

Intelligence MEMOS



From: Martin Eichenbaum, Michelle Alexopoulos and Jeremy M. Kronick
To: Canadians Concerned About Prosperity
Date: November 14, 2024
Re: **LET'S RECLAIM THE BILLIONS WE'RE PAYING FOR CANADA'S INTERNAL TRADE BARRIERS**

It's a good start: On August 27, the federal government announced that “the Honourable Anita Anand, President of Treasury Board, will immediately set up a working group to examine productivity and inform the government’s economic plan. The working group will address barriers to achieving greater efficiencies for businesses so we can help increase productivity across the country.” Anand highlighted restrictions on internal trade and overly burdensome regulations as critical, closely linked areas that policymakers must address.

The minister is right. However, for this working group to provide real value for Canadians, we need it to produce actionable ideas that can be swiftly implemented – and not just focus on the [public sector](#).

Remarkably, there are still barriers to free trade across Canadian provinces and territories. These barriers are non-tariff barriers related to differences in provincial laws, regulations, permitting, licensing, and standards.

Important examples include [differences](#) in trucking regulations (including weight standards); inconsistencies between provincially and federally inspected meat-processing regulations; different educational requirements in professions like social work, nursing, some skilled trades, and the legal field; as well as provincial and territorial laws that prohibit internal trade—for example, restrictions on cross-border purchases of alcohol and, most famously or infamously, our system of supply management for certain commodities. As if that wasn't enough, we have different provincial rules governing the kinds of toilet seats used on construction sites. Canadians should not accept such rules sitting down.

Interprovincial barriers discourage competition and harm productivity. They also reduce [labour mobility](#), limit the opportunities available to Canadian workers, and prevent the efficient allocation of labour across occupations. In all cases, barriers inflate the costs to businesses that want/need to operate outside their provincial borders. Firms pass these costs down to consumers in the form of increased prices.

What are the costs of these interprovincial barriers to the Canadian economy? While complex to estimate, given how interrelated economic activity is in any given country, studies by the [Bank of Canada](#), the [International Monetary Fund](#), and others suggest that reducing these barriers would boost Canada's GDP by [4 to 7 percent](#). Based on 2024 GDP, that translates into somewhere between \$92 billion and \$161 billion. That's real money: Only five provinces have a GDP higher than \$92 billion.

Interprovincial trade barriers are only one form of “barrier” to growth. Canada's federal government regulates [many sectors](#), including media and telecommunications, transportation, health, and financial services. There are certainly benefits to regulation. However, overly burdensome regulations – in some cases accompanied by restrictions on investment from outside the country – harm growth, investment, and productivity by imposing unnecessary costs on firms, impacting competition within sectors, and causing potential new business startups to move outside Canada.

Consider, for example, the issue of how to strike the right balance between attracting investment in major resource projects and mitigating the potential harm from those investments. While we can debate what that balance should be, to the extent the current balance stacks regulation over investment, it acts as a barrier to growth and productivity.

Construction, manufacturing, and transportation and warehousing provide even more dramatic examples. Productivity in those sectors – like the business sector as a whole – has actually [fallen](#) since 2017. Producers haven't forgotten how to do their job. A more likely explanation is that increased regulatory burdens are taxing productivity.

What can we do? The government announced a number of [measures](#) in the 2024 budget. While useful, further measures are needed. Here are a few ideas.

We need expert [independent tribunals](#) to play a larger role in decision-making concerning the resource sector. These panels are well-positioned to analyze the aggregate public interest of a particular project. We also need regulators across sectors to take greater pains to perform more comprehensive [cost-benefit analyses](#) of rules and regulations. We do not have enough room in this column to review all of the possible reforms to reduce barriers to internal trade. That said, we are drawn to a [proposal](#) whereby Ottawa would reduce its tax take in exchange for provinces dropping specified barriers. Provinces could do as they see fit with the extra revenue, e.g., pay down their debt or help people who are made worse off by removing these barriers.

Canadians might roll their eyes at yet another working group. But the minister is right to focus on barriers and their role in harming productivity. Major reforms in this space are long overdue.

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