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To hear the Harper government and some business leaders tell it, something close to doom awaits if Canada doesn't keep cutting corporate taxes. The head of the Canadian Chamber of Commerce (a former Conservative minister himself) says putting a hold on tax-cutting would be a "blind side hit" to the economy. Finance Minister Jim Flaherty just calls it "dumb."

Minister of Finance Jim Flaherty calls it "dumb" to stop cutting corporate taxes.
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It's important to make sure Canada taxes corporate profits at a competitive rate. We want our companies to invest more here and foreign firms to see Canada as a great place to do business. More investment means a stronger economy, more jobs and all the good things that flow from that.

But there's a difference between staying competitive and making a fetish out of one benchmark — ever-lower corporate tax rates. The Conservatives and some others banging the drum on this issue are falling into that trap.

A few facts: Canada already has one of the most competitive business tax environments in the world. Federal Liberals started the trend in the early part of the last decade, when Ottawa's deficit had been eliminated and the economy was booming. They slashed corporate taxes from 28 to 21 per cent by 2004. Conservatives have gone further — cutting them to 18 per cent in 2010. That put Canada third in the G7, behind only Italy and the U.K.

That's not the only measure we score well on. A study by PricewaterhouseCoopers found overall business tax rates in Canada fell from 49 per cent in 2006 to 29.2 per cent last year. Canada is the only G20 country in the worldwide top 10 in that area. We've gone from a high-tax jurisdiction to one of the most business-friendly in less than a decade.

Now the argument is that we can't stop there. Other countries keep lowering corporate taxes, so we must too. The Conservatives dropped our rate on Jan. 1 to 16.5 per cent. It is due to fall even further to 15 per cent in 2012. Otherwise, we're warned, investment will flee to countries with even lower taxes. A study last week, from influential tax expert Jack Mintz, concluded that cutting taxes again will create 100,000 jobs over the next seven years.

Sounds logical, and all things being equal businesses might well locate where taxes are lowest. But all things aren't equal and never have been. Corporations set down roots for all sorts of reasons and most have little to do with tax levels. They come to Canada because of our highly trained workforce, access to major markets, sophisticated communications, lack of corruption, quality social services and more.

If corporate taxes were all that mattered, Ireland with its rate of 12.5 per cent would still be booming. No one would do business in Scandinavia, where taxes remain high. In the United States, where corporate taxes vary enormously from state to state, companies would be flocking to zero-tax areas like Nevada and Wyoming. Curiously, they aren't.

It's also not clear that lower corporate taxes necessarily lead to more jobs. The evidence on that is decidedly mixed. Other measures, such as spending on infrastructure or cuts to personal income taxes, may help create as many or more jobs.

In this, as in other areas, timing is key. Cutting business taxes when Ottawa's budget is balanced is one thing. Continuing to cut when the deficit is at $56 billion effectively means borrowing more to cover the lost tax revenue.

That's why the federal Liberals make a strong case for hitting the pause button on more corporate tax cuts at this time, and until Ottawa gets its fiscal house in order. And it's why the Conservative government should stop portraying this kind of tax cut as the magic bullet for what ails our economy.