

they need not be the only criteria for government assistance, nor need they create biases if well employed. For example, if the expected value of output were the basis for establishing grant eligibility, the system would not be biased with respect to production technologies. Moreover, by using comparable estimates of the amount of wages resulting from an investment and the capital employed, with appropriate adjustments to reflect the flow versus stock nature of labour and capital, unbiased formulae could also be developed. Reducing bias in a tax-based system may, however, be even more difficult than doing so in a grant or loan system. First, the basic corporate income tax itself creates biases with respect to the use of capital and labour. These biases are due to the need to make simplifying assumptions with respect to capital depreciation. Second, although the tax system must be applied uniformly to all companies, the reality is that, due to structural and operational differences among firms, the system affects their behaviour differently.

In short, barring major innovations in the use of the corporate tax system, it may well be impossible to eliminate the bias the system could generate with respect to the use of capital and labour. Nevertheless, we believe that through careful analysis and application, it may be possible to reduce the bias. This should be an important goal in designing any new tax-based investment assistance system.

#### **PRINCIPLE 5: Administrative efficiency**

Programs based on grants and financing can and often have been administratively inefficient. They usually require extensive application and review procedures which at times result in needless delays and expense. It is important that information required in applications be standardized to match that required for any ongoing business need such as a loan application. Procedures should be developed to handle applications within short and pre-specified time frames.

The concern of the Canadian Manufacturers' Association regarding bureaucratic meddling in business decisions is difficult to avoid. But with streamlined decision making based on sound business processes, and with a continual awareness of the potential problem, we feel that the problems can be minimized.

Tax-based incentives are easily the most efficient of all the systems. The necessary information is collected by firms as a matter of course, the tax collection system already exists, and no additional bureaucracy is required in either industry or government.

**The three basic categories of investment incentives are cash grants, tax advantages and financing assistance.** Although the Committee analyzed each category and has suggested some principles to be observed in their use, it found that due to the inaccessibility of data, especially tax data, evaluations of their relative effectiveness in the less developed regions are inadequate. To remedy this situation, the federal and provincial governments should initiate, fund and provide complete co-operation with a series of studies on the effects, efficiency and efficacy of the use of investment incentives in the less developed areas. The studies should not be conducted within the government, but government data should be made available to researchers.