

capital markets.”<sup>3</sup> Since its creation, however, over 70 per cent of the EIB investment has gone to the less developed regions of the European Community. In 1980 alone, approximately \$3.8 billion (U.S.) was invested in industrial projects, energy and infrastructure in member countries (or in some cases, in external projects).

## Do They Work?

It was most frustrating for the Committee, which held meetings with academics, business leaders, bureaucrats and cabinet ministers, to discover that there is no agreement on the utility of these policy instruments to influence the course of investment. The Committee was disturbed to discover that the evaluations and empirical underpinnings of the effectiveness of these various instruments are virtually non-existent or so inadequate as to render any judgements meaningless.

We are not alone in reaching this conclusion. For example, Professor Dan Usher of Queen's University concluded a study of the efficiency and efficacy of regional investment incentives by referring to lingering doubts about investment incentives.

... the absence of solid evidence that investment in the designated regions is really increased, the even greater doubt about employment, the effects on distribution of income among persons, the possibility of inequity in the governments dealings with firms, the probable reduction in national income in Canada as a whole, and the lack of any real assurance that modernization and progress are fostered in the designated regions...<sup>4</sup>

The Canadian Manufacturers' Association criticized cash grants, as we noted above. But others are critical of the tax-based operations. For example, in a study sponsored by the Canadian Tax Foundation, Professor Richard Bird suggests: "...it would appear the better part of wisdom is to refrain from still further expansion and elaboration of Canada's already complex and important system of [tax-based] investment incentives".<sup>5</sup> He urges policy makers to "be much more cautious in accepting the assurances of political and business leaders that all incentives to investment are, more or less by definition, bound to be good. ...the theoretical and empirical bases upon which incentives have generally been based are extremely weak...".<sup>6</sup>

This situation should be remedied. The federal and other governments direct billions of dollars each year into these and other related programs

<sup>3</sup> R.I. McAllister, *Lessons from E.E.C. Regional Policy for Canada* (October 18, 1980), p.14.

<sup>4</sup> Dan Usher, "Some Questions about the Regional Development Incentives Act", *Canadian Public Policy* (Autumn 1975), p.575.

<sup>5</sup> Richard M. Bird, *Tax Incentives for Investment, the State of the Art*, Canadian Tax Foundation, Canadian Tax Paper no. 64, (November 1980), p.ix.

<sup>6</sup> Bird, *Op. cit.*, p. 57.