

Intelligence MEMOS



From: William B.P. Robson and Alexandre Laurin
To: The Honourable Bill Morneau, Minister of Finance
Date: February 12, 2019
Re: **MOVING FORWARD WITH REGULATORY REFORM**

The C.D. Howe Institute's [Shadow Federal Budget for 2019](#) was released last week. Its focus is on ensuring the competitiveness and dynamism of the Canadian economy in the near and medium-term, setting the stage for a return to surpluses during the next Parliament. Today: regulatory reform.

Protecting health and safety, preventing fraud and abuse – these and many other goals have made government regulation pervasive in modern societies. As regulation has become more pervasive, the need to ensure that each individual regulation serves its purpose, is not producing perverse effects – such as mandating an inferior approach – or overlapping with other regulations in unintended ways, has become greater.

In Canada, the administrative burden of compliance with regulations has become a chronic concern. Excessive red tape is a burden on society if it absorbs resources that could be put to better use. If excessive costs of complying with – or even learning about – a regulation makes a potential hire of an employee or a capital investment that would otherwise make sense unattractive, Canada will forgo jobs and income-boosting productivity.

Especially in a federation, or when businesses are operating across borders, complying with government standards from multiple jurisdictions that are equivalent or only slightly different in application raises costs out of proportion to the benefits.

Endless examples of red tape exist in private and public reports on the subjects. Following the 2011 report of its Red Tape Reduction Commission, Ottawa established that each increased administrative burden imposed by regulations must be offset with a corresponding decrease, one for one. This one-for-one rule was enshrined in the *Red Tape Reduction Act* of 2015, which stipulates that when a new or amended regulation increases the administrative burden on business, other changes must offset the cost.

This is a useful first step. It mandates Ottawa to evaluate and monetize the administrative burden imposed on business from new regulations. Since its introduction, the one-for-one rule has resulted in approximately \$30 million in annual cumulative administrative [burden relief](#) to all businesses.

The C.D. Howe Institute's 2019 Shadow Budget would build on this progress, expanding the *Red Tape Reduction Act* and mandating yearly reduction targets. The amended act would cover more than the currently specified regulations – in particular, it would include laws and regulations related to tax or tax administration, which are currently exempt, and which are a major source of uncertainty and frustration to Canadians.

This Shadow Budget would mandate a red tape net reduction target of \$25 million per year for the first two years. During that period, the government will undertake a review of its framework for regulation. Innovations such as “negative list” approaches, which require governments to explicitly identify areas of activity that they will *not* liberalize, mutual recognition of standards among jurisdictions with comparably high goals, and focusing on outcomes rather than processes can help us achieve health, safety, and consumer-protection goals at less cost to Canada's efficiency and innovation.

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