

Recognizing and devising strategies to counteract the generous incentives offered by competitor jurisdictions

Issue

Canada's international competitors are increasingly using hyper-aggressive techniques to lure Canadian businesses, causing job losses here at home and weakening the Canadian economy. Government has a responsibility to both fully understand the impact that competitor jurisdictions' business attraction efforts are having on the Canadian economy and devise strategies to counteract them.

Background

In January 2014, manufacturers in Eastern Ontario received a letter from the New York economic development agency urging them to relocate south of the border. The letter advised Canadian businesses that in light of rising energy prices, "setting up an operation just across the border in St. Lawrence County, New York, may be a competitive strategy you should consider."

These kinds of overtures from competing jurisdictions are becoming increasingly common and are reflective of the tremendous effort American states and other countries are exerting to attract foreign investment. For example, American state and local governments have spent approximately \$64B in the last 30 years on grants, training programs, and tax credits designed to attract and retain business investment (Mattera et. al, 2013).

Most worrying from a Canadian perspective is the fact that neighbouring jurisdictions are among those that spend the most on foreign attraction. New York state leads the way (\$11.4B spent on grants and credits encouraging investment and job creation over the last 35 years), followed by Michigan, Oregon, and Washington.

Canada has much to offer in terms of a competitive tax system, a highly skilled and educated workforce, and an improving regulatory regime. However, in a globally connected economy where capital is increasingly mobile, possessing a good business climate may no longer suffice.

Recommendations

That the federal government in coordination with businesses and chambers of commerce from across Canada, undertake an expedient review of the full impact – in terms of both GDP losses and job losses – that competitor jurisdictions' business attraction efforts are having on Canada's economy.