies with foreign interests	10
Fair and reasonable	32
Damaging to Canadian businesses' ability to operate abroad	32
Very damaging to Canadian businesses' ability to operate abroad	18
Don't know or no opinion	7

Concern about the deductibility issue is consistent with evidence of low grades for taxation policy, as shown in table 2B. By contrast, the government does well in respect of defence policy, relations with Quebec, probity, and in other areas. Indeed, the government as a whole elicits some strong general praise:

I am quite pleased and proud of the direction the Conservatives are taking Canada as a whole. It is great, and an even more pleasant change, to have a government who demonstrates care and concern for all Canadians.

Given the minority government status, I think the Conservatives have done a better job than I had expected they would.



Table 2B: (Q2) On a 100 point school report card-type scale, what performance score would you give the Harper government for its...

RANDOMIZE

	Mean
Defence policy	66
Relations with Quebec	65
Financial honesty and probity	64
Relations with The West	64
Domestic security policy	60
Foreign policy	60
Spending decisions	57
Corporate taxation policy	53
Its personal taxation policy	53
Environmental policy	51

3.0. General Image of the Harper Government—Better than the Alternatives But...

Most panellists believe that the Harper government has done as well as any minority can be expected to do and that, for all its failings, it is far better than any of the alternatives. A more than two-thirds majority believes in the former. A smaller majority believes that the Harper government is far better than any of the alternatives but the majority with this viewpoint is especially passionate. Thus, the Harper government earns at least some of its support, especially its passionate support, from discomfort with the opposition in Parliament.

Intriguingly, the panel does not embrace completely two key mantras—the mantra of supporters who highlight the government’s commitment to carry out promises or the mantra of critics who have said that the Harper government would run roughshod over the public service. Sizeable minorities believe that the government has been weak in carrying out pre-election promises (35%) or that “too many of its decisions reflect the view of the public service” (27%).

A minority of respondents volunteer concern about what they feel is a less than purposeful government or one that reneges on commitments:



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They constantly change their mind on most matters, case in point Flaherty at finance. Was there any thought in their budget, the answer is yes, very short-sighted thoughts to fit with the one year window the Conservatives had given themselves to go into an election hoping to get a majority government. That day has now come and gone, they no longer have an agenda and they are scrambling to look like they are in control. Not very reassuring at all if you ask me.

The Government has broken its commitments on environment with its unachievable GHG policies; and will force Canadian companies to move their head offices to the US. It does not effectively consult with all stakeholders.

Table 3: (Q1) Using a 7 point agreement scale where 7 means agree strongly and 1 disagree strongly, how much do you agree with the following assessments of the Harper government to date?

For all its failings, it is far better than any of the alternatives								
Mean	7	6	5	4	3	2	1	DNK
5.1	31	22	13	15	3	7	8	1
It's done as well as any minority government can be expected to do								
Mean	7	6	5	4	3	2	1	DNK
5.1	18	33	22	12	4	5	6	0
It's a breath of fresh air after too many years of the previous ruling party								
Mean	7	6	5	4	3	2	1	DNK
4.8	21	25	19	13	5	9	9	0
It has been an extremely trustworthy government								
Mean	7	6	5	4	3	2	1	DNK
4.2	6	20	22	20	10	7	13	2
It's hard to tell what it's really like until it forms a majority government								
Mean	7	6	5	4	3	2	1	DNK
4.1	8	21	17	16	11	13	12	1
It's been weak on carrying out pre-election promises								
Mean	7	6	5	4	3	2	1	DNK
3.7	7	9	19	15	17	22	9	1
Too many of its decisions reflect the view of the public service								
Mean	7	6	5	4	3	2	1	DNK
3.7	6	10	11	19	19	18	9	7



4.0. Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted May 16 - 18, 2007. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 144 are deemed accurate to within approximate 8.2 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D. and Tamara Gottlieb.

