

without assurances that the objectives of the programs are achieved or any solid knowledge of the effects of the program.

We know it is extremely difficult to make economic assessments that will satisfy everyone in terms of methodology and rigour. Nevertheless, extensive efforts must be made, and only governments have access to the confidential and sensitive information, including tax data, necessary for a thorough examination. 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 many programs used to carry out industrial policies in Canada. The studies should not be conducted within the government, but government resources, particularly governmental data, should be made available to researchers.

A Matter of Principles

Even though the lack of reliable assessments limits our capacity to comment on the effectiveness of the three tools, we have some observations about how they relate to the five principles of investment assistance we established in Chapter 9.

PRINCIPLE 1: The creation of additional investment

Cash grants and financing assistance can be used to enable the creation of investment that would not have otherwise taken place, or they may be used simply as bribes to shift the location of investment that would have gone forward without any assistance. One particularly regrettable manifestation has involved competition among governments — federal, foreign and provincial — to land a particular investment. In these battles, the winner is inevitably the investor being pursued; the loser is the taxpayer.

The tax system offers *a priori* advantages in encouraging new investment. By increasing the potential after-tax return on a project in a given region, tax incentives induce some additional investment. From the administrative point of view, the problem is to define the conditions of eligibility so as to exclude investments that would have taken place anyway. Otherwise, the taxpayer is bearing an unnecessary cost.

PRINCIPLE 2: Project viability

Because cash grants and financial assistance are usually administered through a procedure involving application and review, decision makers have the opportunity to investigate the viability of the proposed investment. This investigation should be conducted in a hard-headed, businesslike manner. To guard against the danger that a fatally ill project will become a dependent of the government, we believe that any project that receives start-up assistance should normally only be eligible for further government aid for the purpose of expansion.