QUEBEC SIGNS ON TO *THE NEW BARBARIAN MANIFESTO*

Richard Shearmur

Some of the more sensational business books of recent years have painted the picture of an emerging class of footloose, highly-skilled "symbolic analysts," who can play the world's different jurisdictions off against each other in their search for the highest-paid, most luxurious tax-free life they can find. Quebec's government has been eager to accommodate them and already offers five-year tax holidays to several categories of foreign high-tech workers. This practice may eventually blow up in governments' faces when it is found that the industries thus encouraged are not as crucial to development as is currently thought. In the meantime it is extraordinarily unfair.

Certains des livres les plus fracassants publiés ces dernières années sur le monde des affaires décrivent l'émergence d'une classe de champions de l'« analyse symbolique », libres de toute attache, qui sont capables de jouer l'un contre l'autre les différents pouvoirs en place pour obtenir les plus haut revenus possibles, sans payer d'impôt, et mener la vie la plus fastueuse possible. Le gouvernement du Québec s'est empressé de dérouler le tapis rouge devant ce beau monde, et offre déjà un congé fiscal de cinq ans à plusieurs catégories de travailleurs hautement spécialisés. Mais cette pratique pourrait bien se retourner contre les gouvernements, le jour où l'on découvrira que les industries ainsi encouragées ne sont pas si essentielles qu'on le croit aujourd'hui à notre développement économique. Dans l'intervalle, cela constitue une pratique parfaitement injuste.

Strategic workers take flight! You have nothing to lose but your personal income tax.

The government of Quebec, by offering a small but growing number of personal tax breaks to mobile international personnel, is actively undermining one of the basic premises of good taxation: equity. By doing so it is—maybe unwittingly—undermining what little confidence there may be left in the principles which govern our democratic society. In this paper I briefly review some recent ideas on the information economy and then turn to the particular tax measures which lead me to this conclusion.

Over the last decade it has become nearly commonplace to emphasise the new social divisions brought about—it is often assumed—by the forces of globalization and information technology. Robert Reich, in *The Work of Nations* (1991), describes a new class of "symbolic analysts," well-paid and highly mobile individuals who hold the principal creative and power-broking roles in the new economy. Manuel Castells, in his trilogy *The Information Age: Economy, Society and Culture* (1998) emphasises the dichotomization of many activities between the space of flows—where the power of mobile, interconnected individuals resides—and the space of places—where the rest of the largely place-bound population ekes out a daily living. Charles Leadbeater describes a class of individuals—again the most mobile and prosperous—who are *Living on Thin Air* (1999). He stresses the growing gap between the mobile few and the rooted many, and calls for "a new constitution for the New Economy," one that balances the need for, on the one hand, the freedom and incentives to create knowledge with, on the other, the welfare—and indeed survival-requirements—of those who do not share in the information manna.

These three authors have in common their recognition of the powerful social and geographic polarisation at work. They recognise that the new communication technologies tend to concentrate economic and political power rather than diffuse it. They also share a desire to mitigate these consequences, to establish a new social contract which neither stultifies the creative potential being unleashed nor forgets that—as has always been the case—it is a small number of people who benefit (often through a mixture of luck and talent) from new wealth creation.

Ian Angell, in *The New Barbarian Manifesto* (2000), presents a bleaker, dystopian, picture. He describes trends identical to those picked up by the three preceding authors, but his vision is not tinted by wishful thinking. He extrapolates current trends and concludes that a new breed of barbarians is emerging: a small group of savvy knowledge workers who are able to move round the world economy choosing the political and regulatory framework most conducive to their well-being. These individuals, by dint of reduced taxation and the processes at work in the "winner-take-all economy" will possess sufficient wealth to live largely independently of local social conditions. They will pay for their own health care, live in the best environments, send their children to the best universities in the world, and ensure that they maintain control of their wealth by threatening to move unless their conditions are met. Their bargaining chip in acquiring such royal treatment is the increase in GDP which they confer on their country of residence. That they control, or indeed own, most of the increase is merely the hard truth. According to Angell, nothing can be done about it. The majority of the population—immobile and place-bound—will be the equivalent of Dark Age peasants, meekly paying tribute to the knowledge-wielding hordes of Genghis Khan, and grateful for any crumbs off their table.

Anyone who has read this far may be excused for wondering how Quebec's personal income tax provisions relate to highly mobile hordes pouring out of 12th century Mongolia. The link is established by reading some of Quebec's new income tax provisions in the light of Ian Angell's analysis. Doing so makes crystal clear that the direction taken by Quebec with regards to certain income tax provisions will serve to bring us closer to his world.

It is a little known fact that an increasing number of highly-qualified foreign individuals working in Quebec are entirely exempt, usually for a five-year period, from all provincial income tax. Three specific instances of what is available in terms of free tax lunches are as follows:

- Foreign specialists working for companies located in CDTI incubators, in the *Cité du Multimédia*, in the *Centre national des nouvelles technologies* and in the *Carrefour de la nouvelle économie* can benefit from such an exemption. (The "CDTI" are "*centres de développement des technologies de l'information*." The provincial government has set up four or five of these incubators across the province. The idea is to help high-tech start-ups by providing both office space and various services, including advice and tax exemptions.) These specialists who are eligible for the tax exemptions must be involved in training, research and development or specialist management tasks linked to innovation or to the marketing of new technologies. The specialist in question must not have been resident in Canada prior to benefiting from this exemption (see http://www.cdti.gouv.qc.cacm/fspecialistes.html).
- A similar provision is included in the *Loi sur les centres financiers internationaux* (*CFI*) (projet de loi n.77, 1999, chapitre 86). Apart from providing generous tax exemptions to the companies themselves, "a total personal income tax exemption will be granted for a maximum period of five years to a foreign specialist in the area of financial transactions who works in Montreal in an international financial centre." In some cases this exemption is extended to other employees in the centre. Any company that is directly involved in international financial transactions (see articles 6 and 7) can apply to the Minister of Finance to become a certified *CFI*. Again, personal tax exemption usually only applies to foreign individuals coming from outside Canada.
- Finally, Montreal is making great efforts to attract international organisations. Again, substantial direct subsidies are involved. In the *Guide to setting up an international organization in Montreal* (http://www.montreal-intl.com/Angl/index.asp) it is stated that "the Government of Québec grants tax exemptions and other advantages to international governmental and non-governmental organizations and persons associated with them, under a specific agreement with each organization." In other words, diplomatic or para-diplomatic status—at least in terms of income taxes—is being granted to the personnel of these organizations. Of course, as Mme Louise Beaudoin, Minister of International Relations, pointed out during her address to the International Air Transportation Association in November 1999, "the government of Quebec provides foreign employees of these international organizations all the same advantages as Quebecers in terms of health (*free* [my italics] health care), education (same fees as Quebecers)" and so on. The only difference is that they don't pay for them: Quebecers do.

It could be argued that these three examples are merely exceptions concerning a small num-

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ber of individuals. But in a recent consultation document, *Pour une politique scientifique du Québec* (June 2000), the Quebec ministry of science and technology includes income tax exemption as one of its strategies for encouraging R&D. On page 37 it emphasises that, as a basic policy, it will "continue to offer tax holidays to foreign researchers and experts." We are therefore faced, not with a smattering of exceptions, but with a concerted policy effort to reduce personal income tax for foreign strategic workers. At present it is unclear how many people benefit from these exemptions, and for the time being this is less important than the principle involved: Once such exemptions have become accepted practice it will be only natural for all qualified and mobile workers to seek them out, as is the case today for mobile corporations seeking corporate tax breaks.

Quebec is thus bending over backwards to further the emergence of an upper class of tax-exempt individuals. These individuals must be foreign—no resident of Quebec or Canada can benefit. But those who do benefit—generally highly paid individuals who would not qualify for tax exemptions on compassionate grounds—can live in Quebec, fully benefiting from the taxes paid by lesser mortals, the immobile peasantry of the information age.

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Two major lessons should be learned from all this: First, if you are a qualified individual working in Quebec, *get out!* You should follow Ian Angell's advice and peddle your qualifications and knowledge in a country (or region) which deems you strategic.

Second, if you are attached to Quebec for any reason, emotional, intellectual or personal, or if you are amongst the majority of the population who will not become "strategic" but who merely hopes for transparent and equitable taxation, *wake up!* Not only are your taxes serving to prop up e-commerce, multimedia and chip-making companies with subsidies and tax breaks the details of which would overburden this short piece, they are also serving to provide these companies' employees with an even more comfortable existence. Far be it from me to begrudge strategic personnel high incomes, but such important decisions about how much they will earn should by made by the market, not taxpayers.

I must emphasize that this is not just another polemic against government and taxation *per se*. As many economists and geographers agree, a true regional competitive advantage (one which potentially benefits all residents for the long term) can be built through clever spending of tax dollars combined with intelligent coaxing and support of private initiative. But this advantage often rests upon an educated, healthy and secure workforce, appropriate social and political institutions, good infrastructure, flexible government and reasonable levels of taxation for everyone: Given these conditions, the market is a fairly good mechanism for ensuring that resources are properly allocated. The increasing tendency for our governments to give sizeable subsidies to companies, organizations and individuals, coupled with a growing disregard for the principles of equitable taxation, does not augur well for the new economy in Quebec. Market distortions set up perverse incentives (such as encouraging qualified Quebecers to leave) and may be driving investment to sectors and locations which, in a few years time, may appear to be much less strategic than they now seem. The growing class of tax-exempt individuals may, once this principle is firmly established, attract the anger of the tax-paying peasants (and, indeed, bourgeoisie): Louis XVI learned such a lesson the hard way.

Sadly, similar policies are slowly being implemented elsewhere, as Ian Angell emphasises: The policies being implemented in Quebec are by no means unique to the province. But it is maybe not too soon to seriously ponder where such policies—which are not often discussed—are leading our lethargic and complacent liberal democracies.

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The growth of US payroll taxes

The payroll tax increase of the 1980s, coupled with the expansion of the Earned Income Tax Credit in the mid-1980s and th eearly 1990s, has mad the payroll tax a more significant tax than the income tax for a very substantial fraction of US families. In 1999, families needed Adjusted Gross Income in excess of $100,000 before their expected income tax liability was greater than their expected payroll tax liability. Nearly two-thirds of families in 1999 paid more in payroll taxes than they did in federal income taxes. This reflects a substantial change from two decades earlier, when this share was 42 per cent.

Andrew MITRUSI and James POTERBA, *National Tax Journal*, September 2000