When the government has offered assistance by way of a loan, it is important that the cost to the recipient company should be clearly specified. The recent period of high and variable interest rates has highlighted the problem. We believe that government financing assistance should be available at a fixed interest rate for a fixed time period. While this approach may increase the cost of such programs, it reduces the uncertainty to the recepient and avoids the risk that the investment decision will be undermined by an unexpected increase in the rate of interest. At the same time, the government should not, in such a circumstance, provide additional assistance in the hope of recovering its loan. Throwing good money after bad is neither good politics nor good economics.

Tax-based incentives offer exceptional potential with regard to not committing the government to future assistance. In most instances, only profitable companies, that is, those with taxable incomes, can benefit from a tax-based program. In a sense, the government is assured of backing a winner. But there are loopholes. The tax system does permit companies with several bases of operation to apply the tax advantages of one investment to reduce tax payable on income earned in another operation. A firm with a profitable operation in central Ontario could take advantage of an accelerated depreciation scheme applicable to investments in the Atlantic provinces even if the latter investment operated at a loss. Once the tax advantages had been exhausted, the tax-assisted investment could be shut down, its usefulness as a tax loss no longer of benefit to the company's overall profit position.

PRINCIPLE 3: Equality of new and established firms

The very feature that makes tax-based programs desirable from the standpoint of project viability also renders them much less effective in terms of distinguishing between old and new investment. Especially in the most important first years, new investors generally lack a taxable income base against which to use tax-based assistance. Hence, only established investors, with income generated from a number of sources, are able to benefit from this system.

There are ways to avoid this problem, but they could encourage the increased support of losing operations. One solution is to offer refundable tax credits, which a firm could use against tax payable or, if no tax were payable, receive as a refund. Another system, one used in the United States where it has received mixed reactions, is to allow the investor to 'sell' his tax credit to another firm for use against its taxable income. The best solution might in fact be a hybrid system, which would make available grants and/or financing assistance to new firms and tax assistance to established firms.

PRINCIPLE 4: Capital and labour equality

When a business applies for a grant or for financial assistance, some formula must be used to determine the level of assistance to be granted. This formula can determine the extent to which the grants or loans will create biases with respect to capital or labour. Although the effects on labour and capital have been the criteria most commonly employed in grant and financial systems,