



5 Minutes for Business

In Praise of Profit

December 19, 2017

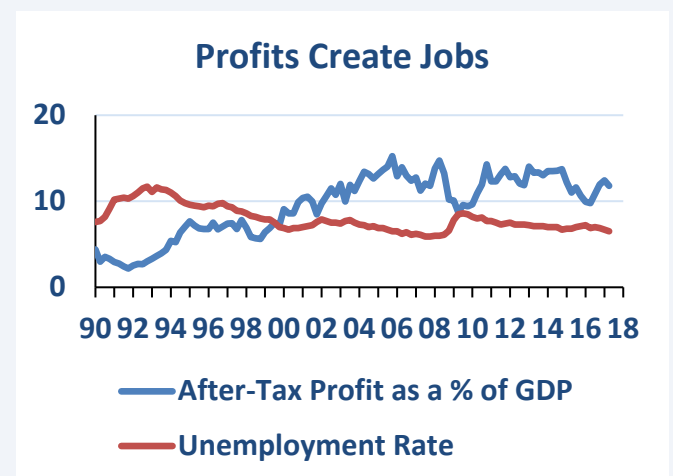
It may be politically incorrect to say this today. But, that doesn't make it any less true. It's good when businesses make money. Profits are important to the Canadian economy. They're what generate jobs. They're the mainstay of prosperity for the middle class – and for all Canadians.

It's a fact all too often forgotten in today's policy environment. Governments at all levels seem more intent on raising taxes on business rather than lowering them. Regulatory compliance costs are rapidly increasing. Governments are getting ready to unleash a flood of new charges and user fees for regulatory approvals. And, minimum wage rates and payroll contributions are being raised more rapidly than the cost of inflation. Whether it's with respect to improving environmental performance, workplace health and safety or product standards, the first reflex of government is to regulate and penalize, rarely to provide positive incentives for business to make the investments they need to be able to modernize and comply.

Clearly, these are measures put in place by people who know nothing about business finance, who all too often think that higher business profits come at the expense of jobs and social policy goals. Just the opposite is true. It's when businesses are profitable that they're able to grow, create jobs and invest in the new products, processes and technologies required in order for them to meet more stringent stakeholder expectations while remaining competitive.

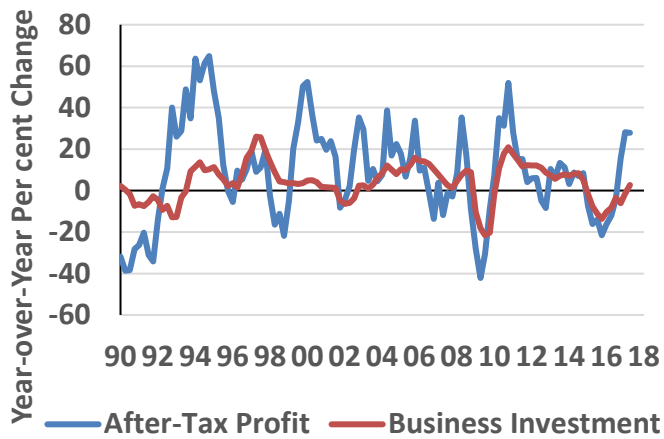
The record of the last 30 years speaks for itself. First, look at the relationship between business profits and jobs. The more profitable Canadian companies are, the

lower Canada's rate of unemployment is. Changes in profitability (measured in terms of after-tax profits as a per cent of GDP) are followed immediately by changes in the unemployment rate. Canada's unemployment rate goes up only when profit margins come under pressure.



Next, look at the relationship between corporate profits and capital investment by Canada's business sector. Changes in the amount businesses invest in non-residential structures, machinery and equipment follow closely on changes in after-tax profits. Simply put, profit drives business investment. The most effective thing governments can do to incent companies to invest more in innovation, productivity enhancing technologies and improved environmental performance is to leave more money in the hands of business to make those investments.

Profits Drive Business Investment



The role profits play in driving business growth and assuring economic prosperity for Canadians should be a fundamental tenet of all government decision-making. Our governments must at least be aware of the negative impact higher taxes and regulatory compliance costs have on profits, job creation and business investment. It's an important message for all of us to convey.

So, let's celebrate profit this holiday season! Let's create jobs, incent investment and ensure greater prosperity for Canadians by championing a more profitable environment for Canadian business.

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