The international mobility of capital and the possibility of capital flights results in harmonization pressures on tax, subsidy, and social policies. Policies that lower the return on capital relative to what can be earned in the United States cause capital movements and set up harmonization pressures on such policies. For example, a reduction in the U.S. corporate tax rate could be expected to increase the after-tax return to capital in the United States. A lower U.S. tax rate would also reduce the value of the tax credit that corporations operating in the United States receive for payment of Canadian corporate taxes by their operations in Canada. Both of these factors could be expected to create an incentive for foreign and Canadian firms to invest in the United States rather than in Canada. The resulting outflow of direct investment could create pressures for Canada to harmonize its tax policies with those in the United States.

Incentives for capital migration can be created when the cost of social policies is imposed on firms, rather than being met out of general taxation. Such pressures occurred, for example, when many countries of the EC introduced "redundancy policies" in the 1970s. These policies, by requiring large severance payments to be paid to virtually all full-time employees, made it very costly to close down an operation. Thus, they raised the cost of risk-taking -- which must include calculation of the cost of failure — and lowered the incentive, particularly to large multinationals, to invest in EC countries. These consequences then set up pressures to make redundancy policies in the EC more similar to those of countries who were receiving the investment that might otherwise have gone to the EC.

No clear examples of these pressures seem to exist with respect to Canada and the United States. One major reason for this is that interprovincial and interstate differences seem to matter more than clear international differences. Consider minimum wage legislation, for example. A