Executive summary

The allocation of investment capital, both internationally and domestically, is increasingly acknowledged as a leading contributor to a jurisdiction’s economic success or failure. It is, therefore, critical to have objective, empirical measurements that document differences in investment climates. The Provincial Investment Climate Index is an important step toward creating empirical measurements of investment climates since it quantitatively evaluates public policies that create and sustain positive investment climates.

The basis of the Index is the Investment Managers Survey (IMS) series undertaken by the Fraser Institute between 1994 and 2004. Canada’s leading money managers were regularly surveyed on a host of issues, including provincial investment climates and the policies that contribute to positive and negative climates. The policies identified in those surveys (1998–2004) were used to create the Provincial Investment Climate Index.

Provincial Investment Climate Index

The Provincial Investment Climate Index includes seven components: (1) Corporate income tax (CIT), (2) Fiscal prudence, (3) Personal income tax (PIT), (4) Transportation infrastructure, (5) Corporate capital tax (CCT), (6) Labour market regulation, and (7) Burden of regulation. These components were assessed by the IMS respondents as having an important influence on the creation and maintenance of a positive investment climate.

Canada’s three western provinces, Alberta, Saskatchewan, and British Columbia, topped the rankings for the 2009 Provincial Investment Climate Index. Alberta ranked first with a score of 8.5 out of 10 and was clearly Canada’s top province (figure 1, table 1). Saskatchewan (6.6) and British Columbia (6.0)followed some distance behind. Newfoundland & Labrador, with a score of 5.4, ranked 4th and was the last province to score at or above 5.0.

All of the remaining provinces received scores below 5.0, indicating relatively poor performance in creating and maintaining a positive investment climate. Ontario (4.9) and Quebec (3.3) ranked 5th and 8th, which is troubling since they are the most populous provinces in Canada and are of great economic importance to the country. Prince Edward Island ranked last with a score of 3.2 out of 10.

Components of the Provincial Investment Climate Index

1 Corporate income tax This component assesses the degree to which provinces tax business profits in the form of corporate income taxes. Alberta received the highest score with a perfect 10.0 out of 10. British Columbia and Quebec followed with scores of 8.3 and 6.8, respectively. Three other provinces received scores above 5.0: Saskatchewan (6.7), Manitoba (5.8), and New Brunswick (5.8). The remaining provinces all received scores of 5.0 or lower with Nova Scotia and Prince Edward Island tying for last place.

2 Fiscal prudence Fiscal prudence measures how well provincial governments have managed their budgets and whether government spending is sustainable. Alberta received the highest score (8.8 out of 10), followed by Saskatchewan with a score of 7.7. Only two other provinces received scores above 5.0: Newfoundland & Labrador (7.6) and British Columbia (6.5). Of all the provinces, Quebec received the lowest score (0.6).

3 Personal income tax This component measures the personal income-tax burden based on income-tax rates and the levels of income at which the various rates apply. The three western Canadian provinces (Alberta, British Columbia, and Saskatchewan) dominated this component of the Index. Alberta ranked first with a perfect score of 10.0 because of its single-rate income tax. British Columbia and Saskatchewan followed with scores of 7.6 and 5.5. Ontario and New Brunswick (both with a score of 5.4) were the only other provinces to receive a score above 5.0. Manitoba received the lowest score (2.4) and ranked last on this component of the Index because it has relatively high personal income-tax rates that are effective at relatively low levels of income.

4 Transportation infrastructure This component assesses the transportation infrastructure in each province including highways, urban transit, air, rail, and marine service. Specifically, it examines the extent, use, accessibility, cost, and condition of each mode of transportation. Overall, Nova Scotia ranked first with a score of 8.2 out of 10. Ontario (6.8) ranked second and Manitoba and New Brunswick tied in the third position with a score of 6.7. The comparatively weak scores of Saskatchewan (5.1) and British Columbia (3.6) indicate a dramatic need for transportation infrastructure improvement.

5 Corporate capital tax This component of the Index evaluates the use of corporate capital taxes. The western Canadian provinces occupied the top of the rankings. Alberta ranked first (10.0 out of 10) since it is the only province to have completely eliminated the use of such taxes. Saskatchewan and British Columbia also performed well with scores of 9.0 and 8.5, respectively. New Brunswick (6.6), Ontario (6.4), Newfoundland & Labrador (5.8), and Prince Edward Island (5.1) all received scores above 5.0. The scores generally reflect the trend away from using such taxes, given their high economic costs. The remaining three provinces received scores below 5.0. Nova Scotia received the lowest score (2.0) and ranked last among the provinces.

6 Labour market regulation This component of the Index evaluates the labour relations laws of a province to gauge differences in labour laws generally. Alberta received a score of 5.3 out of 10 and was the only province to receive a score of 5.0 or higher. The low scores across the board indicate that provincial labour market regulations need to be reformed.

7 Burden of regulation This component measures the burden of government regulations, often referred to as “red tape.” This measure is based on a survey of regulatory costs completed by the Canadian Federation of Independent Business (CFIB). The specific measure used is the estimated regulatory cost as a percentage of the provincial economy. The results are quite striking. Newfoundland & Labrador ranked first with a score of 10.0 out of 10. However, Newfoundland & Labrador’s regulatory costs represent an alarming 1.7% of GDP. Quebec ranked last with regulatory costs at an even more worrisome 4.4% of GDP; it received a score of 0.0.

Conclusion

The Provincial Investment Climate Index results indicate that, to varying degrees, all of the provinces have room to improve their public policies in order to attract investors to their jurisdictions. Provinces are encouraged to continue policies in areas where they performed well and to pursue reforms in areas where they fared poorly. Public policies that contribute to positive investment climates are those that encourage productive economic activities: competitive tax rates (personal and business), adequate and effective transportation infrastructure, prudent fiscal policies on the part of government, labour laws that promote flexibility and balance, and appropriate, cost-effective regulations.