

CANADA'S REGULATORY OVERBURDEN

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Canada is struggling with declining economic prosperity. At the same time, governments across the country, and in particular the federal government have introduced significant new regulations. The trends are not unrelated. Regulations impose costs on business and serve as a deterrent to business investment in several major elements of Canada's economy. Surveys of senior executives in Canada's extractive industries (mining, oil, and gas) show that concerns about regulation would deter potential investors in various highly regulated jurisdictions (Mejía and Aliakbari, 2023; Mejía and Aliakbari, 2024).

Canada's regulatory load

Canada's regulatory load is substantial and growing: from 2009 a nadir in the count of regulations measured between 2006 to 2018 showed that the number of restrictive regulations in Canada grew from about 66,000 to 72,000 by 2018 (McLaughlin, Stroskos, and Jones 2019).

The last few years have seen a vast swath of new regulations at the federal level. These are regulatory initiatives that have sweeping effects on large sectors of Canada's economy—particularly the government's central focus on climate change—and making Canada a Net-Zero greenhouse gas (GHG) emitter by 2050. This is just a partial list of recent regulatory initiatives that have been adopted over the last five years:

- Bill C-69—tightening Canada's environmental assessment process for major infrastructure projects.
- Bill C-48—restricting oil tankers off of Canada's west coast.
- EV mandates—requiring all new cars be electric vehicles by 2035.
- Appliance standards—reducing energy consumption from household appliances.
- Home efficiency standards—reducing household energy consumption.
- Net-Zero Plastic Waste—banning use of single-use plastic products.
- Net-Zero Nitrous Oxide emissions regulations.
- Net-Zero Building emissions regulations.
- Clean Electricity standards—to drive net emissions of GHG in electricity production to net-zero by 2035.

Regulations are a drag on Canadian business

A recent study published by the Canadian Federation of Independent Business (CFIB)—*Canada's Red Tape Report*—found that “(t)he cost of regulation from all three levels of government to Canadian businesses totaled \$38.8 billion in 2020” (for a total of 731 million hours—the equivalent of nearly 375,000 full-time jobs). If we apply a \$16.65 per hour cost (the federal minimum wage in Canada for 2023), CA\$12.2 billion annually is lost to regulatory compliance (Cruz et al., 2021).¹

The same report showed that regulatory costs are considered too high by small business owners, who cite excessive regulation as one of their top concerns. The smallest businesses bear a disproportionately high burden of the cost, paying up to five times more for regulatory compliance per-employee than larger businesses. “The smallest businesses pay \$7,023 per employee annually to comply with government regulation while larger businesses pay a much lower \$1,237 dollars per employee annually for regulatory compliance.” (Cruz et al., 2021).

Regulations in Canada also eat up people's scarcest commodity, time. In 2020, average Canadian businesses consumed 677 hours in compliance with regulations. That is equivalent to 85 days of regulated businesses. Out of the 85 days dedicated to regulatory compliance, 24 days were specifically allocated to dealing with

unnecessary red tape regulations. Note that on average, business owners told the CFIB they felt up to 28 percent of their regulatory burden could be cut without sacrificing the public interest (Cruz et al., 2021).

Excessive regulations not only impose costs and consume employee time, they also come at a cost in terms of people's mental health and happiness, and significantly deter people from wanting to start new businesses. Eighty-seven percent of survey respondents in *Canada's Red Tape Report* said that excessive regulations strongly or somewhat add significant stress to their lives. Sixty-three percent (strongly and somewhat) would not advise their children to start a business.

Canada needs regulatory reform

Canada is badly in need of regulatory reform, to reduce the burdens of cost, time, and mental health of Canadian businesses, and households (which ultimately bear the costs of regulation in higher costs for goods and services).

Fortunately, there is a good example of how this might be done. As regulatory scholar Laura Jones observed in *Cutting Red Tape in Canada: A Regulatory Reform Model for the United States*, in 2001, a newly elected government in British Columbia undertook a sweeping regulatory reform agenda. They appointed a minister of deregulation, whose goal became eliminating red tape and reforming regulations rather than simply deregulating. Here is why this program succeeded (paraphrased, from Jones, 2015):

- Rather than using imprecise measures of regulation, such as a simple count of published regulations, British Columbia's government counted up the number of "regulatory requirements."
- Government agencies had to track and report their regulatory activity against a baseline. The first government-wide count revealed 382,139 regulatory requirements.
- Agencies were put on a regulatory diet: In addition to measurement and monitoring, the government had committed to reducing regulatory requirements by one-third.
- Government agencies were required to demonstrate how many regulations would be eliminated in exchange for any new regulation. In the early years of the program at least two regulatory requirements had to be eliminated for every one introduced.
- New regulations were held to greater scrutiny, and could not be promulgated without confirmation that the rules were necessary, outcome-based, transparently developed, cost-effective, evidence-based, and supported the economy and small business.
- Reform was decentralized: each agency was responsible for tracking, reporting, and monitoring its progress. The minister of deregulation merely offered guidance, support, and feedback about which regulations were problematic.

Canada, as shown here, is a highly regulated society. Some of that regulation is certainly necessary for the orderly functioning of a modern society. However, too much of even good things can be bad for you, and Canada's regulatory overburden harms all Canadians by stifling economic growth and business investment. Canada's next government would do well to take a page from British Columbia, and establish a national regulatory reform effort patterned on the BC model of reducing the absolute number of regulations (perhaps at that same 30 percent used in BC; limiting regulation growth by mandating regulatory retirements as new regulations are implemented; and weeding out regulations that offer few benefits at high costs with greater economic analysis of proposed new regulations). ■

Figure 1: Canadian Restrictions over Time, 2006–2018

