



**CFIB**

*Research*



# **Regulatory Reform in Canada**

## The Small Business Perspective

**December 2003**

**Robert Taylor**

Senior Policy Analyst, National Affairs

## Introduction

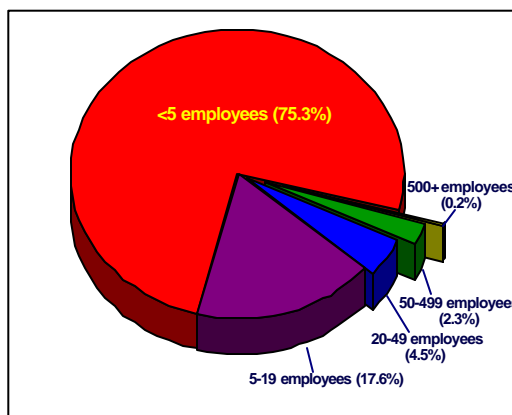
The Canadian Federation of Independent Business (CFIB) represents over 100,000 small- and medium-sized business (SME) owners in every regions and every sector of the Canadian economy. CFIB's position on various public policy issues is based on direct member input provided through extensive member surveys, approximately 4,500 face-to-face member visits per week and over 20,000 member enquiries received every year.

This submission is comprised of three parts: The first part deals with the role the SME sector plays in the Canadian economy; the second part outlines our members' priorities and concerns regarding the regulatory burden; and the third part outlines some recommendations.

## The SME Sector: Canada's Economic Engine of Growth

As Figure 1 shows, most Canadian businesses are relatively small. Statistics Canada's most recent data shows that, of the one million businesses in Canada, roughly three-quarters employ fewer than five people, and most (over 97 per cent) have fewer than 50 employees. The SME sector accounts for roughly half of GDP and over half of total employment in Canada.

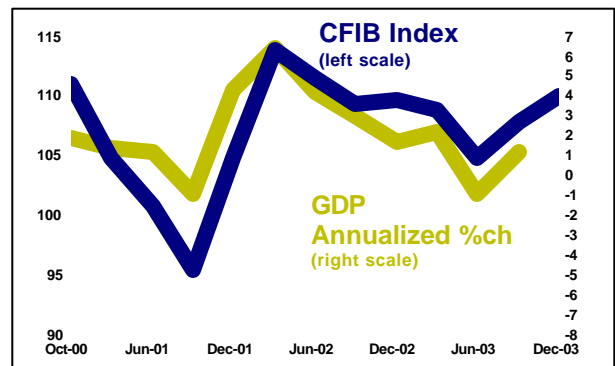
**Figure 1**  
**Canada's Business Sector**



Source: Statistics Canada, *Employment Dynamics* (1999)

As one would expect, the SME sector is a very accurate barometer of what is going on in the Canadian economy. The following graph (Figure 2) provides a comparison of members' 12-month expectations for their own business with changes in the GDP. As the graph shows, there is a very close relationship between the two lines, which is hardly surprising since business owners report about what they know best—their own business.

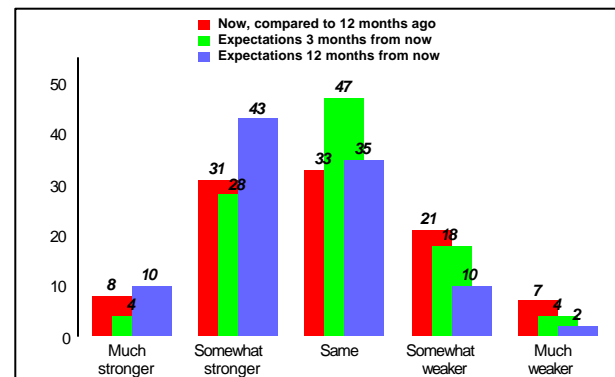
**Figure 2**  
**SMEs: Barometer of Economic Growth**



Source: CFIB, QBB#4, Dec 2003 based on 2,556 business owners

Figure 3 shows our members' expectations for the next quarter and the next 12 months, based on survey results released in December 2003. As the graph clearly shows, our members are optimistic as to their prospects over the next 12 months: 32 per cent of our members expect a stronger business performance over the next three months and 53 percent expect a stronger performance over the next 12 months.

**Figure 3**  
**Current and Expected Business Performance**



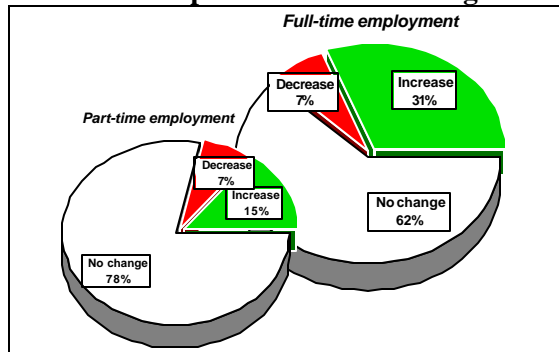
Source: CFIB, QBB#4, Dec 2003 based on 2,556 business owners

## Contribution to Job Creation

According to Statistics Canada, the Canadian economy created 560,000 new jobs in 2002, and 218,000 in 2003 (as of November 30). The great majority of these jobs were created by the SME sector. Figure 4 shows that our members' hiring plans for the next twelve months remain upbeat: 31 per cent plan to increase full-time employment, 62 per cent plan no change and only 7 per cent plan to decrease employment.

All indications are that, in spite of all the external shocks that affected the Canadian economy in 2003, the SME sector will continue over the next year and beyond to create jobs at a good rate, if provided with the right economic environment.

Figure 4  
Anticipated 12-month Hiring Plans

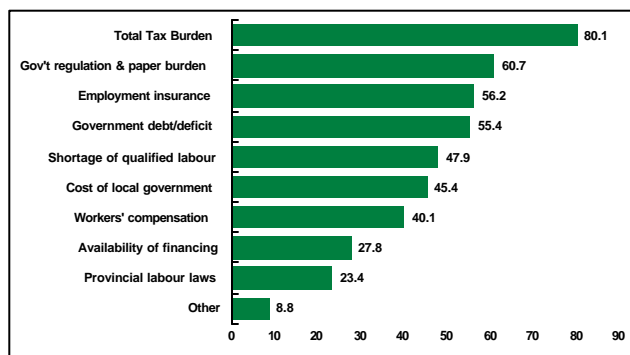


Source: CFIB, QBB#4, Dec 2003 based on 2,556 business owners

## SME Priorities on Regulatory Matters

CFIB surveys its members on a regular basis on issues of greatest concern affecting to them. Figure 5 shows the most recent results (which are consistent with previous surveys) where Government Regulation and Paper Burden (60.7%) is second only to Total Tax Burden (80.1%) as having the most significant impact on our members.

Figure 5  
Our Members' Priorities



Source: OMO #53, July – January 1, 2004, based on 23 260 responses

*“In the 2002 Speech from the Throne, the Government announced a smart regulation strategy that would promote health and sustainability, contribute to innovation and economic growth and reduce the administrative burden on business...”* 2003 Federal Budget

The External Advisory Committee on Smart Regulation's vision statement and declared principles are comprised of *Trust, Innovation, Protection, Effectiveness, Flexibility, Transparency, Accountability and Collaboration.*

While CFIB agrees that the parameters established by the Committee are appropriate, the definition and interpretation of these words may be different when viewed from the private and public sector perspectives. The challenge for all of us now is to make and implement pragmatic recommendations that will reduce the administrative burden on Canadian businesses and individuals.

## A Regulatory Renaissance

Prime Minister Martin's stated recently “Canada must build a 21<sup>st</sup> century economy. An economy driven above all, by individual ingenuity and creativity”. A smart regulation regime is a sine qua non to meeting the Prime Minister's goal. Increasingly, Canadian firms that compete on world markets will compete not only against other firms but also against their governments. Developments in Europe and the U.S. show a determination to address disproportionate regulatory burden being imposed on SMEs.

## Need to be Competitive Internationally

The European Union has ratified their Charter for Small Enterprises which recognizes the tremendous role SMEs play in economic growth and creation of jobs. Member states have begun a process of reviewing regulations and government practices from the SME perspective to lessen the burden of government on SMEs and foster entrepreneurship.

## Regulatory Reform In the United Kingdom

In United Kingdom government has created a “Think Small First” policy whereby the impact of legislative and regulatory initiatives on SMEs is assessed first and graduated accordingly. The Regulatory Action Directorate of the Small

Business Service (SBS) works with the government to implement impact assessment analysis.

### **Regulatory Reform in the United States**

The United States passed the *Regulatory Flexibility Act* in 1980 and in 1996 passed the *Small Business Regulatory Fairness Act* which states “each agency shall prepare a regulatory flexibility analysis in which the agency shall, where consistent with health, safety and environmental and economic welfare, consider utilizing regulatory methods that will accomplish the objectives of applicable statutes while minimizing the adverse impacts on small businesses:

- 1) The establishment of less stringent compliance or reporting requirements for small businesses;
- 2) The establishment of less stringent schedules or deadlines for compliance or reporting requirements for small businesses;
- 3) The consolidation or simplification of compliance or reporting requirements for small businesses;
- 4) The establishment of performance standards for small businesses to replace design or operational standards required in the proposed regulation; and
- 5) The exemption of small business from all or any part of the requirements contained in the proposed regulation.

### **Regulatory Reform In Canada**

In the October 2002 report entitled, *Regulatory Reform In Canada: Maintaining Leadership through Innovation*, the OECD recognized and praised Canada’s accomplishments in regulatory reform, in fact it lauds the government’s endeavour to strike the External Advisory Committee on Smart Regulations.

Attempts to reduce the regulatory burden are not new. In fact, a 1994 publication entitled *Breaking Through Barriers: Forging our Future* was the product of the Small Business Working Committee that was co-chaired by CFIB and comprised of Canada’s business leaders, Parliamentarians and key federal Government departments.

Although the report is nearly a decade old now, its findings and recommendations are as pertinent today as they were in 1994. The following are some of the major regulatory problems identified by small business:

- *Cost of Compliance.*
- *Unclear Requirements—what is expected of business?*
- *Uncertainty of interpretation and enforcement.*
- *Regulations do not recognize the capabilities of, or the competitive impact on, small business.*
- *Timing of compliance, reporting and monitoring requirements.*
- *Regulations often reduce flexibility and innovative capabilities.*
- *Overlap and duplication of government regulations create additional costs to business.*
- *Regulations are often incompatible with prevailing market conditions, best business-practices, or efficient administration.*
- *Regulations are often incompatible with the requirements of another domestic or international jurisdictions or regulating bodies.*
- *Lack of transparency in regulatory design, interpretation and enforcement.*

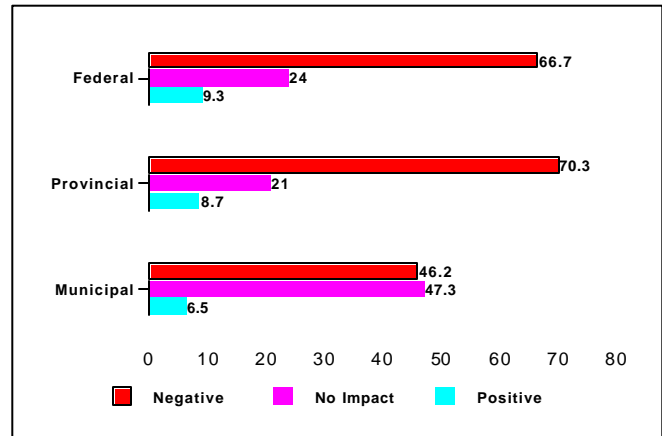
The Report went on to make the following recommendations regarding regulations:

- *remove ineffective and uncompetitive regulations that adversely affect SMEs.*
- *encourage regulatory flexibility, including systems of self-regulation, in meeting government-defined performance standards. These systems must include specific measures to address small business needs.*
- *rationalize existing regulations across departments and jurisdictions.*
- *publicize and enforce its existing regulatory policy, which states that departments and agencies must justify the need for regulation, weigh the benefits of the regulations against their cost, and determine the relevance, success, and cost-effectiveness of existing regulatory programs.*

- *make a special provision for assessing the impact that regulations have on small businesses.*
- *involve small businesses in the process of regulatory design, assessment and revision from the very beginning. A process must be put in place for periodic review, updating and revision of regulatory requirements.*

provincial regulations and an overwhelmingly negative impact on their business (Figure 6)

**Figure 6**  
**Impact of Regulation/Red Tape on Agri-business**



Source: CFIB, Agribusiness Survey on Government Regulation, National Results, Jan 2000

### Regulatory Reform In British Columbia

The Government of British Columbia has made regulatory reform a priority by creating a Minister of State for Deregulation. This office is committed to reducing the regulatory and red tape burden by 1/3 within 3 years, with quarterly progress reports listing the deletion and addition of regulations on a department-by-department basis.

The Office of Deregulation defines red tape as the following: *“Red Tape is non-essential procedures, forms, licences, and regulations that add to the cost of dealing with government. This includes anything obsolete, redundant, wasteful or confusing that diminishes the province’s economic competitiveness, and stands in the way of job creation or wastes taxpayers’ time and money.*

*Red Tape does NOT include measures that are demonstrably effective and necessary for the protection of public health, safety, the environment and consumers.”*

CFIB has been working in consultation with the Government of British Columbia to assist the Office of Deregulation meet its goals and expand its scope to reduce the cumulative impact of regulatory burden on business and individuals.

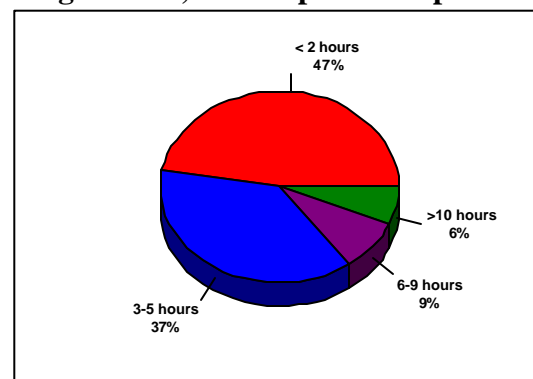
### Measuring the Impact of Regulation

There is an old adage that says that unless you can measure a problem you cannot expect to fix it. One of the challenges we face to making progress has to do with the issue of measurement. CFIB has been measuring facets of the impact of regulations over the years in a number of ways. A 2000 survey of our agri-business owners on the impacts of regulations and red tape for instance, revealed that compliance with federal and

Figure 7 illustrates the amount of time agri-business owners spend per week complying with government regulations red tape and paperwork. SME owners have little time available to spend dealing with government regulation, red tape and paperwork. In fact, every minute a business is required to devote to government demands is a minute lost for meeting their customers’ needs.

For just over half of CFIB agri-business members, an average of three or more hours per week is required to satisfy government requirements. In the course of a year, this removes a minimum of 156 hours of business productivity—nearly a month of a regular salaried employee’s time.

**Figure 7**  
**How much time is spent dealing with Regulations, Red Tape and Paperwork?**

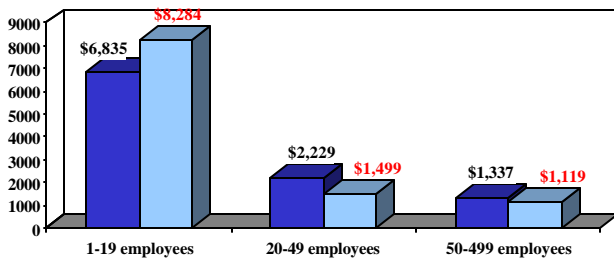


Source: CFIB, Agribusiness Survey on Government Regulation, National Results, Jan 2000

## Size Matters

Studies carried out in the U.S. and by the OECD have shown that compliance to the vast array of government regulations impose a very significant economic cost to society, and that the distribution of the burden is uneven. Both the U.S. and OECD studies have shown that within the business sector, small- and medium-sized businesses are hit the hardest. In the OECD study, firms employing fewer than 20 employees face an annual regulatory burden of \$6,835 per employee, five times above the cost faced by a firm employing between 50 and 500 employees. (Figure 8)

**Figure 8**  
**Administration Costs by Size**  
**Quebec versus OECD Countries**

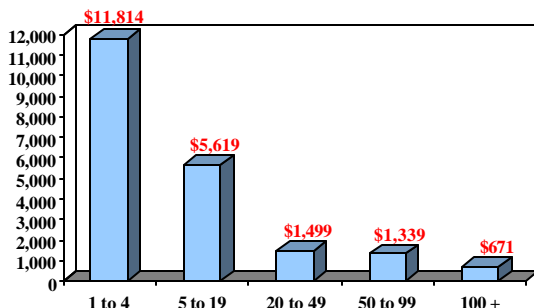


Source: CFIB Survey, September 2003, based on 1,521 responses

In 2003, CFIB carried out a survey of Quebec business owners, and the results show that SMEs face a disproportionate regulatory burden: Businesses with fewer than five employees--which represent three out of four Quebec businesses--incur annual costs per employee of \$11,814 as compared to \$671 per employee for firms with 100 employees or more (see Figure 9).

**Figure 9**  
**Administrative costs of regulations, per employee, per year, based on firm size--Quebec**

Source: CFIB Survey, September 2003, based on 1,521 responses

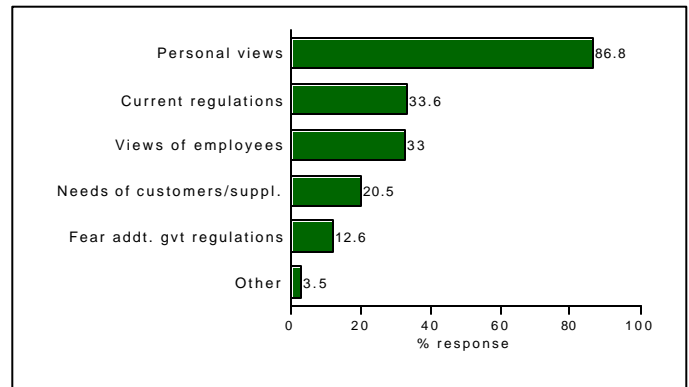


## Positive Developments within the Federal Regulatory Regime

There are two ways of imposing regulations on businesses; compliance guidelines and mandatory reporting requirements. The latter has been the traditional means of government intervention, which has, over time, contributed to the smothering compliance burden faced by SMEs.

CFIB research reveals that the vast majority of SMEs will embrace regulatory measures based on their own personal beliefs rather than the onerous government regulatory regime used to bring about compliance (Figure 10).

**Figure 10**  
**Motivational Factors for Environmental Changes**



Source: CFIB, results of *Environmental Survey*, September – November 2000

## Simplified Input Tax Credits

In the 1990s, much of the opposition of SMEs to the introduction of the GST had to do with the burden of compliance. CFIB worked with the federal government to develop on the GST Simplified Input Tax Credit that greatly reduced the compliance burden and yet had little or no impact on government revenue. CFIB believes that a greater emphasis on “simplification” measures will be successful especially in the area of deducting automobile expense for SMEs.

## Privacy Legislation

The federal *Personal Information Protection and Electronic Documents Act* (PIPEDA) which comes into effect for SMEs on January 1, 2004, is a complaints-driven initiative which establishes operational guidelines for businesses to follow

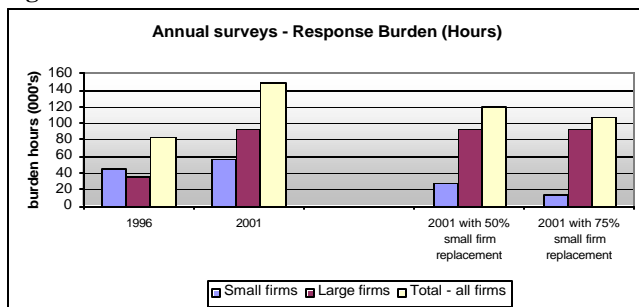
with out the onerous requirement of regular reporting and monitoring.

### Statistics Canada

Statistics Canada gathers vital information on economic and social activities in Canada and has earned international praise for the excellence of its reports. CFIB has worked closely with Statistics Canada over the years to reduce the statistical reporting burden that proved onerous for certain businesses. Statistics Canada has recently initiated a program that will further reduce the compliance burden on SMEs by using data already being collected by the Canada Customs and excise Agency.

The chart below (Figure 11) shows the hypothetical impact on response burden hours as a result of Statistics Canada’s planned Tax Replacement Strategy. It covers business surveys conducted in calendar year 2001 versus those conducted in 1996. Statistics Canada targets call for a 50% response burden reduction for its annual surveys to be conducted in calendar year 2004, and a 60% reduction for those conducted the following year.

Figure 11



Source: Statistics Canada Business Surveys, 2003

### Regulatory Tiering

The concept, being discussed within government, would vary regulatory requirements according to firm size. For small businesses, it can reduce their compliance costs through exemptions—small businesses may be exempted from the substantive requirements of a regulations—or through lighter regulatory requirements.

### Next Steps

CFIB believes that in order to achieve meaningful and effective regulatory reform that will allow Canadian firms to compete internationally and

grow our economy, the federal government must make regulatory reform a real priority. Canada’s international competitors have identified the SME sector as the engine of economic growth and job creation, and as such has focused on the impact of regulations on this crucial sector.

Jurisdictions that have experienced successes in regulatory reform have done so through implementing institutional arrangements such as agencies and bureaus to implement and monitor regulatory reform agenda.

An official “champion of regulatory reform” is required within government to fight the cultural inertia and resistance that reform agendas historically encounter. For example, some government departments may focus on policy objectives without considering the financial cost of compliance on the economy.

The process of regulatory reform in the United States has been long and cumbersome. *The Regulatory Flexibility Act* was passed nearly 25 years ago, however the culture of government has changed to incorporate the small business perspective and through working with SMEs, have found creative alternatives to fulfilling regulatory objectives in the least intrusive ways.

CFIB recommends that the External Advisory Committee on Smart Regulations:

- ✓ Revisit the recommendations listed in the 1994, *Breaking Through Barriers: Forging our Future Report*.
- ✓ Study the experiences in the UK, U.S., the European Union and British Columbia, in reducing the regulatory burden on SMEs.
- ✓ Address the disproportionate impact of regulatory burden based on the size of firm.
- ✓ Focus on the possibility of introducing regulatory flexibility measures such as tiering, simplification and the utilization of data collected by government to reduce the burden on SMEs