



HALIFAX CHAMBER
OF COMMERCE

Policy Statement – Government Assistance to Business

Approved
December 2006



BACKGROUND

Government assistance to business is an emotional and complex issue on which there is considerable and largely unresolved debate over its costs and resultant benefits. Despite having a provincial economic strategy and an economic strategy for Halifax there is no clearly defined set of principles that guide decisions related to government assistance in our province and city.

More generally, among Chamber members, it is felt the best role for government is to create an environment that allows business to flourish. The policy recommendations in this document reflect The Chamber's position with regards to economic development expenditures made by all levels of governments, and their agencies.

The Chamber recognizes the fact that our recommendations cannot be adopted overnight but is adamant that changes must be made in order to create a business environment that heightens the ability to achieve enhanced economic prosperity in this region over the next few years. The Chamber will work proactively with all stakeholders in the adoption and execution of the principles and recommendations outlined below.

THE ISSUES

The expenditures made under government assistance to business programs are in essence a redistribution of wealth from all taxpayers to those individuals and entities that receive funding. Ultimately, these same taxpayers should receive a benefit from the investments made under all assistance programs. Where there are no such future benefits, it would be more appropriate to have left those funds in the pockets of the taxpayers.

Governments subsidize business for a variety of reasons. The reasons generally relate to policy goals such as economic or social development. For example, assistance may target disadvantaged persons or regions; it may aim to improve a business sector's competitive position globally; or it may support the development of new companies.

Criticisms of government assistance to business include that:

- it squeezes out private providers of assistance to business (e.g. banks, credit unions) by providing a lower or no-cost alternative;
- the private sector is much better at assessing risk and allocating capital than are governments and their agencies;
- it can be open to political influence;
- programs and funding are not always linked to the achievement of long term, strategic, regional objectives;
- it has significant negative consequences on the private sector of government subsidies including:
 - reducing competitiveness,
 - creating an uneven corporate playing field,
 - increasing the dependence of a region or industry on government.

However, on the positive side, there are clearly instances where direct assistance to businesses has created future economic benefits for multiple stakeholders in the region.

PRINCIPLES & CONTEXT

The Chamber believes that federal, provincial and municipal governments can foster and enhance future prosperity in the region by adopting a balanced approach to the need for lower tax rates and the need to undertake economic development activities and investment.

The most appropriate role of government with respect to the private sector is to create a business-friendly climate:

- A competitive tax system is the best foundation for a good business climate. A less burdensome tax environment reduces the cost of doing business and improves the competitiveness of every business in the region.

- All levels of government should seek to reduce effective tax rates for business wherever feasible -
- This can be accomplished by reducing discretionary spending in all areas, including the provision of assistance to business that fails to pass through required filters and criteria
- The availability of tax incentives including tax credits can be an effective way of providing incentives to all taxpayers, especially for:
 - Research and development
 - Productivity improvement initiatives
 - Capital expenditures
 - Skills enhancement
- Strategic, long term focused investment in the region's physical and services infrastructure will help retain and attract human resources and employers.
- Selected investment in strategic physical and services infrastructure can improve the region's competitiveness and attractiveness for business.
 - Investment activities should be linked to the Halifax Regional Municipality's Economic Development Strategy 2005-2010. Specifically, the Chamber supports investment in:
 - Education and skills enhancement
 - Transportation
 - Immigration
 - Health
 - Sustainable energy initiatives
 - Targeted direct investment and incentives in companies can benefit the region and its multiple stakeholders providing appropriate criteria and filters are in place, as outlined later in this policy document.

RECOMMENDATIONS

Recommendation # 1

The region's future economic prosperity is dependent upon the success of the myriad of companies that exist here today, are started up here in the future or are attracted to the area from elsewhere. The Chamber supports direct government assistance to companies where the following principles and caveats apply:

- The investments are undertaken with a view of creating an economic return over the long term. This includes the notion that an investment in a successful company will expand the region's tax base in the future thereby spreading the tax burden and enabling a reduction in tax rates,
- Assistance is undertaken with a view to increasing private investment in the region,
- Accessible by all that meet set criteria in an open and transparent environment,
- Independent, capable administration free of undue political influence,
- Consideration is given to the impact that such support for one business may have on any existing businesses in the region.
- The assistance is predicated upon the application of acceptable return on investment type criteria. The typical nature of the investment is:
 - Equity
 - Debt
 - Subsidies that are conditional upon the achievement of expenditures or events that will provide demonstrable benefits in future periods.

The Chamber, particularly, supports incentives to businesses or initiatives that:

- Enhance the skills base in the region and normally reflected in above average wages for the workforce,

- High growth potential, often with a focus on exports,
- Are used to create a “level playing field” where there is a competitive site selection process and success in attracting the target company will serve to advance the attainment of the regions strategic goals.

info@halifaxchamber.com
www.halifaxchamber.com

Recommendation # 2

The Chamber does not support assistance to business that is not subject to the rigor of a screening process such as outlined in Recommendation # 1. Specifically, the Chamber does not support:

- Outright grants of funds that are not repayable at some point in the future.
- Subsidies that are not used to offset net new expenditures that are considered to be of strategic interest to the stakeholders in the region.
- Investments made to protect jobs and/or to support companies that are not economically viable over the long term.
- Investment that has a material negative impact on existing businesses.

CONCLUSION

The Chamber believes strongly in the economic development of HRM and the attainment of the regions economic goals and objectives and the adoption of this policy document will enable the Chamber to become a proactive partner and driving force in attaining economic prosperity.

CHAMBER ADVOCACY WORK

More information about the Chamber and its advocacy work can be accessed by contacting the office or visiting the Chamber web site:

Halifax Chamber of Commerce
656 Windmill Road, Suite 200
Dartmouth, NS B3B 1B8

Ph: (902) 468-7111
Fax: (902) 468-7333