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Canada's Red Tape Report

With U.S. Comparisons

In partnership with



KPMG ENTERPRISE

Canada's Red Tape Report With U.S. Comparisons

3rd edition

Laura Jones
with
Nina Gormanns and Queenie Wong

Canadian Federation of Independent Business 2013

CFIB would like to say a special thank you to KPMG Enterprise™ for sponsoring this year's report. This enabled us to extend the scope of our survey to include businesses in the United States, and thus allowed comparisons between the two countries.



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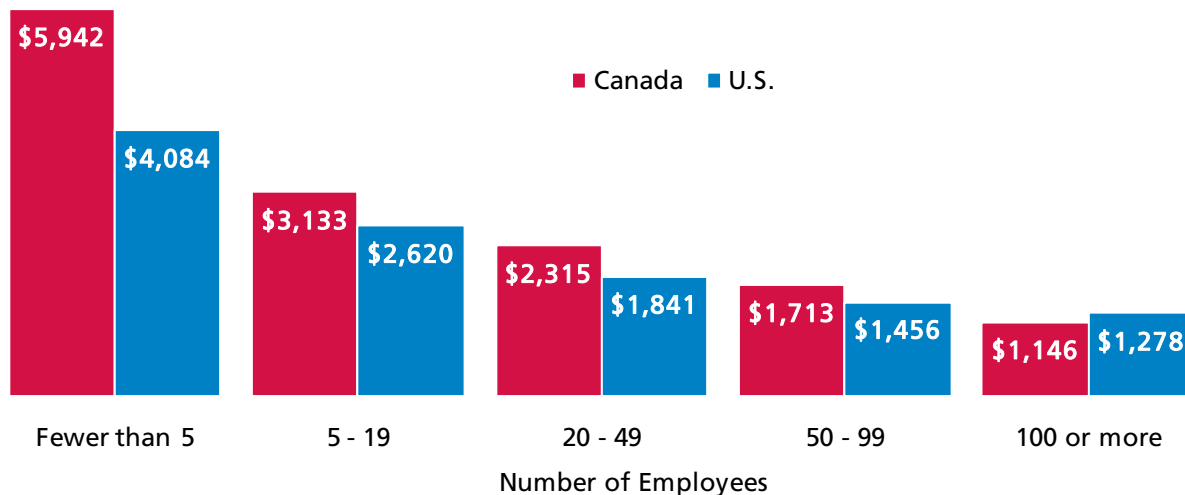
Executive Summary

This is the third edition of *Canada's Red Tape Report*, a study estimating the total cost of regulation to Canadian businesses. In this edition, the Canadian Federation of Independent Business (CFIB) worked with KPMG Enterprise™ to survey American businesses. For the first time, the cost of regulation in Canada and the United States can be compared.

The results show that Canadian businesses pay significantly more in regulatory compliance costs than U.S. businesses on a per employee basis for every size of business except those with at least 100 employees (see Figure 1). Costs are high in both countries, with the smallest firms bearing a disproportionate burden of the per-employee costs. In Canada, the smallest firms pay five times as much per employee compared to the biggest firms, while in the U.S. small firms pay more than three times as much as their largest counterparts.

Figure 1

Annual regulation cost per employee, by size of firm (in 2012 dollars, Canada and the U.S.)



Notes: The number of employees includes the business owner.

The Canadian dollar and the U.S. dollar were assumed to be at parity.

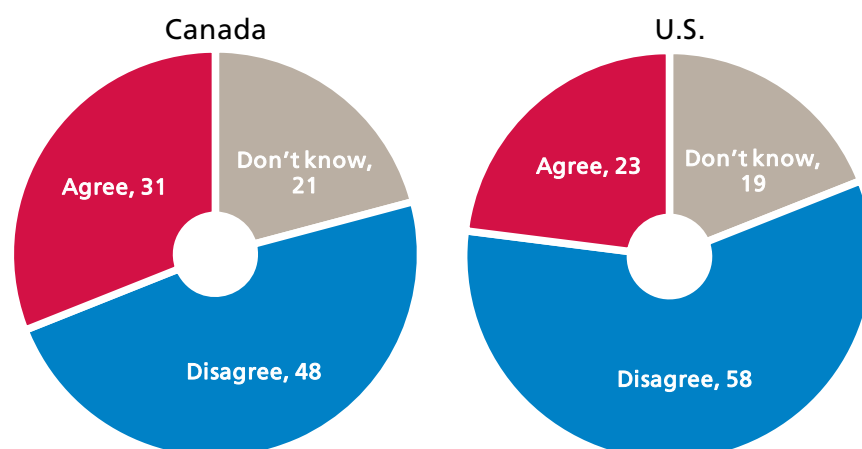
U.S. data were adjusted to correct for differences in the sample distribution from the Canadian data.

Sources: Calculations based on CFIB's *Survey on Regulation and Paper Burden* (conducted in 2012, n=8,562); data from Statistics Canada; *Survey on Regulation and Paper Burden in the United States* (conducted by Ipsos Reid in 2012, n=1,535) and data from the United States Bureau of Labor Statistics.

Perhaps the most shocking indication that the impact of regulation should be a priority for both countries comes from the following survey result: 31 per cent of business owners in Canada and 23 per cent of business owners in the U.S. say that if they had known the burden of regulation, they may not have gone into business (see Figure 2). It is startling to think about the impact on our communities and living standards if one-quarter to one-third of existing businesses disappeared. This begs another question: How many businesses *never start* because of excessive regulations?

Figure 2

If I had known the burden of regulation, I may not have gone into business
(% response, Canada and the U.S.)

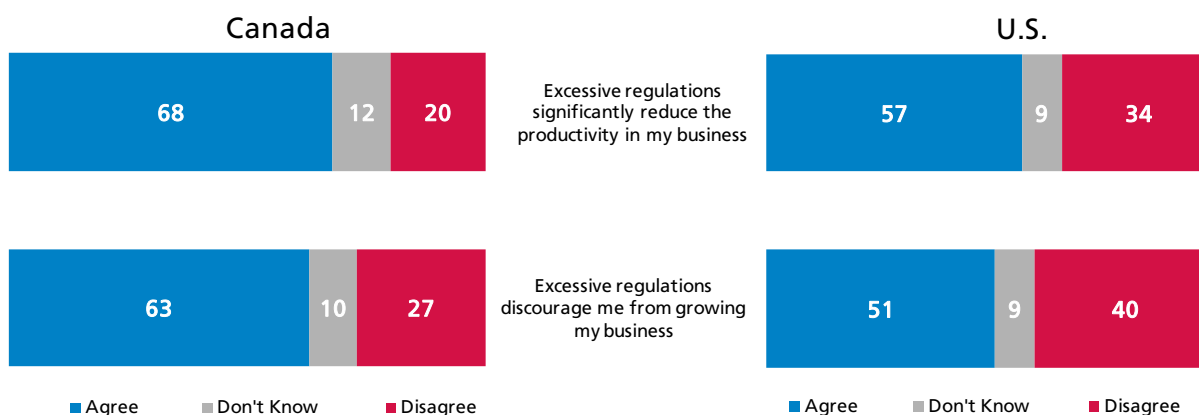


Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562; and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

There is more evidence that governments need to pay closer attention to the impact of regulation on business: a majority of businesses in both countries agree that excessive regulations significantly reduce productivity and business growth, with Canada faring worse than the U.S. (see Figure 3).

Figure 3

The effect of excessive regulations on SME productivity and growth (% response, Canada and the U.S.)

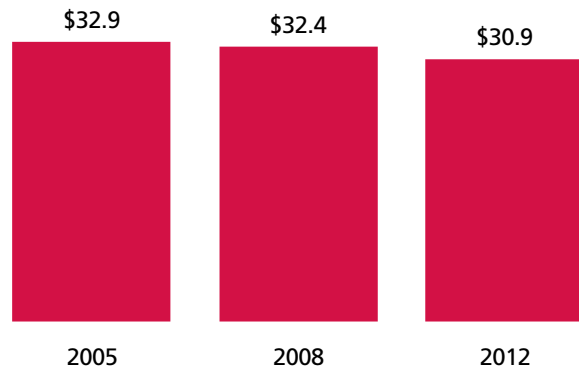


Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562; and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

The total cost of regulation in Canada is conservatively estimated at \$31 billion a year. The cost of regulation in Canada has been relatively stable since CFIB began its analysis in 2005 (see Figure 4). This is encouraging, and suggests that work at both the federal and provincial levels of government to control the growth of regulation is paying off. In the U.S. the total cost of regulation is estimated to be \$198 billion a year. Given that the U.S. has roughly ten times the population of Canada, its total costs of regulation per capita are considerably lower.

Figure 4

**Total cost of regulation to Canadian businesses—2005, 2008 and 2012
(in billion 2012 dollars)**



Note: The Canadian dollar and the U.S. dollar were assumed to be at parity.

Sources: Calculations based on CFIB's *Survey on Regulation and Paper Burden* (conducted in 2005, n=7,391; conducted in 2008, n=10,566; conducted in 2012, n=8,562) and data from Statistics Canada.

There is no question that some regulation, like some taxation, is beneficial. Too much, however, is not. Excessive regulation frustrates entrepreneurship, raises prices, limits choices, reduces productivity and means that living standards are lower than they might otherwise be. An important difference between regulation and taxation is that, for most of us, the impact of regulation is less visible than that of paying taxes. For most Canadians, regulation is largely a hidden tax.

When asked how much the cost of regulation could be reduced without harming the legitimate objectives of regulation, respondents in both countries set the figure at roughly 30 per cent. This would equate to a \$9 billion annual stimulus package in Canada and a \$61 billion annual stimulus package in the U.S., if regulation were reduced to more appropriate levels. This is significant for both countries particularly at a time when the ability to use fiscal stimulus is constrained by current budget deficits.

Canada's Prime Minister Stephen Harper has recently made red tape reduction a priority for the federal government. In January 2011, during CFIB's second annual Red Tape Awareness Week™, the Prime Minister announced the creation of a federal Red Tape Reduction Commission. At that announcement, Harper called red tape a "silent killer of jobs." In October 2012, President of the Treasury Board Tony Clement announced that Ottawa would be acting on most of the Red Tape Commission's recommendations. The recommendations contain a mix of structural reforms to make the government more accountable and specific actions to remove specific red tape irritants.

Several provinces are also taking the issue seriously. British Columbia (BC) has been a leader in regulatory reform since 2001 and has reduced the number of regulatory requirements on its books by 40 per cent. More recently, several other provinces have taken promising actions to reduce red tape (a summary of provincial initiatives is detailed in this report).

The momentum on red tape reduction in Canada is very exciting and could make the country a world leader, an achievement that would bring substantial economic rewards.

CFIB continues to encourage all governments to give red tape reduction the attention it deserves on a sustained basis. In particular, we believe that effective regulatory reform has three essential ingredients:

- ▶ Political leadership, preferably from the top
- ▶ Accountability, in the form of publicly reported measures
- ▶ Constraints on regulators

Introduction

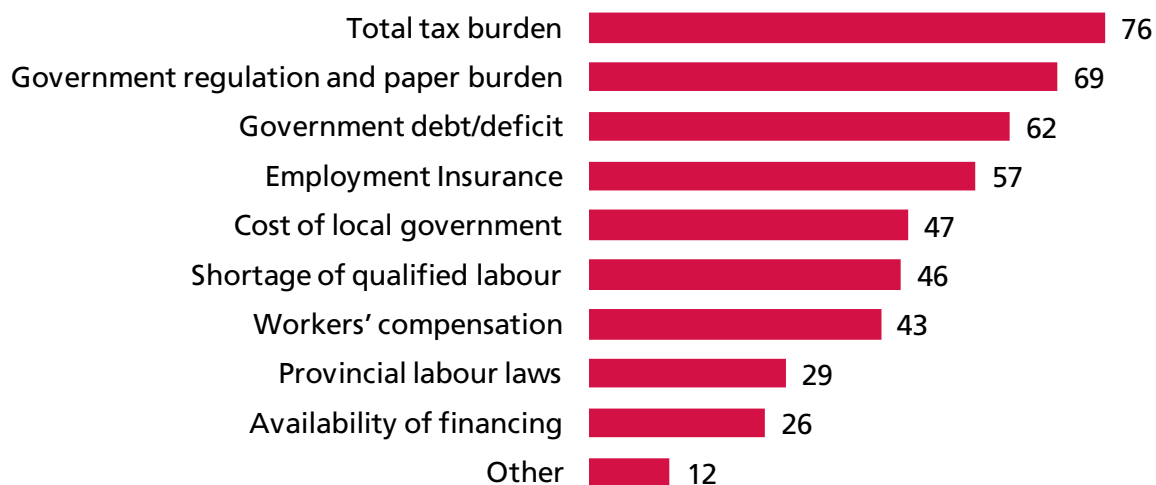
Some regulations have positive impacts (e.g., supporting efficient and effective markets, providing business and consumer protection). Business owners deal with regulations daily and have no objection to rules that are needed and administered fairly.

Too much regulation, however, can turn into something regressive and destructive: red tape. Red tape includes rules that are unfair, overly costly, poorly designed or contradictory. Red tape also includes unnecessary delays and poor government customer service.

For over 40 years CFIB has been surveying small businesses on their top priorities. Reducing red tape has consistently been their second highest priority: the only issue of higher concern is the total tax burden (see Figure 5). While reducing red tape has been a clear priority for business, until recently it has not been a priority for most governments in this country, likely because it has been invisible to most Canadians. However, red tape is clearly visible to businesses, who have to comply with a plethora of rules from multiple levels of government.

Figure 5

The most important issues facing Canadian small businesses (% response)



Source: CFIB, *Our Members' Opinions Survey*, January – June 2012, n=23,172.

Though regulation has much in common with taxation, one critical difference is that Canadians know how much they are being taxed and how governments spend their tax dollars. Governments have not historically measured the regulatory burden and its impact on Canadian families and businesses. In the case of taxation, knowing how much tax is levied and how these monies are spent allows Canadians to hold governments accountable. In the case of regulation, most governments have not bothered to measure or report its benefits or costs.

The importance of measurement cannot be overstated, it is impossible to have accountability without it. Yet many governments argue against it. Some of the arguments are legitimate. It is true, for example, that it is sometimes difficult to quantify the impact of regulation. It is not impossible, however. Several provinces, including British Columbia and Nova Scotia, have done it very well. Some governments have made the far less compelling argument that they do not need to measure, as their resources would be

better spent taking specific actions to reduce red tape. But without some evaluation of effectiveness, how will these governments know if they have done a good job?

In 2005, CFIB issued the first edition of this report, titled *Rated R: Prosperity Restricted by Red Tape*. It contained the first ever estimate of the cost of regulation to Canadian businesses of all sizes: roughly \$33 billion. In that report and its second edition in 2010, the case was made that governments at all levels needed to take the costs of red tape more seriously by showing political leadership, introducing more accountability through measurement, and by putting constraints on regulators.

CFIB continues to make the case for meaningful regulatory reform in this report, with additional urgency, and renewed hope.

The urgency comes in the form of a more fragile economy. Red tape is a very large problem for entrepreneurs at the best of times and economically speaking now is not the best of times. The comparisons made with the U.S., a country with similar economic conditions and similar regulatory objectives, underscores this urgency. Canadian businesses face significantly higher regulatory costs per employee, are more likely to report that regulations reduce productivity and are more likely to show that regulations cause significant stress than their U.S. counterparts.

Hope comes in the form of increased leadership from the federal government and some provinces.

This report describes the destructive impact red tape continues to have on Canadian prosperity. It also suggests solutions and describes government actions across the country. The report contains the following information:

- ▶ An updated estimate of the cost of regulation to Canadian businesses
- ▶ A comparison of those costs with the costs faced by businesses in the U.S.
- ▶ A discussion of the impact regulation has on small businesses in Canada and the U.S.
- ▶ An update on regulatory reform initiatives across Canada
- ▶ Recommendations for continued, effective reform

What is red tape?

The expression "red tape" refers to any unnecessary or redundant regulation that hinders productivity. The origin of the expression can be traced as far back as the 16th century, when many official Vatican and royal court documents were sealed in red tape. This tradition of using red tape on official government correspondence continued throughout the ages, leading to an association between red tape and regulations. This association was then popularized by British satirists like Charles Dickens and Thomas Carlyle, who used "red tape" as a short-hand reference for unnecessary laws passed by the British Parliament. Red tape had by then become symbolic of over-regulation and bureaucracy in the government.

Today, the phrase evokes a variety of frustrations, including complying with rules that make no sense or deliver little benefit and much cost; wasting time waiting in line to get a form approved or on the telephone waiting for advice; wading through complicated language to try to figure out compliance obligations; filling out cumbersome, unnecessary paperwork; and suffering the uncertainty and delays that can come with waiting for permit or license approvals.

The Cost of Regulation

CFIB's approach to measuring the cost of regulation relies on survey data from small businesses (see Appendix B for a complete discussion of the methodology). Only a few other studies have attempted to estimate regulatory costs. Some studies based their findings on survey data while others relied on sophisticated econometric models. In general, studies have not been comprehensive and have varied in the size of their estimates. However, one important trend is consistent: Small businesses pay a disproportionately high share of regulation costs compared to larger firms on a per-employee basis.

Following is a list of several studies that have been conducted in Canada and the U.S. Each study uses a different approach in estimating the cost of regulation on either businesses or individuals.

- ▶ An Industry Canada study used a similar approach to CFIB to estimate the cost of regulation to small business (for about a dozen regulations)¹ in Canada in 2005 and 2008 (Seens, 2010). The total cost of the twelve regulations was \$1.09 billion in 2005 and dropped by about 2.8 per cent by 2008, when adjusted for inflation. While the study was more limited in scope than CFIB's, it also found that the smallest businesses paid the highest per-employee costs.
- ▶ Studies on regulation costs in the U.S. have dealt mainly with federal regulations. In 2010, the Small Business Administration (SBA) estimated the annual cost of all federal regulations in the U.S. based on a regression analysis using World Bank data and additional sources. Small businesses (with fewer than 20 employees) faced the largest burden in federal regulations, 36 per cent higher than the costs incurred by larger firms with 500 or more employees. The SBA estimated that businesses spent \$970 billion on regulatory compliance in 2008.
- ▶ An academic study by Varshney and Tootelian (2009) estimated the cost of regulation for the State of California using an economic impact model. Direct costs per small business were estimated at \$44,145. Accounting for spillover effects of regulation, the cost increased to \$134,122 per small business.
- ▶ According to the World Bank *Doing Business 2013* report (2012), Canada was ranked 17th overall in terms of providing a sound regulatory environment for businesses. The U.S. performed even better in the rankings, 4th due to a number of factors including higher marks for helping start-ups. The World Bank study focused on mid-sized businesses and not on the entire population of small- and medium-sized enterprises (SMEs).
- ▶ In the World Economic Forum's *Global Competitiveness Report 2012-2013*, the U.S. ranked 76th out of 144 countries on the burden of government regulation, one of many indicators used in the Global Competitiveness Index, while Canada ranked 60th. The regulatory burden indicator is based on an opinion survey of executives in firms of various sizes. It was not based on the time and money spent on complying with regulations. In both Canada and the U.S., "inefficient government bureaucracy" was cited as the most problematic factor for doing business (Schwab, 2012).

¹ In 2008, the regulations included were: (1) payroll remittance; (2) Record of Employment (ROE); (3) T4 (including RL forms in Quebec); (4) Workers' Compensation remittances; (5) Workers' Compensation claims; (6) federal/provincial business income tax filing; (7) federal/provincial sales tax; (8) corporate tax installments; (9) corporate registration; (10) mandatory Statistics Canada surveys; (11) municipal operating licenses and permits; (12) provincial operating licenses and permits.

The Cost of Regulation in Canada and the U.S.

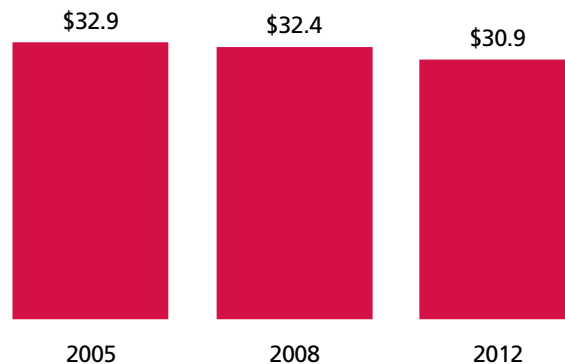
In 2005, CFIB published the first estimate of the cost of regulation to Canadian businesses. To update CFIB's estimate of the cost of regulation to Canadian businesses, CFIB asked its members the same series of questions in 2008 and 2012 that were posed in 2005 relating to the time and money spent on compliance (see Appendix A).² The cost estimates are compared in Figure 6.

The total cost of regulation to Canadian businesses was about \$33 billion in 2005, \$32 billion in 2008 and \$31 billion in 2012, when accounting for inflation.³ It is important to keep in mind that estimates should be treated as “ballpark” figures (for the detailed methodology, see Appendix B). As such, the figures suggest that regulatory costs in Canada have remained stable over the past seven years.

The estimates do not include government administration costs, lobbying costs, or lost economic activity. Furthermore, CFIB surveys only independently owned businesses, not publicly traded companies. Publicly traded companies are subject to additional rules that are expected to add to the cost of regulation. For these reasons, the estimate of the cost of regulation is considered conservative.

Figure 6

Total cost of regulation to Canadian businesses—2005, 2008 and 2012 (in billion 2012 dollars)



Note: The Canadian dollar and the U.S. dollar were assumed to be at parity.

Sources: Calculations based on CFIB's *Survey on Regulation and Paper Burden* (conducted in 2005, n=7,391; conducted in 2008, n=10,566; conducted in 2012, n=8,562) and data from Statistics Canada.

How much is \$31 billion?

- ▶ It is the annual food bill for 4.1 million households
- ▶ It would more than cover GST revenues for one year
- ▶ It would pay for total Employment Insurance (EI) premiums for 1.5 years
- ▶ It would eliminate all provincial deficits and half of the federal deficit for 2011-2012

² CFIB's 2005 survey was conducted in April and May 2005, the 2008 survey from November 2008 to February 2009, and the 2012 survey from March to May 2012.

³ All estimates are in 2012 dollars. CFIB's estimates are much higher than the estimates of \$1.09 billion for 2005 and approximately \$1.06 billion in 2008 based on Statistics Canada's survey (Seens, 2010). One reason is that CFIB's estimates incorporated the spending required to comply with regulations, i.e. investments in new equipment and machinery, etc., whereas Statistics Canada's survey excluded these costs. More importantly, CFIB considered all regulations at all levels of government, whereas the Statistics Canada's survey only asked questions regarding a dozen regulations of which only few are provincial and/or municipal.

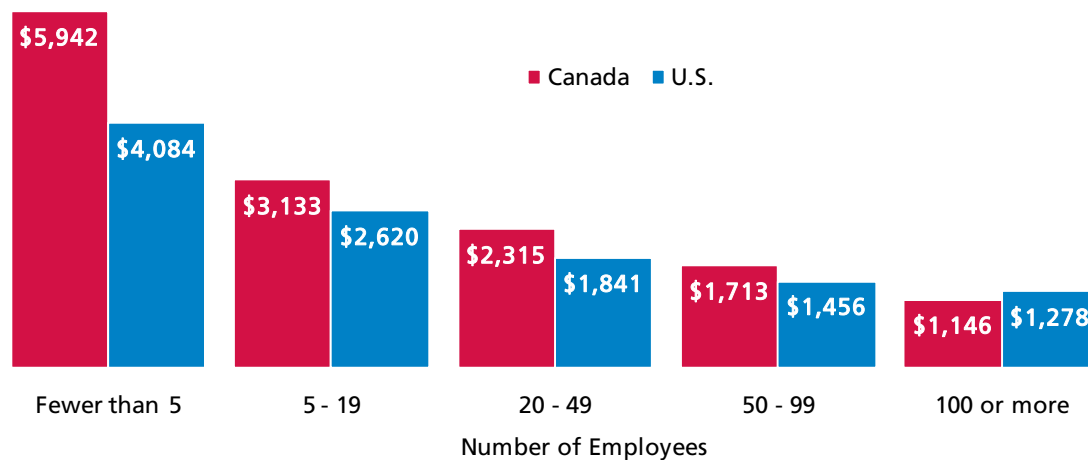
CFIB in partnership with KPMG Enterprise™ commissioned Ipsos Reid to conduct a similar poll among independent, private SMEs in the U.S. Based on data collected from over 1,500 U.S.-based small- and mid-sized businesses, the cost of regulation in the U.S. in 2012 was \$198 billion.⁴

Smallest Businesses Hit Hardest – Evidence from Canada and the U.S.

While efforts have been made by various levels of government to reduce the burden of regulation, the smallest businesses are still the hardest hit. Based on 2012 data, regulations cost Canadian businesses with fewer than five employees \$5,942 per employee per year. This is over *five times* as much as the regulation cost of \$1,146 per employee per year in businesses with at least 100 employees (see Figure 7). Similar to the total cost of regulation, the costs per employee in all of the Canadian business size categories did not change much from the results in 2008 and 2005. As discussed earlier in this section, the inverse relationship between the size of business and the impact of regulation—the smaller the business, the greater the cost impact—is consistent with the literature on regulation costs, including Industry Canada (Seens, 2010), the SBA (2010) and the OECD (2001).

Figure 7

Annual regulation cost per employee, by size of firm (in 2012 dollars in Canada and the U.S.)



Notes: The number of employees includes the business owner.

The Canadian dollar and the U.S. dollar were assumed to be at parity.

U.S. data were adjusted to correct for differences in the sample distribution from the Canadian data.

Sources: Calculations based on CFIB's *Survey on Regulation and Paper Burden* (conducted in 2012, n=8,562); data from Statistics Canada; *Survey on Regulation and Paper Burden in the United States* (conducted by Ipsos Reid in 2012, n=1,535) and data from the United States Bureau of Labor Statistics.

⁴ U.S. data were adjusted for differences in the sample distribution from the Canadian data. The Canadian dollar and the U.S. dollar were assumed to be at parity. Cost estimates for the U.S. in this report were found to be substantially lower than those reported by the SBA (2010). CFIB's U.S. estimates were primarily based on survey research on business perception and experience with regulatory compliance while the SBA followed a more rigorous approach incorporating a number of different data sources and regression analysis. The CFIB study based its findings on estimates from private firms and took into account regulations at the federal, state and local level. The SBA study covered both public and private companies but limited the estimate to federal regulations. It is important to keep in mind that although interesting, it can be difficult to pinpoint the exact amount of time and resources dedicated towards complying with a single type of regulation. CFIB estimates are meant to be conservative and act as ballpark figures. It is important to note that different methodologies used in other studies tend to generate varying estimates (Peck et al. 2012).

The costs per employee were significantly lower in the U.S. for all sizes of business except for those with 100 or more employees, where the costs were slightly higher. Businesses with fewer than five employees in the U.S. paid \$4,084 per employee per year to comply with regulations, while those with at least 100 employees paid \$1,278 per employee per year. This means that in the U.S., the smallest businesses paid about three times as much as larger businesses. The per-employee costs are lower in the U.S. than in Canada mainly because the businesses in the U.S. said that they spent fewer hours on compliance than Canadian businesses.

The majority of businesses have fewer than five employees. Assuming that the average business has four employees, the average cost per firm in Canada is \$23,768. These costs are significant and almost equal the average annual gross pay of a part-time employee.⁵ The cost for an average business in the U.S., assuming four employees, is \$16,366—almost \$7,500 less than for the average business in Canada.

As the same survey questions and methodology were applied to estimating the costs for Canada and the U.S., CFIB was able to produce a direct comparison of the regulatory burden on businesses. The U.S. survey sample was generated to accurately represent the firm size, industrial, geographical, and self-employment distribution in the U.S. and only included private, independent businesses for comparability with the Canadian sample. Differences in estimates are assumed to be primarily driven by the regulatory environment. However, other factors could affect the difference in the hours that businesses said they spent on compliance. One is business owners' level of awareness regarding regulatory compliance⁶. Another is the possibility of lower regulatory compliance in the U.S. compared to Canada.

Why are the per-employee costs higher for smaller businesses? First, small businesses have fewer resources to devote to regulatory compliance than larger firms, the latter of which benefit from economies of scale. Larger businesses often have in-house resources devoted solely to regulatory monitoring and compliance. For smaller businesses, it would be impossible to set aside such resources. CFIB's findings of 2005 support this. At that time, 79 per cent of businesses with fewer than five employees indicated they, as owners, had the primary responsibility for dealing with regulation, while this number decreased to 58 per cent in those businesses with more than 100 employees. Further, the 2005 report revealed that as a firm grew in size, the business owner shifted regulatory responsibility to staff and outside professionals.

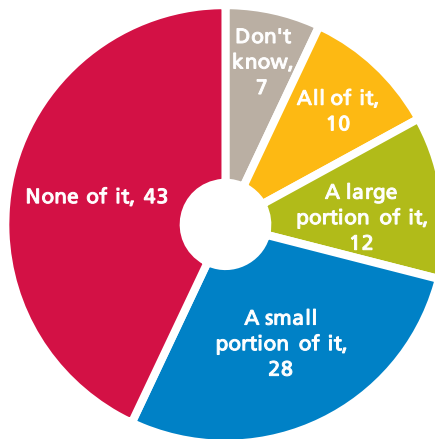
The second reason why regulation hits the smallest firms hardest is that these businesses often operate in much more competitive industries than their larger counterparts. In competitive business environments, there are fewer opportunities to pass along costs to customers. For instance, when CFIB asked its members in 2008 how much of the cost of regulation they passed along to their customers, 43 per cent reported being unable to pass along any costs; while another 28 per cent said they passed on only a small portion (see Figure 8). This finding is of significant interest as it challenges the common assumption that a considerable portion of the costs are passed on to consumers. This makes regulation more a hidden tax on production than consumption.

⁵ The average gross pay (excluding benefits) of a part-time employee was approximately \$24,611 in 2011, based on 1,508 hours per year (52 weeks x 29 hours per week) and an average hourly wage rate of \$16.32 for part-time employees (Statistics Canada. CANSIM Table 282-0072. Accessed November 20, 2012).

⁶ The extent of knowledge of the businesses surveyed in the U.S. on regulatory compliance costs (both in terms of time and money) is unclear. Respondents were screened based on how much of their workload deals with business regulatory compliance and only those with at least some involvement were allowed to participate in the poll.

Figure 8

Portion of regulatory costs passed on to customers (% response, Canada)



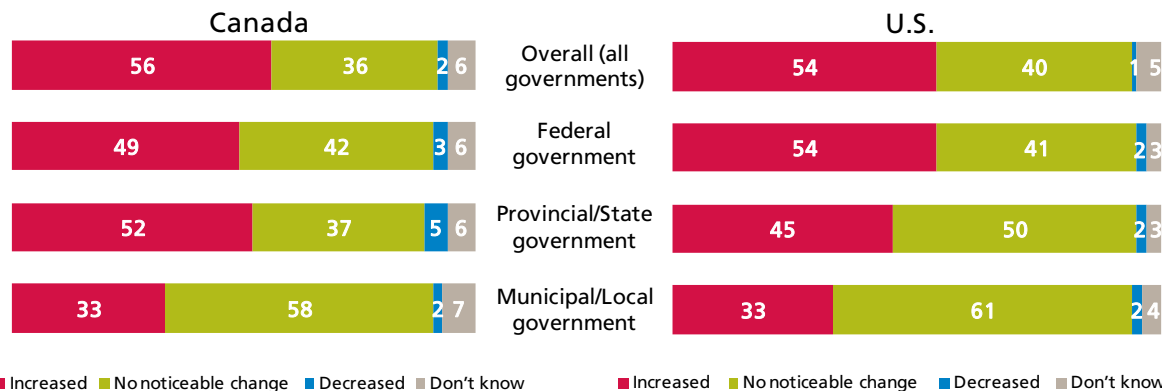
Source: CFIB, *Survey on Regulation and Paper Burden* 2008-2009, n=10,566.

Regulatory Costs by Level of Government

When asked about how the regulatory burden had changed over the preceding three years, 52 per cent of small- and mid-sized business owners said that it had increased at the provincial level and 49 per cent said it had increased at the federal level. This compares to a third of business owners who said that the municipal regulatory burden had increased (see Figure 9). Very few businesses indicate that the burden has decreased. By comparison, in the U.S., businesses were most likely to say there had been an increase in federal regulation and least likely to say they had seen an increase at the local level (see Figure 9).

Figure 9

Change in the regulatory burden over past three years, by level of government (% response, Canada and the U.S.)

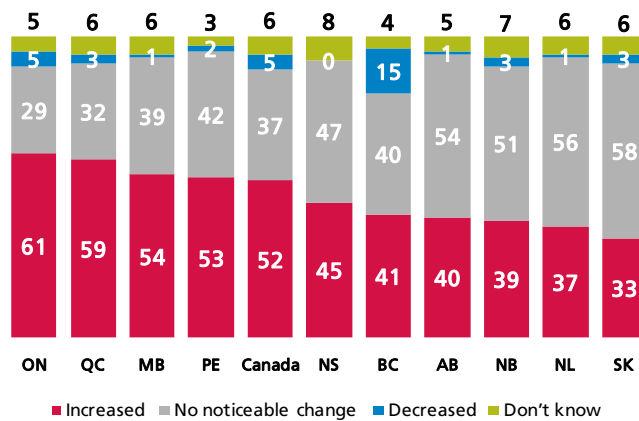


Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562 and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

Evidence that regulatory reform efforts undertaken by jurisdictions such as British Columbia and Newfoundland and Labrador are being felt by businesses can be found by comparing the percentage of businesses in these provinces that believed the provincial regulatory burden had increased with the percentage of businesses in provinces that *have not* made a commitment to measure and reduce the regulatory burden (see Figure 10).

Figure 10

Change in provincial regulatory burden over the past three years, by province (% response, Canada)



Source: CFIB, Survey on Regulation and Paper Burden, 2012, n=8,562.

Table 1 shows the total regulatory cost per province and the percentage of GDP it represents for 2005, 2008 and 2012. The 2005 and 2008 cost estimates were adjusted for inflation and are expressed in 2012 dollars. This table provides a general indication of the level of regulatory costs in each province. However, it is not highly indicative in terms of making comparisons between provinces as it includes all levels of government. In addition, different provinces had different mixes of industry which could also affect costs. For example, agricultural businesses tend to have higher regulatory compliance costs, so provinces with more agricultural businesses will, everything else being equal, have higher costs.

Table 1

The cost of regulation by province, 2005, 2008 and 2012

	Total costs (in million 2012 dollars)			% of GDP		
	2005	2008	2012	2005	2008	2012
British Columbia	4,425	5,068	4,415	2.4	2.3	2.0
Alberta	3,691	4,222	4,042	1.4	1.3	1.4
Saskatchewan	1,112	893	927	2.2	1.2	1.3
Manitoba	1,134	1,000	977	2.4	1.7	1.6
Ontario	12,412	11,657	11,859	2.0	1.7	1.8
Quebec	7,964	7,710	6,905	2.6	2.2	2.0
New Brunswick	681	611	542	2.4	1.9	1.7
Nova Scotia	903	761	747	2.5	1.9	1.9
Prince Edward Island	164	122	127	3.5	2.3	2.3
Newfoundland and Labrador	429	400	383	1.7	1.1	1.2
Canada	32,915	32,445	30,926	2.1	1.9	1.7

Notes: Provincial GDP figures for 2011 were estimated using the GDP growth rate for Canada from 2010 to 2011. National and provincial GDP figures for 2012 were estimated using the GDP growth rate for Canada from the second quarter of 2011 to the second quarter of 2012.

In converting 2005 and 2008 costs to 2012 dollars, national and provincial Consumer Price Index (CPI) figures for 2012 were estimated using CPI data available from January to August 2012.

Sources: Calculations based on CFIB's Survey on Regulation and Paper Burden (conducted in 2005, n=7,391; conducted in 2008, n=10,566; conducted in 2012, n=8,562) and data from Statistics Canada.

For many provinces, the share of regulation costs in provincial gross domestic product (GDP) was lower in 2012 compared to 2005 and 2008. Decreases were mainly due to economic growth (higher GDP) rather than actual reductions in red tape.

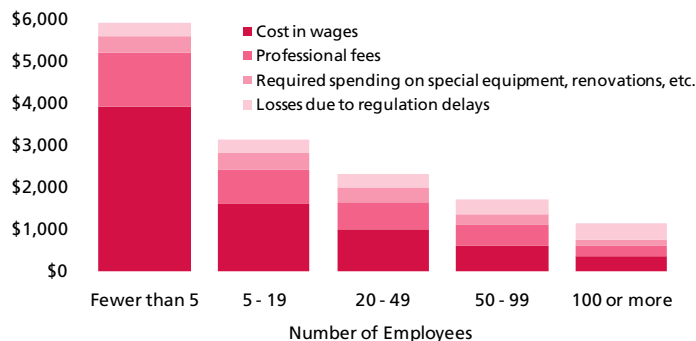
The Time Burden of Regulations

Wage costs made up by far the largest portion—two thirds—of per-employee costs for the smallest businesses and over half of the costs per employee in businesses with five to 19 employees. These shares,

together with the shares of professional fees, were considerably higher than in larger businesses on a per-employee basis. The dollar amount spent on special equipment, renovations, and losses due to regulatory delays were relatively stable across all business sizes (Figure 11). This is very similar to the cost structure in U.S. businesses.

Figure 11

Breakdown of regulation cost per employee, by size of firm (in 2012 dollars, Canada)

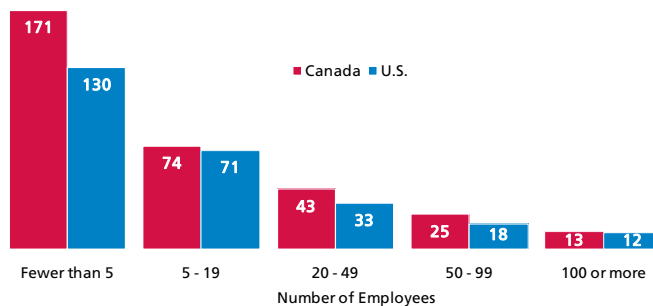


Note: The number of employees includes the business owner.

Sources: Calculations based on CFIB's *Survey on Regulation and Paper Burden* (conducted in 2012, n=8,562) and data from Statistics Canada.

Figure 12

Average annual hours spent on regulation per employee, Canada and the U.S.



Notes: The number of employees includes the business owner. U.S. data were adjusted for differences in the sample distribution from the Canadian data.

Sources: Calculations based on CFIB's *Survey on Regulation and Paper Burden* (conducted in 2012, n=8,562) and *Survey on Regulation and Paper Burden in the United States* (conducted by Ipsos Reid in 2012, n=1,535).

Regulations pose a significant burden in terms of time spent on finding out about and trying to understand regulations as well as completing and filing the required paperwork. In 2012, Canadian businesses spent over 692 million hours to comply with all government regulations. U.S. businesses spent over 3.9 billion hours on regulatory compliance. This is the equivalent of more than 355,000 full-time⁷ jobs in Canada and over two million full-time jobs in the U.S.

On a per employee basis, Canadian businesses spent more hours annually to comply with regulations compared to U.S. businesses. This is particularly true for the smallest businesses. In businesses with fewer than five employees, each employee spent, on average, 171 hours per year dealing with regulation and paper burden in Canada, compared to 130 hours in the U.S. In contrast, in firms with 100 or more employees, each employee spent about 13 hours per year on regulatory compliance in Canada (see Figure 12). In the U.S., each employee spent, on average, one hour less than Canadian businesses on an annual basis. For an average small business with four employees in Canada, more than 682 hours were dedicated to regulatory compliance per year. This is equivalent to a loss of about 91 work days per year for one employee. For the U.S., 520 hours were spent on regulatory compliance in an average business. If one employee were to handle all of the regulatory compliance workload, this would be equivalent to over 69 work days. Compared to the U.S., Canadian businesses needed 22 additional work days—about one extra month—to comply with regulations.

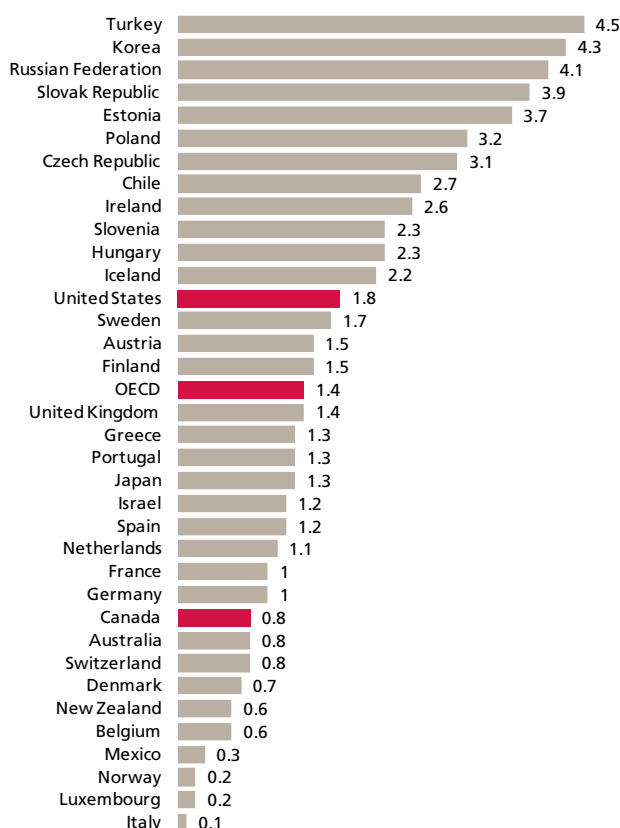
⁷ Measured at 1,950 hours of work per year

How Does Regulatory Burden Affect the Productivity of SMEs?

Excessive regulations pose a serious productivity challenge for the economy, meaning that incomes, job creation, and living standards remain at risk if the problem is left unaddressed. Canada has consistently fallen short of the productivity gains being realized in other developed countries in recent years. Productivity growth in Canada was 0.8 per cent per year between 2001 and 2011—well below the U.S., with 1.8 per cent, and the OECD average of 1.4 per cent (see Figure 13)—even though federal and provincial governments made efforts to improve public policy for businesses. Nonetheless, productivity growth is nowhere near where it could be. The productivity lag may partly explain why per capita gross domestic product in 2011 in the U.S. was \$7,600 higher than in Canada.⁸

Figure 13

Productivity growth between 2001 and 2011, OECD countries (average annual growth rate, in %)



Note: Productivity is measured as GDP per hour worked.

Source: Organization for Economic Cooperation and Development (OECD), *Labour productivity growth in the total economy*, OECDStat.org, retrieved on August 31, 2012.

Reducing the regulatory burden on businesses would free up time and money that business owners could use more efficiently, for example to buy new equipment, develop plans for business growth and explore new markets. Canadian SME owners said that the regulatory burden could be reduced by an average 29 per cent without sacrificing the public interest, while the average was 31 per cent in the U.S. This would free up over 200 million hours of Canadian business owners' time which they could use to grow their businesses. This would be the equivalent of almost 103,000 full-time equivalent jobs.⁹ Moreover, it would translate to an additional \$8.9 billion per year which could give each small business in Canada (with fewer than 100 employees) over \$3,700 per year that they could use to grow their businesses, invest in training and create jobs.

In 2012, 68 per cent of Canadian small- and medium-sized business owners felt that excessive regulations significantly reduced productivity in their businesses (see Figure 14). This number was over ten percentage points lower in the U.S. This provides some evidence that the difference in the regulatory landscape is a contributing factor to the productivity gap between Canada and the U.S.

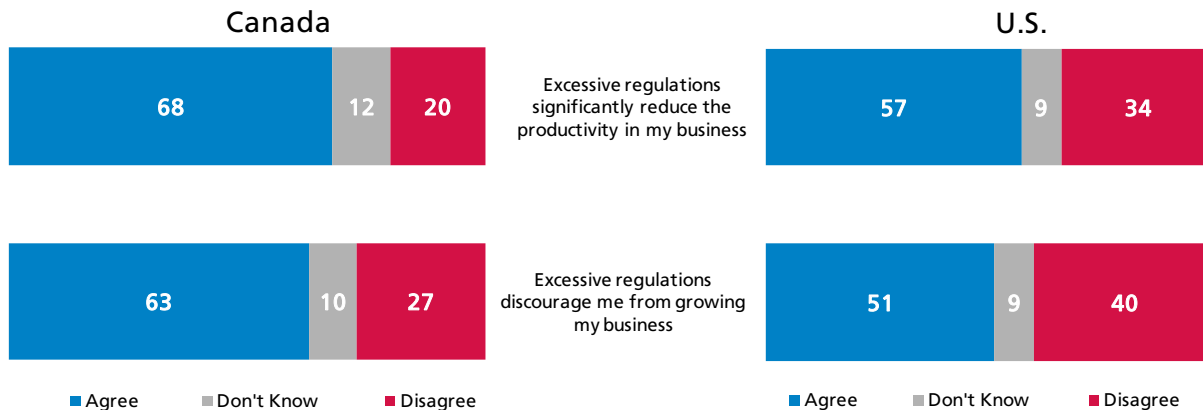
⁸ Source: Organization for Economic Cooperation and Development (OECD), *Country Statistical Profiles*, OECDStat.org, retrieved on November 26, 2012.

⁹ Measured at 1,950 hours of work per year

Excessive regulations not only impede productivity growth within businesses but also discourage business owners from growing their businesses. At least every second business is discouraged from growing to its full potential in the U.S., and even more in Canada: over six in ten businesses (see Figure 14). This is more pronounced among owners of businesses with fewer than 50 employees, which is a result of the disproportionately high regulation cost that they bear on a per-employee basis. Lost output due to red tape is a cost to society in terms of foregone income.

Figure 14

The effect of excessive regulations on SME productivity and growth (% response, Canada and the U.S.)

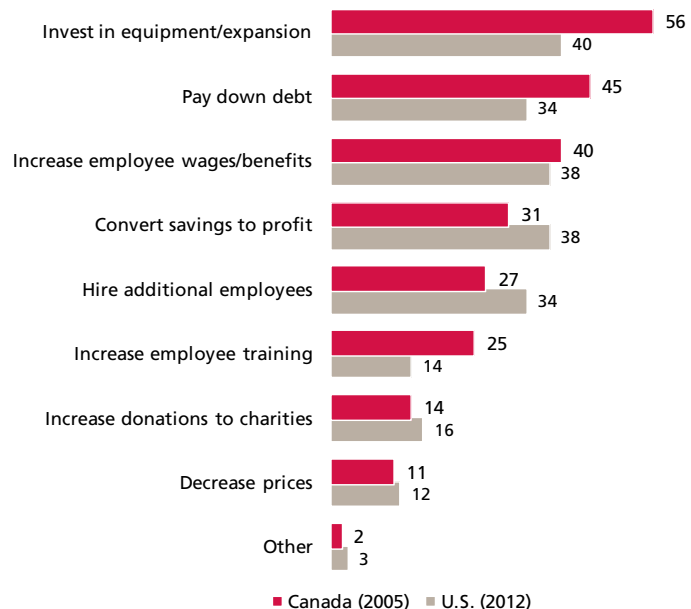


Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562; and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

When business owners were asked in 2005 what they would do if regulatory costs were reduced, the top answer was to invest in equipment and business expansion—key to productivity gains (see Figure 15). Other actions that business owners cited that would help increase productivity included paying down debt, which would free up more capital to invest in the business, and increasing employee training. In the U.S. fewer businesses (40 per cent) indicated they would invest in new equipment. It is also interesting that fewer would use the savings to pay down debt (34 per cent) relative to Canadian firms.

Figure 15

How businesses would use savings if regulation was reduced (% response, Canada and the U.S.)



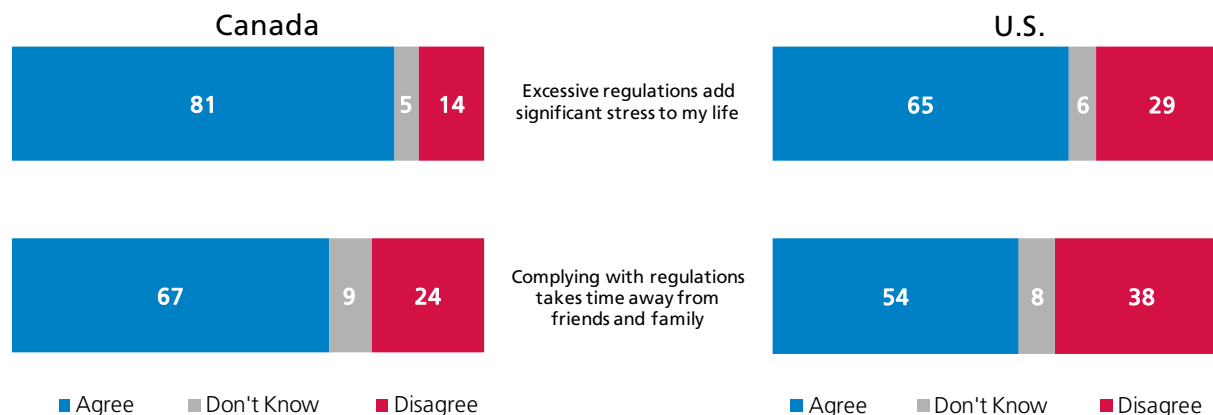
Source: CFIB, *Survey on Regulation and Paper Burden*, 2005, n=7,391 and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

Social Cost of Regulation

Beyond the burden of time and money, excessive regulation creates significant frustration for many small business owners. It is impossible to put a price tag on this, but it clearly adds to the cost of regulation. In Canada, four out of five small business owners indicate that excessive regulations add significant stress to their lives (see Figure 16), while in the U.S., two in three agreed. Many business owners must devote time outside of normal working hours to comply with regulations. This not only makes for long work hours, but takes time away from family and friends.

Figure 16

Social cost of regulation (% response, Canada and the U.S.)

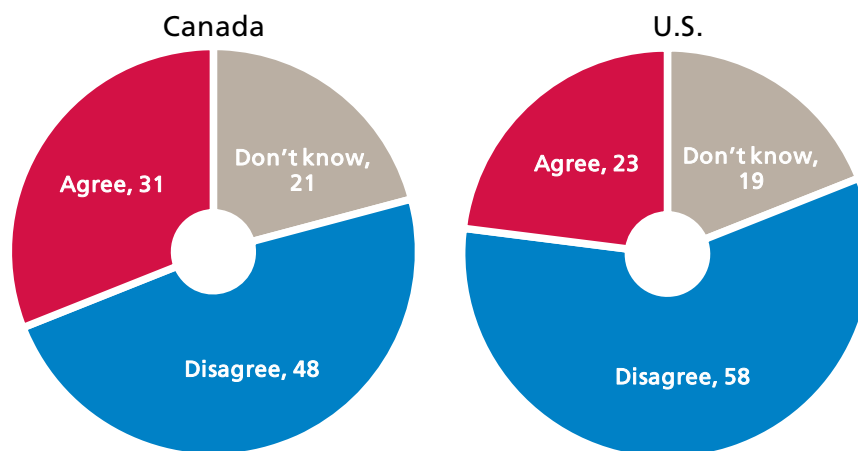


Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562; and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

Financial and social costs of business regulations are substantial in Canada, given that 31 per cent of business owners indicate they may not have gone into business if they had known the burden of regulation (see Figure 17). In the U.S., 23 per cent of businesses owners agreed.

Figure 17

If I had known the burden of regulation, I may not have gone into business (% response, Canada and the U.S.)



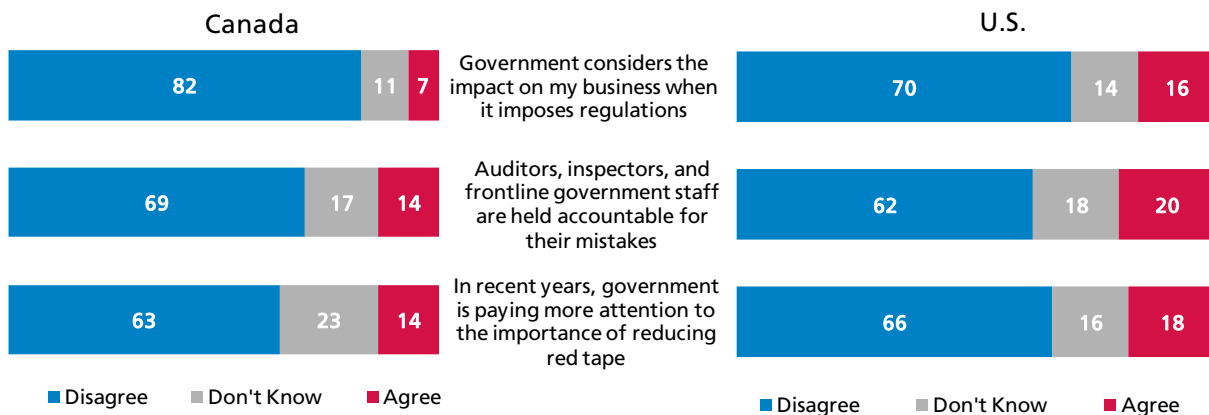
Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562; and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

The Biggest Red Tape Irritants for SMEs

Red tape is like death by a thousand paper cuts. Business owners are expected to be aware of and comply with regulations from all levels of government. Adding to the problem, government customer service supporting regulatory compliance is often poor, with little effort made to understand the challenging reality of a small business owner. Most businesses work hard to make sure they are complying with regulation, but do not believe that government considers the impact on small business when it imposes regulations (see Figure 18).

Figure 18

Small business' view of government regulation (% response, Canada and the U.S.)



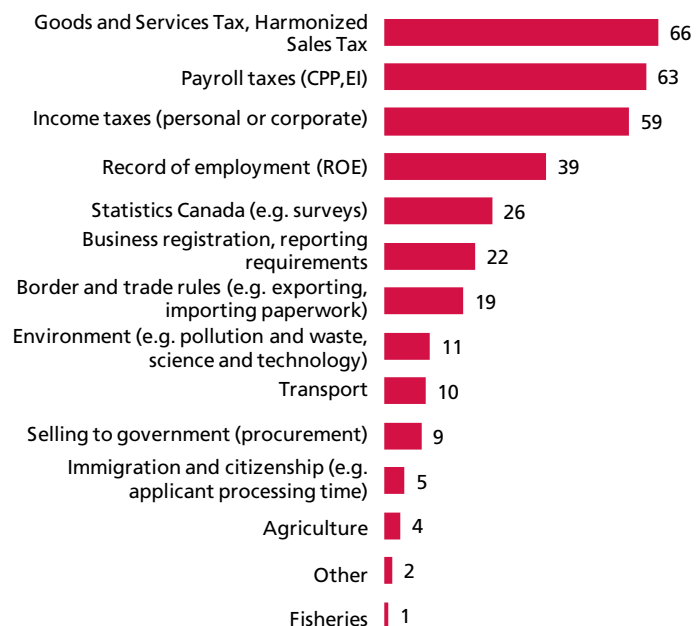
Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562; and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

A frequent complaint from business owners is the lack of accountability from government officials. For example, 69 per cent of Canadian business owners do not believe that auditors, inspectors and front line staff are held accountable for their mistakes.

At the federal level, businesses cite their top five compliance irritants as GST/HST (66 per cent), payroll taxes (63 per cent), income taxes (59 per cent), records of employment (39 per cent), and Statistics Canada surveys (26 per cent) (see Figure 19). The order of concern is the same as both the 2005 and 2010 reports but the level of concern about income taxes and records of employment have decreased considerably. When asked a similar question, U.S. business owners indicated that the top five irritants included income taxes (54 per cent), payroll taxes (48 per cent), business registration (25 per cent), health care (24 per cent) and financial rules (22 per cent).

Figure 19

Most burdensome federal regulations (% response, Canada)

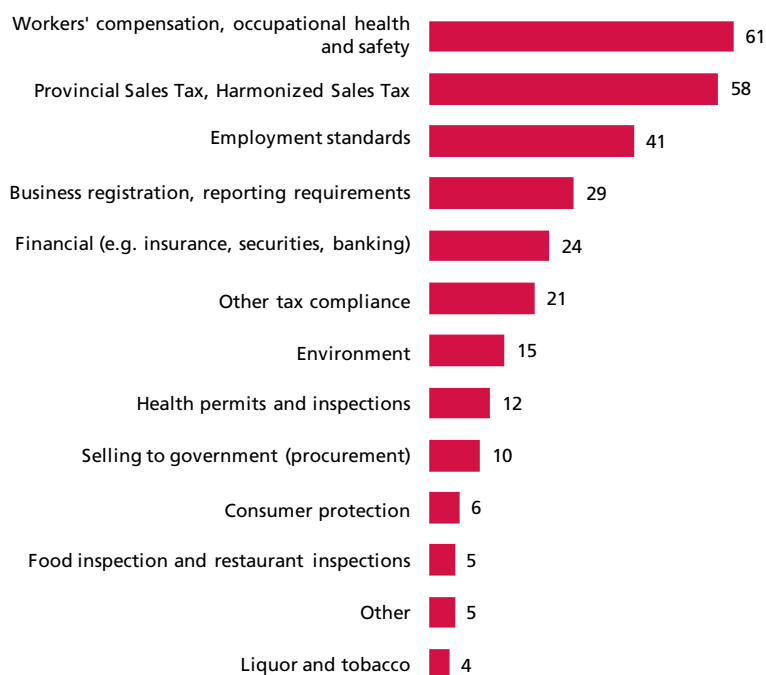


Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562.

The most commonly cited provincial irritants in Canada were in the same order and around the same levels as the two previous studies: workers' compensation and occupational health and safety regulations (61 per cent), PST/HST (58 per cent), and employment standards (41 per cent) (see Figure 20). While there was considerable consistency in these primary irritants across the country, results did vary from province to province (see Appendix C). In the U.S., at the state level, workers' compensation was also cited as the most burdensome regulation, albeit by a lower percentage of business owners than it was in Canada (38 per cent). Complying with business registration (33 per cent), state sales tax (30 per cent) and the unemployment tax (29 per cent) were also among the most burdensome regulations in the U.S.

Figure 20

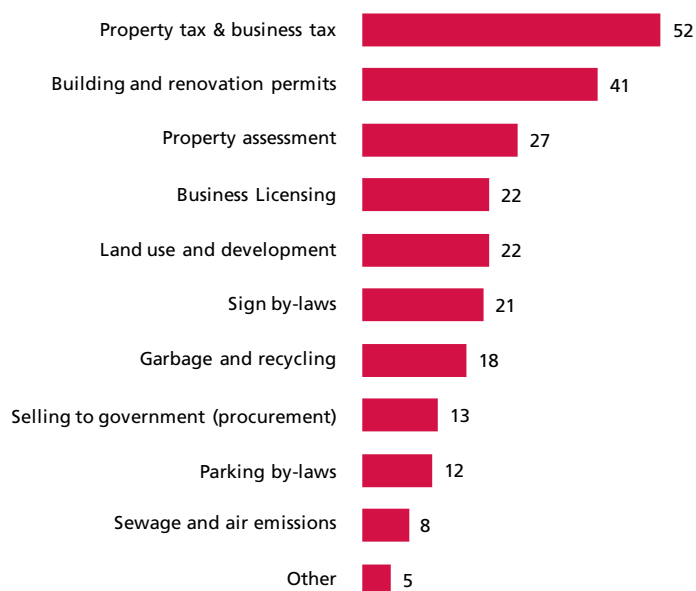
Most burdensome provincial regulations (% response, Canada)



Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562.

Figure 21

Most burdensome municipal regulations (% response, Canada)



Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562.

At the municipal level, concerns have stayed in the same order and level of magnitude as in previous years, with property and business taxes at the top of the list (52 per cent) followed by concerns about business and renovation permits (41 per cent) and property assessments (27 per cent) (see Figure 21). Businesses in the U.S. have many of the same concerns.

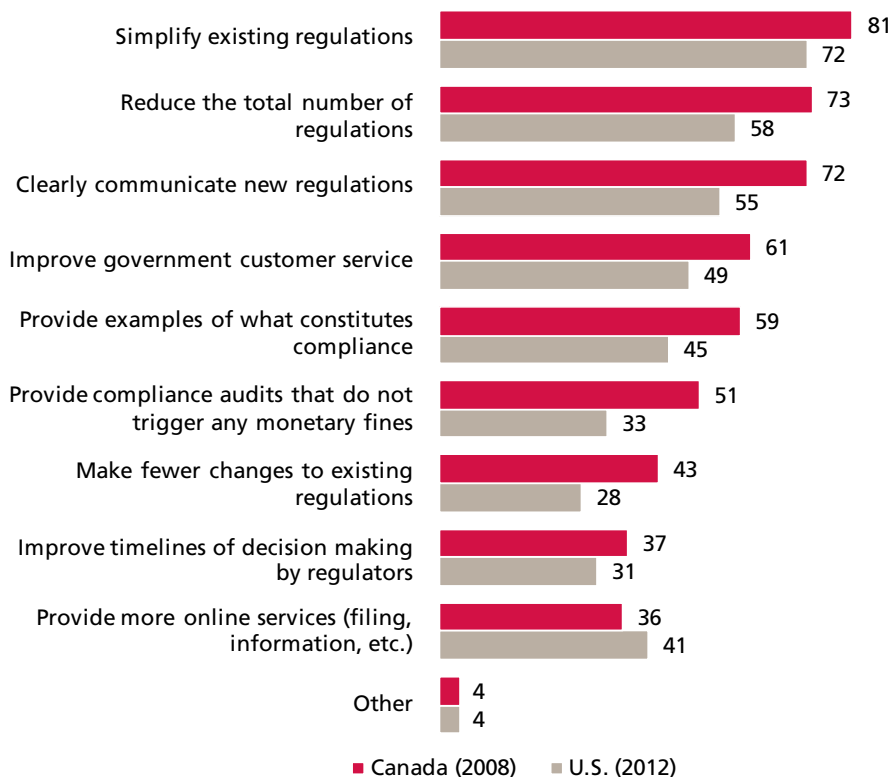
Customer Service Makes a Difference

When dealing with government regulations, customer service can make the difference between a stressful, time-consuming process and a positive, productive one. Thousands of business owners took the time to make comments about their specific experiences with regulation or regulators on CFIB's most recent survey. Reading the comments makes it very clear that poor government customer service is a large part of the regulatory burden facing small business. Examples of poor government customer service included getting more than one answer to the same question, confusing language, being put on hold for long periods of time, dealing with rude or poorly-informed staff and waiting too long for decisions. Very few business owners felt that governments effectively communicated new regulations, made best efforts to provide service in a timely fashion or that auditors and inspectors took a common sense approach to regulation.

In response to the question "What would help your business better comply with regulations?" two of the top three solutions required an improvement in customer service—simplifying existing regulations to better help the business owner understand what government was asking and clearly communicating new regulations. Beyond this, 61 per cent of small business owners stated that an improvement in government customer service would help their business—the fourth most popular response. U.S. businesses had similar views to Canadian ones about what would help them comply (see Figure 22).

Figure 22

What would help your business better comply with regulations? (% response, Canada and the U.S.)



Source: CFIB, *Survey on Regulation and Paper Burden*, 2008 (n=10,566) and Ipsos Reid, *Survey on Regulation and Paper Burden in the United States*, 2012, n=1,535.

While small business owners were quick to point out the impact of poor government customer service on their businesses, they were also extremely appreciative of a positive government customer service experience. Many of the positive comments from our surveys focused on the responsiveness and understanding of an individual or the flexibility built into a process. A few examples of both positive and negative comments around government customer service from the survey are highlighted in Table 2.

Table 2

Business owners' comments (Canada)

Positive Customer Service	Negative Customer Service
<p>WSIB audit was done without an auditor attending our offices. We filled out the appropriate questionnaire, provided copies of legal papers and other requested information, and received a letter back that our audit was complete. This helped tremendously in reducing time having an auditor in our offices.</p> <p><i>(Building material and supplies dealer, Ontario)</i></p>	<p>I have a 10 year old building that is 60,000 ft in size. I rented out a portion to reduce my overhead and the amount of red tape, delay, confusion over building codes, etc. was incredible. WSIB and MOL agencies provide no help or assistance when trying to interpret our corporate responsibilities... Now I understand the point of off shoring production and we are beginning to focus on offshore production due to government red tape and regulation.</p> <p><i>(Real estate leasing operator, Ontario)</i></p> <p>Alberta Transportation engineers gave me approval for the use of new trucks I designed and built to be able to move empty down the highway. I spent nearly \$1,000,000 to build 2 trucks. Now they say that they are not allowed on the road based on current weight regulations. They say that the information I received from them never gave approval...</p> <p><i>(Agriculture crops services provider, Alberta)</i></p>
<p>We can now email a question to CRA and receive a written response. This is a huge step to their staff being accountable. This is very positive for us!</p> <p><i>(Sawmills, wood products manufacturer, British Columbia)</i></p>	<p>Recent HST audit required abnormal amount of staff time helping the auditor understand the accounting process in our business. It demonstrated insufficient training/knowledge on the auditor's part of our industry. An auditor should come to a business with at least a basic knowledge of the industry they're going to audit.</p> <p><i>(Automobile dealer, Nova Scotia)</i></p> <p>I recently had a HST audit of a Provincial Government program that we were administering. The Province in writing told us they were HST exempt and that we were not to charge HST to this program. Our company was then audited by CRA and we were told that unless the Province could provide a special agreement or could explain which regulations allowed their exemption that I was liable for HST. After considerable time and expense (\$30,000) the Province admitted they were incorrect and paid the approximately \$66,000 HST assessment. This caused considerable stress and hardship to myself, staff and corporate accountant.</p> <p><i>(Management consulting services provider, British Columbia)</i></p>

	<p>Several years ago an individual from the MB PST dept came to look at our operation. They said we were not charging PST properly for our type of business and helped us determine the correct percentage to charge. Two years ago we were audited and the auditor claimed we were not using the correct percentage and we had a \$79,000 bill on our hands. They accepted no responsibility for the incorrect calculation. Nearly broke our company.</p> <p><i>(Sawmills, wood products manufacturer, Manitoba)</i></p>
<p>The front line receptionist at the Longueuil office of Quebec's Ministry of Revenue deserves praise for the positive attitude demonstrated to customers showing up at the counter.</p> <p><i>(Individual/household chemicals wholesaler, Quebec)</i></p>	<p>Statistics Canada sent us a survey which takes about 8 hours to complete. At first, completion was voluntary, but when we hadn't done it, we were reminded that we still needed to do so. Finally, they invoked their status as a federal government agency to oblige us to complete the survey.</p> <p><i>(Furniture and related product manufacturer, Quebec)</i></p>
<p>We had a very fair and understanding auditor do a Ministry of Transport audit. We have had a Health and Safety inspector guide us through some changes to help our compliance. He was very fair and helpful.</p> <p><i>(Truck transport operator, Ontario)</i></p>	<p>I met with MPAC to review my property assessment on my office building. After I reviewed comparables, I noted that I was 20 per cent higher. I purchased the building in 2006 and they almost doubled the assessment value on my tax bill moving forward. I found out that MPAC had merely driven by the building and made assumptions on the interior. The second floor and dirt basement are unfinished. They had assumed they were finished and priced the building accordingly! They agreed they were high, and would do nothing retroactive, only decrease the value to where it should be effective Jan 1, 2012. So I have paid 5 years of unfair property taxes!</p> <p><i>(Insurance agent/broker, Ontario)</i></p>
<p>Our provincial health inspector worked very well and closely with us when we had to spend an exorbitant amount of money on water filtration systems. He was patient and understanding, listened well and gave good advice when it was asked for...</p> <p><i>(Hotel/motel/B&B owner, British Columbia)</i></p>	<p>A Ministry of Labour inspector shut down production on one of our lines for more than two weeks because he said the machines were unsafe and yet the previous inspector had signed off on \$10,000 of improvements from the previous year that we had done at his insistence. When we showed the second inspector the certification from the previous inspector he said "He doesn't know what he is doing." and we were compelled to rip out the previous safety system and spend an additional \$15,000 to comply with the second inspectors standards...</p> <p><i>(Motor vehicle parts manufacturer, Ontario)</i></p>
<p>...We deal a lot with CRA and usually the CRA staff are doing their best and good to work with. CRA has been improving a lot by making information available to us online...</p> <p><i>(Accounting firm, Alberta)</i></p>	<p>The Office de la langue française OLF sent me a legal summons to have my website translated into French, even though I have been selling my services outside of Quebec in English for the past 8 years. This cost me \$15,000 in professional fees and 260 hours of my time.</p> <p><i>(Other machinery, equipment and supplies operator, Quebec)</i></p>

Effective Regulatory Reform

Effective regulatory reform requires a fundamental change in culture from within government, which requires discipline and focus. There are three essential ingredients to regulatory reform:

1. Political leadership, preferably from the top
2. Accountability, in the form of publicly reported measures of the total burden of regulation and of government customer service
3. Constraints on regulators, such as requiring that for every one new rule introduced one must be eliminated

Political Leadership

Effective and sustained regulatory reform must be driven from the top. Until recently, this had rarely happened. The best example of political leadership was from British Columbia, where a regulatory reform initiative has now been sustained for eleven years. The initiative started with a political commitment from former Premier Gordon Campbell to reduce red tape by one-third in three years. Cabinet ministers and civil servants knew it was a priority and acted accordingly. While short term initiatives to reduce red tape from other governments existed, they did not have the political will to be sustained.

The landscape for political leadership on regulatory reform in Canada changed dramatically in the last two years when Prime Minister Harper decided to make reducing red tape a priority. In January 2011, he announced the creation of a Red Tape Reduction Commission. He called red tape a “silent killer of jobs.” In the fall of 2012, the President of the Treasury Board announced that the federal government would be accepting most of the commission’s recommendations, a clear indication that reducing red tape remained a government priority. The government has committed to some structural changes including legislating a rule that for every new regulation introduced, one regulation must be removed, and measuring and reporting on the total burden of regulation. These changes are far more permanent than what most governments have done and give considerable cause to hope that the hidden tax of red tape is finally being seriously addressed.

A key component of political leadership is to identify and support change agents in all departments. Champions of change, hoping to alleviate the regulatory burden, are often “frozen out” by the vested interests that do not want any constraints on their activities.

Public Accountability

Any government serious about effective regulatory reform must give the public a way to evaluate its regulatory activity. Internal guidelines and checklists, a feature of many reform initiatives, are not enough. Those proposing additional regulations should not be left to police themselves. This report and recent experiences (discussed more fully in the next section) show that it is possible to estimate the regulatory burden. Regulatory measures must then be regularly reported to the public. Going a step further, legislating the requirement to report regulatory measures, would make it harder for governments to abandon public accountability.

Constraints on Regulators

Perhaps the most effective element to achieving regulatory reform is imposing constraints on the regulators themselves. Governments must recognize that business owners have a limited ability to comply

with an endless list of regulations. Likewise, governments also have a limited ability to enforce such a list. Implementing a cap forces regulators to consider alternatives and trade-offs and to prioritize those regulations that are most important. The cap could be a reduction target or a target for no net increase in regulatory activity. Such constraints would depend on establishing an effective, publicly intelligible measure to track the regulatory burden. The one-for-one rule, where one regulatory requirement must be eliminated for every new one introduced, is a good example of such a measure.

Is there a fourth necessary ingredient for success?

For regulatory reform to succeed, a senior politician must be willing to champion it and introduce reforms including accountability and constraints on regulators. For a politician to want to champion the cause, however, there has to be a demand from voters. For example, British Columbia's reforms began with an election promise to a public that understood red tape was choking the economy. Those reforms have consistently been supported by small businesses in the province who have asked that they be extended and enhanced. At the federal level, the Red Tape Reduction Commission was started largely in response to small businesses consistently promoting the importance of the issue through CFIB.¹⁰ A fourth essential ingredient may be consistent pressure for reform from outside of government.

¹⁰ In 2010, for example, the Canadian Federation of Independent Business started holding a Red Tape Awareness Week™ every January to promote the importance of reducing red tape for small businesses in Canada. It is during this week that many important political announcements, including the Prime Minister announcing the Red Tape Reduction Commission happened.

The Current State of Regulatory Reform Across Canada

Since CFIB's initial report *Rated "R": Prosperity Restricted by Red Tape* in 2005, the number of regulatory reform initiatives across the country has grown. The most promising initiatives are described below and the Regulatory Accountability Report Card (Table 3) provides an overview of the progress being made throughout Canada on the key elements required for effective regulatory reform—political leadership, measurement, and constraints on regulators.

Federal Government

In the 2007 federal budget, the government made a commitment to reduce its paperwork burden on small businesses by 20 per cent by November 2008 and required 13 key departments and agencies (including Finance, Industry, Canada Revenue Agency, and Canada Border Services Agency) to compile an inventory of all regulatory requirements affecting businesses. At the time, these departments were found to administer over 400,000 business-related requirements in legislation, regulations, policies and forms. Government announced it had reached its targeted 20 per cent reduction in these departments on March 20, 2009. While the reduction exercise did reduce red tape in some areas and was a groundbreaking exercise for the federal government, it was short-lived and counting has since stopped, making it impossible to know whether progress has continued.

More recently, Prime Minister Harper announced a Red Tape Reduction Commission in 2011 which conducted roundtables across the country with business owners and industry groups. The Red Tape Reduction Commission produced two reports, one to detail what was heard at the roundtables and the second, to make recommendations on specific departmental recommendations and structural changes. In response to the second report, the government announced a Red Tape Reduction Action Plan in October 2012. The plan includes most of the recommendations made by the Red Tape Reduction Commission and is very ambitious in scope. Promisingly, it includes a number of measures to improve accountability and set constraints on regulators. There is a commitment to update the inventory of regulatory requirements for business by 2014 and publicly report on the burden on an annual basis. A “one-for-one” rule will be legislated to ensure no net growth in the regulatory burden. Government departments are also to set and publish measurable standards, set goals for service improvement, and report on performance as well as use a “small business lens” to review the regulatory impacts on small businesses. In addition, an external panel will be appointed to review government progress on reform initiatives (the government will provide the panel with a scorecard). The scorecard and the panel's comments will go the Auditor General. While not yet fully implemented, this plan has the potential to have a groundbreaking impact on how regulations and services are managed within the federal government.

British Columbia

British Columbia has been a leader in regulatory reform across Canada for more than a decade. In 2001, the newly-elected government of Gordon Campbell embarked upon regulatory reform in British Columbia. Unlike previous attempts in Canada, the “New Era” initiative included all the necessary ingredients for success—political leadership, public accountability, and constraints on regulators. The constraint on regulators came through an election promise to reduce the regulatory burden by one-third over three years. On political leadership, Premier Campbell appointed a Minister of Deregulation to oversee progress on this file. More than a symbolic gesture, each minister would now be held accountable in the legislative assembly and at the cabinet table. After rejecting several measures that had serious flaws, the government opted to use “regulatory requirements” as its primary accounting tool. A “regulatory requirement” is defined as “a compulsion, obligation, demand or prohibition placed on an individual, entity or activity by or under the authority of a provincial Act, regulation or related policy.”

The first count revealed a staggering 382,139 regulatory requirements in BC. To date, more than 163,000 regulatory requirements have been eliminated, exceeding the original goal of one-third over three years. Going forward, the government has committed to zero net increase in regulations through 2015; for every new regulatory requirement added, one or more existing regulations must be eliminated. In addition, government took the next step in 2012 by legislating a requirement to measure and report on the regulatory burden annually. The first report was released in 2012.

Newfoundland and Labrador

Modeled after BC's initiative, Newfoundland and Labrador announced a three-year plan to reduce the regulatory burden by 25 per cent—removing 78,129 regulatory requirements—in August 2005. In May 2009, the government announced that it had exceeded its original target by registering a 27 per cent reduction in regulatory requirements.

Building on this success, the government has a cabinet directive committing to “zero net growth” in regulatory requirements. Like BC, for every new regulatory requirement brought forward, an existing one must be eliminated.

Public reporting has been inconsistent since government exceeded its reduction target in 2009, however, recently a new Accountability Framework has renewed the commitment to regular, quarterly reports from government departments to demonstrate government is achieving its commitment to zero net growth.

Quebec

The Quebec government initiated its efforts for regulatory reform in 1996 by adopting a policy on regulations and paper burden. The objective of this policy was to reduce the regulatory cost of small businesses by 20 per cent, streamline existing regulations and propose a series of accountability requirements for regulatory authorities. For this purpose, the Red Tape Reduction Secretariat was created within the ministry of the Conseil exécutif (directly under the provincial premier) which is responsible for overseeing the adoption of the new policy by all provincial departments and agencies. In addition, the government has undertaken some efforts to measure the regulatory burden.

The Red Tape Reduction Secretariat regularly publishes a progress report on red tape reduction and regulatory costs. As the government did not meet its objective of reducing regulatory costs by 20 per cent by 2011, as mentioned in the policy, it created a Red Tape Reduction Committee in 2012 – an initiative that was suggested by CFIB. The work of this committee led to a report comprising 63 recommendations that the government committed to implement. These recommendations include: reducing regulatory cost by 20 per cent by 2015; abolishing certain forms; creating a single file for businesses; streamlining regulations on alcohol permits; and accountability requirements for regulatory authorities. It is important to mention that one of the recommendations is also to set up a follow-up committee to monitor progress with regard to the implementation of these recommendations.

Ontario

The 2008 Ontario budget identified regulatory reform as a top priority, stating, “The Canadian Federation of Independent Business has indicated that a main concern for many small- and medium-sized businesses is their paper burden. Ontario's goal is to lead all Canadian jurisdictions with its efforts to measure and reduce the regulatory burden.”

Since then, government has committed to eliminate two regulatory requirements for every new one imposed on businesses. Proposed regulations must also be posted for public comment and new

requirements can only be implemented twice a year. While a measure of the total regulatory burden was published in 2011, the government is not regularly reporting its measures making it impossible to know whether it is meeting its target. The Minister of Economic Development worked with CFIB to identify five concrete areas for action in October 2012, including an ongoing measurement of the regulatory burden, workers compensation, procurement and customer service. A proposal to improve the existing regulatory requirement measure with a more stringent one (time and money) was jointly drafted and recommended for approval by government (pending).

Saskatchewan

The Government of Saskatchewan established a Regulatory Modernization Council (RMC) in 2008. The Council makes recommendations on ways to reduce red tape for business. RMC's progress includes Saskatchewan Finance introducing a *TaxPayer Service Commitments & Standards Code*, one-stop online business services portal and improved services in specific sectors. The RMC also recommended the implementation of the Red Tape Reduction Initiative in April 2011, which includes an initial two-year review of regulations that impact business. In the fall of 2012, the provincial government gave notice of motions for first reading of Bill 86—*The Regulatory Modernization & Accountability Act*. The government plans to measure and publicly report the regulatory burden in the province in 2013.

New Brunswick

The New Brunswick government recently made a commitment to reduce the regulatory burden by 20 per cent. It is too early to tell what the results of this initiative will be but it looks promising.

NOTE: Provincial jurisdictions not mentioned have made little or no progress in the areas of political leadership, public accountability or long-term constraints on regulators.

Municipal

Municipal governments continue to struggle with establishing greater accountability for the regulatory burden they place on business. Municipalities often lack the institutional memory to support an initiative like regulatory reform. This lack of progress is disappointing at a time when the federal and many provincial governments are taking steps to improve their regulatory climates.

That being said, some progress has been made through the wide adoption of BizPaL by municipalities. BizPaL is an online directory where a business can sign up and see a list of all the permits and licenses for all levels of government that apply to their specific type of business and geographic location. Many municipal governments across the country have signed on as BizPaL partners.

Agencies, Boards and Commissions

While many provincial governments, along with the federal government, have made great strides since 2005 in bringing greater accountability to regulation, the progress has typically included government departments only. Outside of the purview of most regulatory reform exercises are Agencies, Boards and Commissions—the so-called ABC's of government. At the provincial level, small business owners in all provinces rate workers' compensation boards as either the first or second highest area of concern. Clearly, regulatory reform exercises that do not include areas such as workers' compensation are overlooking an area of significant concern for small business owners. As a result, valiant efforts to reduce the overall regulatory burden will be hindered or offset by increases in the burden by arms of government that have not yet been included in efforts to reduce the overall burden through the measures outlined above.

Table 3

Regulatory Accountability Progress Report

Jurisdiction	Political Leadership	Measurement	Constraints on Regulators and Long-term Commitments	Momentum
Federal	Yes. Championed by the Prime Minister and Treasury Board.	Not yet. Commitment to report by 2014.	"One-for-one" rule in practice and to be legislated. Departments will set and publish standards and goals for service improvements.	Gaining.
British Columbia	Yes. Led by the Minister of Small Business and Regulatory Reform.	Yes.	Commitment to zero net growth through 2015 and legislated requirement for annual reporting.	Maintaining.
Quebec	Yes. Led by the Red Tape Reduction Secretariat (under the Ministry of the Conseil exécutif).	Yes.	Formal policy adopted and a follow-up committee set up to ensure government action. Commitment to reduce the regulatory cost burden by 20% by 2015.	Gaining.
Newfoundland and Labrador	Yes. Led by Minister of Service NL.	Yes but inconsistent.	Cabinet Directive committing to zero net growth. Focus now on qualitative improvements.	Maintaining.
Ontario	Yes. Led by Minister of Economic Development and Innovation.	No regularly reported measure.	Progress made on five action items in 60 days. Planned initiatives in areas of workers' compensation, procurement and regulatory measurement.	Gaining.
New Brunswick	Yes. Led by Premier.	Yes.	Commitment to reduce regulatory burden by 20% and then zero net growth.	Gaining.
Saskatchewan	Yes. Led by Minister of the Economy.	Not yet. Commitment to report in 2013.	Commitment to publicly report burden. Focus on reviewing regulations and service improvements.	Gaining.
Nova Scotia	Some. Overseen by Minister of Service NS & Municipal Relations.	Not since 2010.	Commitment to keep burden from growing but no measure to track progress. Focus on easing compliance burden in specific sectors.	Stagnating.

Jurisdiction	Political Leadership	Measurement	Constraints on Regulators and Long-term Commitments	Momentum
Manitoba	Some. Led by Minister of Entrepreneurship, Training and Trade.	No.	New Advisory Council on Regulatory Reform but no goals or progress yet.	Stalled.
Prince Edward Island	Some. Led by Minister of Innovation and Advanced Learning.	No.	Focus on single projects but no overarching plans or commitment.	Stalled.
Alberta	Some. A Red Tape Reduction Task Force.	No.	No action yet of Task Force recommendations like sunset clauses.	Stalled.
Northwest Territories	Some. Led by Finance Minister.	No.	Set as priority for 2013 but no commitments or actions yet.	Stalled.
Yukon	Some. Reviews within some Ministries.	No	Little interest and no commitments because reviews in individual ministries.	Stalled.

Conclusion and Recommendations

In recent years, governments across Canada have become more accountable to citizens with respect to regulations. British Columbia blazed a new path in 2001 when its government started measuring, publicly reporting, and setting reduction targets for regulatory counts. It continues to show leadership and recently was the first province to pass legislation requiring annual regulatory reporting. Other provinces have also taken actions to measure and report, including Newfoundland and Labrador, Quebec, and Ontario. Still others have made commitments to report in the future, such as New Brunswick and Saskatchewan.

A big breakthrough was recently made at the federal level of government when the Prime Minister took up the cause of reducing red tape. This could be a “game changer” for Canada. The federal government is proposing a series of reforms that could provide a much-needed overhaul of the culture in Ottawa.

Having new leadership grasp the imperative to reduce red tape brings great hope, but much more remains to be done. Even in the provinces that are furthest ahead, too much time and money is still wasted on unnecessary red tape, resulting in lower productivity and living standards and causing undue stress and frustration.

Although the cost of regulation is significantly higher in Canada than in the U.S., both countries would benefit from a reduction in regulatory costs. What benefits do our recommendations promise? The biggest benefit is the potential to unleash the entrepreneurial spirit within both the private and public sectors by reducing the time, money, and frustration that both sides incur when coping with unnecessary red tape. This in turn leads to many other positive outcomes: a more constructive relationship between government and the private sector, and a more productive, resilient economy.

For all levels of government in both countries, the following ten point plan remains the gold standard for reform.

Ten Point Plan for Effective Regulatory Reform

1) Measure the regulatory burden

Without measurement there can be no true accountability. Measuring the regulatory burden is not an easy task, since much of the cost of regulation is hidden, indirect or intangible. However, the first measure does not have to be perfect (fiscal accounting, for example, has become more sophisticated over time). In addition, more than one measure can be used to get a more complete picture of what is going on. This is consistent with the way we look at indicators of the economy. We use multiple measures such as GDP growth, unemployment rates, and labour force participation to get a clearer sense of what is happening than any individual measure could give us on its own.

2) Institutionalize the measure by reporting it regularly to the public

Real accountability requires ongoing measurement and external oversight. Measures should be tracked over time. Ideally, there needs to be a legislated requirement for ongoing measurement and reporting.

3) Impose constraints on regulators

Businesses and individuals have limited time and money to cope with regulation. If regulators want their rules followed, they must recognize these limits and impose some restraint on their own regulating. Suggested initiatives include a requirement on the part of government to remove a regulatory requirement for every new requirement introduced (a form of cap and trade) and the introduction of criteria to justify new and existing regulations.

4) Make regulatory accountability a political priority and appoint a minister responsible

Regulation has a serious impact on the economy, yet politically it is usually a low-profile issue. A cabinet-level position should be created (i.e. Minister of Regulatory Accountability or Reform). In the case of municipal governments, a permanent “standing committee”-style body should have designated seats for elected council officials so there is political accountability.

5) Ensure adequate communication of existing and proposed regulation

The onus should be on those creating new rules to ensure effective communication of those rules. It is entirely reasonable for business owners to expect government agencies to provide straightforward and consistent advice regarding regulatory compliance in a timely manner. All communication should be in plain language.

6) Focus on areas that will be most economically productive

To maximize the economic impact of regulatory reduction exercises, policy makers should focus on areas of regulation and red tape considered most harmful to business.

7) Carefully consider the need for all new regulation and the impact on small business

Any proposed regulation should be subjected to scrutiny that includes questioning whether it is needed, ensuring that affected parties are consulted, and that any unintended consequences of the regulation are considered. Guidelines for considering new regulations should be regularly monitored by a third party to ensure that they are being observed.

8) Keep compliance flexible and provide basic examples and guidelines for what constitutes compliance and non-compliance

Regulation works best when it is outcome-based rather than prescriptive in nature. This allows businesses to find the most cost-effective ways to comply with rules. Businesses should, however, also be given some guidelines and examples of what constitutes compliance. This is especially important for smaller businesses that do not typically have the resources to explore different options for the least costly way to comply. For those businesses, having basic guidelines regarding what constitutes compliance is extremely helpful.

9) Improve government customer service

Small- and medium-sized business owners know how critical good customer service is to the survival of their business. Regulators dealing with small businesses should be given customer service training with specific emphasis on understanding the importance of small business to the economy and the resource limitations, risks and hardships faced by many trying to operate small businesses.

10) Improve accountability for regulators by instituting such measures as reverse onus guidelines for timeliness and communication

Often there is little or no flexibility for business owners when it comes to meeting their compliance/paperwork obligations. Regulators, however, usually have no specific timelines imposed on them for when decisions will be made or permits will be approved. This asymmetry should be remedied so that regulators, too, have deadlines and suffer consequences when these deadlines are not met.

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Appendix A: CFIB and Ipsos Reid Surveys

POINT OF VIEW



M246PV_1203

RESULTS: Regulation and Paperburden

Survey method: Mandate 246 Paper & Web
 Survey period: March 7 – May 7, 2012
 Tabulation date: May 16, 2012
 Total responses: 8,562

% Response

1. Which MUNICIPAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select as many as apply) ..

- 21.8 Business licensing
- 41.1 Building and renovation permits
- 11.9 Parking by-laws
- 18.1 Garbage and recycling
- 8.1 Sewage and air emissions
- 26.6 Property assessment (can also be provincial)
- 21.5 Land use and development
- 20.7 Sign by-laws
- 52.3 Property tax & business tax (where applicable)
- 13.0 Selling to government (procurement)
- 5.3 Other (Please specify)

2. Which PROVINCIAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select as many as apply) ..

- 41.3 Employment standards
- 61.5 Workers' compensation, occupational health and safety
- 29.5 Business registration, reporting requirements
- 57.7 Provincial Sales Tax, Harmonized Sales Tax
- 21.0 Other tax compliance
- 6.4 Consumer protection
- 12.4 Health permits and inspections
- 15.4 Environment (e.g. agriculture and farming, energy, waste and recycling)
- 24.1 Financial (e.g. insurance, securities, banking)
- 4.0 Liquor and tobacco
- 5.2 Food inspection and restaurant inspections (can also be municipal)
- 10.1 Selling to government (procurement)
- 4.9 Other (Please specify)

3. Which FEDERAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select as many as apply) ..

- 63.4 Payroll taxes (CPP, EI)
- 39.1 Record of employment (ROE)
- 66.3 Goods and Services Tax, Harmonized Sales Tax (GST/HST)
- 58.6 Income taxes (personal or corporate)
- 19.4 Border and trade rules (e.g. exporting, importing paperwork)
- 1.1 Fisheries
- 4.1 Agriculture
- 5.0 Immigration and citizenship (e.g. applicant processing time)
- 10.6 Environment (e.g. pollution and waste, science and technology)
- 10.0 Transport
- 21.6 Business registration, reporting requirements
- 26.4 Statistics Canada (e.g. surveys)
- 8.8 Selling to government (procurement)
- 2.4 Other (Please specify)

4. How has the burden of regulations on your business changed during the past three years? (Select one for each line)

	Decreased	No noticeable change	Increased	Don't know
Municipal government	1.9	58.1	33.2	6.8
Provincial government	5.2	37.2	52.5	5.1
Federal government	3.0	42.4	49.0	5.6
Overall (all governments)	1.6	35.6	56.2	6.6

5. Considering all of the regulations pertaining to your firm - labour, tax, health and safety, sector rules, etc. - how many hours per week do you and your staff spend: ..

a. Filling out forms and doing government-related paperwork?

Hours/week

b. Ensuring that your firm complies with all existing regulations: reading, training, verification, administration, time spent with accountants and lawyers?

Hours/week

POINT OF VIEW



M246PV_1203

6. How much do you spend annually in professional fees (accountants, lawyers, consultants) to ensure your compliance with existing regulations? (Enter \$ amount per year)...

\$. 00

7. During the past three years, how much money do you estimate you spent on special equipment, renovations, etc. solely to comply with regulations? (Enter \$ spent in past three years)...

\$. 00

8. During the past three years, what impact have delays caused by regulations (e.g. permits, etc.) had on your business? (Select one answer only) ...

44.9 No impact or have not experienced any delays
41.2 Minor impact (5% or less lost in weekly sales)
13.9 Major impact (6% or more lost in weekly sales)

9. Do you agree or disagree with the following statements? (Select one for each line) ...

	Agree	Disagree	Don't know
If I had known the burden of regulation, I may not have gone into business	31.0	48.1	20.9
Government considers the impact on my business when it imposes regulations	6.8	81.9	11.3
Excessive regulations discourage me from growing my business	62.7	27.2	10.1
Excessive regulations significantly reduce productivity in my business	67.7	19.9	12.4
Excessive regulations add significant stress to my life	80.6	14.2	5.2
Complying with regulations takes time away from friends and family	66.7	23.9	9.4
Auditors, inspectors, and frontline government staff are held accountable for their mistakes (e.g. giving out wrong information, bad customer service)	14.4	69.2	16.4
In recent years, government is paying more attention to the importance of reducing red tape	14.1	62.7	23.2

10. Approximately, what percentage of your firm's regulatory burden could governments reduce without sacrificing the public interest for these regulations? (Please insert approximate percentage) ...

28.8% mean

11. Please describe any positive or negative experience with regulation or regulators (inspectors, auditors, etc.). These examples are extremely helpful when meeting with government.

12. Are you aware of CFIB's Red Tape Awareness Week? (Select one answer only) ...

38.9 Yes
61.1 No

Comments:

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POINT OF VIEW



RESULTS: U.S. Regulation and Paperburden

Survey method: U.S. DATA from Ipsos Reid
 Results as of: October 2012
 Total responses: 1,535

% Response

1. Which LOCAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select all that apply)

- 36.2 Business licensing
- 17.1 Building permits
- 5.8 Parking
- 6.8 Garbage and recycling
- 13.7 Property assessment
- 8.6 Sign permit
- 47.2 Property tax & business tax
- 25.4 Local sales tax
- 8.2 Selling to government (procurement)
- 10.4 Other (Please specify) _____
- 13.4 None of the above
- 1.7 Don't know

2. Which STATE government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select all that apply)

- 29.1 Unemployment tax
- 37.7 Workers' compensation, occupational health and safety
- 33.5 Business registration, reporting requirements
- 30.0 State Sales Tax
- 20.1 Other tax compliance
- 5.5 Consumer protection
- 18.6 Health care
- 3.3 Health permits
- 12.1 Labour
- 8.2 Environment
- 21.5 Financial (e.g. insurance, securities, banking)
- 2.7 Food
- 6.5 Selling to government (procurement)
- 2.8 Other (Please specify) _____
- 9.4 None of the above
- 1.5 Don't know

3. Which FEDERAL government regulations are most burdensome to your business in terms of time and money spent on compliance? (Select all that apply)

- 48.1 Payroll taxes (Social Security, Medicare, Health benefits)
- 54.0 Income taxes (individual or corporate)
- 13.2 Occupational health and safety
- 24.2 Health care
- 4.7 Border and trade rules (e.g. exporting, importing paperwork)
- 21.6 Financial (e.g. insurance, securities, banking)
- 5.1 Immigration and citizenship (e.g. applicant processing time)
- 7.7 Environment
- 5.0 Transportation
- 25.2 Business registration, reporting requirements
- 8.5 Government surveys (e.g. U.S. Census Bureau surveys, etc.)
- 6.8 Selling to government (procurement)
- 2.9 Other (Please specify) _____
- 8.0 None of the above
- 1.2 Don't know

4. How has the burden of regulations on your business changed during the past three years? (Select one for each line)

	Decreased	No noticeable change	Increased	Don't know
Local government	1.7	61.2	33.4	3.8
State government	1.9	49.6	45.1	3.3
Federal government	1.8	41.0	53.7	3.5
Overall (all governments)	1.0	40.5	54.1	4.4

5. Considering all of the regulations pertaining to your firm - labour, tax, health and safety, sector rules, etc. - how many hours per week do you and your staff spend:

a. Filling out forms and doing government-related paperwork?

Hours/week

b. Ensuring that your firm complies with all existing regulations: reading, training, verification, administration, time spent with accountants and lawyers?

Hours/week

POINT OF VIEW



6. How much do you spend **annually** in professional fees (accountants, lawyers, consultants) to ensure your compliance with existing regulations? (Enter \$ amount per year)...

\$. 00

7. During the **past three years**, how much money do you estimate you spent on special equipment, renovations, etc. solely to comply with regulations? (Enter \$ spent in past three years)...

\$. 00

8. During the past three years, what impact have delays caused by regulations (e.g. permits, etc.) had on your business? (Select one answer only)

49.3 No impact or have not experienced any delays
38.6 Minor impact (5% or less lost in weekly sales)
12.7 Major impact (6% or more lost in weekly sales)

9. Do you agree or disagree with the following statements? (Select one for each line)

	Agree	Disagree	Don't know
If I had known the burden of regulation, I may not have gone into business	22.8	58.4	18.8
Government considers the impact on my business when it imposes regulations	15.7	69.8	14.6
Excessive regulations discourage me from growing my business	50.8	39.5	9.7
Excessive regulations significantly reduce productivity in my business	56.9	34.2	8.9
Excessive regulations add significant stress to my life	64.6	29.4	6.0
Complying with regulations takes time away from friends and family	54.2	38.0	7.8
Auditors, inspectors, and frontline government staff are held accountable for their mistakes (e.g. giving out wrong information, bad customer service)	19.9	61.8	18.3
In recent years, government is paying more attention to the importance of reducing red tape	18.2	65.9	15.9

10. Approximately, what percentage of your firm's regulatory burden could governments reduce without sacrificing the public interest for these regulations? (Please insert approximate percentage)

31.2 Mean %

11. Please describe any positive or negative experience with regulation or regulators (inspectors, auditors, etc.). These examples are extremely helpful when meeting with government.

12. What would help your business better comply with regulations? (Select as many as apply)

71.6 Simplify existing regulations
54.8 Clearly communicate new regulations
45.3 Provide examples of what constitutes compliance
58.0 Reduce the total number of regulations
48.9 Improve government customer service
27.9 Make fewer changes to existing regulations
31.3 Improve timelines of decision making by regulators
41.5 Provide more online services (filing, information, etc.)
33.5 Provide compliance audits that do not trigger any monetary fines
3.7 Other (Please specify) _____

13. If the cost of dealing with regulations were reduced, how would your business most likely use the savings? (Select as many as apply)

37.8 Increase employee wages and benefits
13.7 Increase employee training
33.7 Hire additional employees
40.1 Invest in equipment, expansion
38.0 Convert savings into profit
16.0 Increase donations to charitable organizations
12.1 Decrease prices
33.5 Pay down debt
3.0 Other (Please specify) _____

Appendix B: Methodology for Estimating the Cost of Regulation

The CFIB survey on regulation was conducted from March to May 2012. A total of 8,562 small- and medium-sized business owners across Canada participated, corresponding to a margin of error of 1.06 per cent, 19 times out of 20.

In estimating Canadian regulation costs, answers from 5,978 survey responses were used after filtering and excluding outliers. The following data were captured:

- ▶ Hours spent weekly doing paperwork related to regulatory compliance and on other activities related to regulatory compliance (reading, training, verification, time spent with accountants and lawyers). These costs will be referred to as (h).
- ▶ Dollars spent annually on professional fees to ensure regulatory compliance (accountants, lawyers, consultants) and on special equipment and renovations solely to comply with regulations. These costs will be referred to as (f).
- ▶ Cost of lost sales as a result of regulatory delays or restrictions. These costs will be referred to as (s).

The Canadian regulatory cost estimate was calculated based on data from Statistics Canada's 2011 Survey of Employment, Payrolls and Hours (SEPH) which focuses on payroll administrative records (T4s). In estimating the total number of individuals employed in Canada, SEPH data were used in conjunction with the 2011 Labour Force Survey (LFS). SEPH only includes businesses with employees and incorporated self-employed individuals. To capture the unincorporated self-employed portion of the labour force (with and without paid help), data were extracted from the LFS. Although employee data are also available from the LFS, SEPH data were used over LFS data since more reliable income and employment data were available. It was also assumed that all unincorporated self-employed belonged to the first employment size category (fewer than 5 employees) as most unincorporated businesses are either sole proprietorships or partnerships.

Canadian employee hourly wage rates (w) were calculated using SEPH and the LFS. Hourly wage rates for employees in the private sector were derived based on average weekly earnings from SEPH by size of business and average actual hours worked weekly (for all jobs) from the LFS by province. SEPH data for industry sectors deemed mainly as public sector (utilities, education, health, public administration) were excluded.

The basic equation used to calculate the total annual cost of regulation for firms in our sample is:

Hours (h) x weekly wages (w) x 52 + professional fees and required spending (f) + net cost of lost sales (s).

Total weekly hours spent on paperwork by employees and employers were assumed to be at least 1 hour a week. Weekly hours spent on paperwork per employee were assumed to be less than 30 hours a week.

Professional fees and spending on equipment were restricted to be equal to or less than \$4,000 per employee per year. Required spending amounts in the past three years were then divided by 3 to obtain annual required spending costs.

Based on the CFIB survey results, 41.2 per cent of respondents reported a minor impact (5 per cent or less lost in weekly sales) on sales due to delays caused by regulations, while 13.9 per cent of

respondents reported a major impact on sales (6 per cent or more lost in weekly sales), resulting in a lost sales margin of 1.86 per cent. The net cost of lost sales due to regulatory delays was then calculated by multiplying the lost sales margin obtained from the survey results by the annual wages paid to employees of the firms surveyed and by the 2010 “national total net profits to total wages” ratio for business enterprises obtained from *Statistics Canada's Financial and Taxation Statistics for Enterprises* publication.

The survey sample was divided into five categories. The number of employees includes the business owner.

n_1 = Fewer than 5 employees

n_2 = 5-19 employees

n_3 = 20-49 employees

n_4 = 50-99 employees

n_5 = 100 or more employees

This allows us to estimate the cost of regulation per employee (CE) for each of the different firm sizes using the following general equation:

$$CE = \sum [(h_{ij} \times w_{ij}) \times 52 + f_{ij} + s_{ij}] / \sum e_{ij}$$

where:

i = the i^{th} firm from a total 5,978 cases

j = the j^{th} size category from a total of 5 categories

h_{ij} = hours spent weekly performing regulatory paperwork in business i and residing in size category j

w_{ij} = average hourly wage rate in business i and residing in size category j

f_{ij} = annual amount spent on professional fees and required spending related to compliance in business i and residing in size category j

s_{ij} = annual net cost of lost sales in business i and residing in size category j

e_{ij} = number of employees in business i and residing in size category j

To determine the total cost for all Canadian firms, the national cost per employee for each firm size (CE) was multiplied by the total number of employed individuals in Canada belonging to that firm size. Regulatory costs were aggregated across the five size categories to obtain an estimate of the total cost (TC).

$$TC = \sum (CE_j \times N_j)$$

where:

j = The j^{th} size category from a total of 5 categories

CE_j = cost of regulation per employee for size category j

N_j = total number of employees in Canada working for firms in size category j

Provincial total regulatory costs were calculated in a similar fashion using provincial cost per employee for each firm size. However, for cases where there were insufficient data (less than 20 respondents) for a firm size category, the national regulatory cost per employee was used in place of the provincial cost per employee. Provincial employment figures for particular sectors were estimated due to data suppression in SEPH.

GDP Estimate for 2012

Provincial GDP figures for 2010 were estimated using the annual percentage change in GDP for Canada from 2010 to 2011 obtained from Statistics Canada, National Income and Expenditure Accounts (CANSIM Table 380-0017, retrieved August 2, 2012). GDP figures for 2011 were estimated using the percentage change in GDP for Canada between the second quarter of 2011 and the second quarter of 2012 obtained from Statistics Canada, National Income and Expenditure Accounts (CANSIM Table 380-0002, retrieved October 17, 2012).

Treatment of Inflation

The total regulation costs and GDP for 2005 and 2008 were converted to 2012 dollars using annual Consumer Price Index (CPI) data from Statistics Canada (CANSIM Table 326-0020, retrieved August 2, 2012). The provincial and national CPI data for 2012 were estimated as the year-to-date monthly average of CPI data available for January through August (CANSIM Table 326-0020, retrieved October 17, 2012).

Regulation cost estimates for the United States

CFIB, with sponsorship from KPMG Enterprise™, commissioned Ipsos Reid to conduct a comparable survey on regulation in the United States. This survey was conducted in October 2012 and filtered respondents based on identical criteria to the Canadian survey. In addition, respondents were excluded if they worked in a business with 500 or more employees or in a publicly-traded company. Individuals in public administration, government services or the military were excluded. Only respondents who dealt with matters of regulatory compliance in their work were allowed to take the survey. Ipsos Reid ensured that the sample was representative of all regions of the United States. A total of 1,535 responses were collected.

The survey questions used to produce the U.S. regulation cost estimate were identical to those from the Canadian survey. U.S. regulation costs were estimated using a methodology similar to that used for Canada. The following assumptions were made to calculate U.S. regulation costs:

- U.S. employee hourly wage rates (w) were based on data from the U.S. Bureau of Labor Statistics. Hourly wage rates for employees in the private sector were derived using the average weekly wage by size of private sector establishment in the first quarter¹¹ of 2011 from the Quarterly Census of Employment and Wages (QCEW) and the average weekly hours of all private sector employees in 2011. The latter was calculated as the average of monthly data in 2011.

¹¹ The U.S. Bureau of Labor Statistics only releases first quarter data each year, which are assumed to be fairly consistent throughout the year.

- ▶ Based on the U.S. survey results, the lost sales margin for the U.S. is 1.69 per cent (38.6 per cent of respondents reported a minor impact on sales due to delays caused by regulations and 12.1 per cent reported a major impact). The net cost of lost sales due to regulatory delays was then calculated by multiplying this lost sales margin by the 2011 “national total net profits to total wages” ratio. Data on corporate profits after tax were obtained from the U.S. Bureau for Economic Analysis, National Income and Product Accounts, while data for total wages in the private sector were obtained from the Bureau of Labor Statistics’ QCEW.
- ▶ U.S. costs per employee by firm size were multiplied by total U.S. employment in the private sector by establishment size, and then aggregated to obtain the total cost estimate. Total U.S. private sector employment in the first quarter of 2011 was obtained from the QCEW. Employment in utilities, education, and health care were included in the private sector employment figures. U.S. incorporated and unincorporated self-employment for 2011 was added to the private sector employment total under the smallest firm size category (fewer than five employees). Self-employment data were obtained from the U.S. Bureau of Labor Statistics, Current Population Census.
- ▶ The U.S. dollar was assumed to be on par with the Canadian dollar.

To adjust for differences in sampling between Canada and the U.S., the U.S. sample was weighted by sector and by size of business (including self-employed) to reflect the distribution of the Canadian sample.

Other Notes

Because provincial costs per employee and provincial employment were applied for provincial cost estimations, the provincial costs do not add up to the national cost estimate. Provincial estimates were then adjusted proportionally to add up to the national cost estimate. Although the territories are not presented separately, the Northwest Territories, Nunavut, and Yukon are included in the national cost estimate.

Certainly, there exist additional costs related to complying with regulation that are difficult to quantify. Since this report excludes such additional costs, the national cost estimate presented is conservative. Additional costs that are excluded in the calculation would, if included, inflate the current estimates even more. For example, costs linked to lost innovation, productivity, and economic activity as a consequence of excess and inefficient regulations are unaccounted for in this report but would contribute significantly to the burden of regulation.

Appendix C: Provincial Comparisons

Most burdensome provincial regulations, by province (% response, Canada)

	Canada	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Workers' compensation, occupational health and safety	61	51	61	63	60	68	52	54	61	62	77
Provincial Sales Tax, Harmonized Sales Tax	58	71	25	53	60	60	65	52	63	72	56
Employment standards	41	34	43	31	49	50	33	29	27	23	18
Business registration, reporting requirements	29	24	29	26	28	27	42	32	34	28	24
Financial (e.g. insurance, securities, banking)	24	19	29	24	22	25	21	31	25	20	26
Other tax compliance	21	17	22	20	25	20	27	17	16	22	12
Environment	15	11	16	15	18	17	15	11	14	30	6
Health permits and inspections	12	9	12	11	12	14	8	17	18	18	15
Selling to government (procurement)	10	8	9	10	9	10	13	11	12	5	5
Consumer protection	6	5	7	4	5	8	4	6	6	7	5
Food inspection and restaurant inspections	5	4	5	4	4	4	6	13	10	12	11
Liquor and tobacco	4	5	3	4	2	4	3	8	5	3	10
Other	5	4	7	3	4	4	6	3	5	7	1

Source: CFIB, *Survey on Regulation and Paper Burden*, 2012, n=8,562.