CANADA STILL NEEDS TO OPEN UP TO COMPETITION

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In the last few years, politicians and pundits in Canada have latched on to a new trend claiming that Western economies are becoming less competitive. The result, it is argued, is lower living standards for consumers and workers (Dobby 2021). The proposed remedy is increased government intervention—something exemplified by the politicization of debates over grocery stores and food prices (Al Mallees 2023). However, largely undiscussed is the fact that the different governments across Canada are the ones walling off competition—something which has been true since the late 19th century in Canada and elsewhere (Geloso 2020, Brozen 1980). Equally undiscussed is how costly these barriers are for Canadians.

These barriers come in three important forms: a) restrictions against foreign businesses; b) state-owned monopolies; and c) regulatory barriers to entry. Examples of restrictions against foreign business can be seen in the airline and telecommunications sectors for which there is federal legislation curtailing the ability of non-Canadian firms to provide services between Canadian cities (for airlines) or to provide services outright (for telecommunications).[1] There are numerous state-owned monopolies including electricity distribution, alcohol retailing, urban transit, domestic mail, etc. While there are multiple industries such as dairy farming, poultry farming, intercity busing, taxis, and limousines for which there are significant legal barriers to entry.

In 2019, I designed a methodology to avoid double counting protected industries and capture the share of the Canadian economy protected from competition (Geloso, 2019). Using 2017 numbers, I estimated that share at 22.1 percent. Replicating this estimate for 2022 generates a proportion of 20.9 percent (see table 1 right). Simply put, one in five dollars of economic activity is not subjected to the disciplining force of contestability because of government policies devised for that purpose.

This estimate downplays the importance of government-created barriers to competition. Given the availability of certain types of data, the methodology I designed could not incorporate barriers such as occupational licensing (which limits entry into certain trades such as in

Table 1: Share of Canadian Economy Shielded from Competition

Part 1: Restrictions on Foreign Business Activity	2006	2017	2022
Mining and oil and gas extraction	3.7%	7.6%	5.1%
Other metal ore mining	0.1%	0.1%	0.0%
Electric power generation, transmission and distribution	2.1%	1.8%	1.7%
Air transportation	0.4%	0.5%	0.3%
Pipeline transportation	0.5%	0.5%	0.5%
Publishing industries	0.8%	0.5%	0.6%
Motion picture and sound recording industries	0.2%	0.2%	0.2%
Radio and television broadcasting	0.2%	0.2%	0.2%
Pay TV, specialty TV and program distribution	0.2%	0.1%	0.1%
Telecommunications	2.4%	1.8%	1.9%
Finance and insurance	6.0%	6.7%	7.2%
Total Part 1	16.5%	19.9%	17.7%
Part 2. State-owned monopolies not included in Part 1	**2006**	**2017**	**2022**
Gambling	–	0.4%	0.4%
Alcohol + cannabis	–	0.7%–0.8%	1.4%
Domestic mail	–	0.1%	0.1%
Urban transit	–	0.3%	0.1%
Total Part 2	–	1.6–1.7%	
Part 3: Additional protected industries not included in Parts 1 & 2	**2006**	**2017**	**2022**
Dairy and poultry (supply management sectors)	–	0.60%	1.0%
Maple Products	–	0.02%	0.02%
Intercity Busing	–	0.03%	0.01%
Taxis and Limousine	–	0.10%	0.06%
Total Part 3	–	1.45%	1.12%
GRAND TOTAL	**–**	**22.1%–22.2%**	**20.7%**

the construction sector) and government monopolies on education and health care services without committing the serious sin of double-counting certain industries (thereby artificially inflating the proportion). However, we know that occupational licensing has grown to affect a larger share of the workforce (less than 14 percent in 1998 versus 16 percent in 2014) (Zhang 2019; Zhang and Gunderson 2020). I also am unable to account for interprovincial barriers to trade which are known to sizably depress interprovincial trading activities (Albrecht and Tombe 2016). Finally, I am unable to include the effects of the costs of business regulations for opening new business. Such regulations tend to be more burdensome for small business. The result is that these business regulations limit the ability of smaller firms to contest and compete with larger firms as a recent study from the federal department of Innovation, Science and Economic Development Canada (ISED) confirmed (Jiong 2020).

One way to estimate how much greater it would be if we were able to correctly include other protections is to add the construction sector. That sector, which is heavily affected by occupational licensing, is the least likely to cause double-counting. For the 2017 estimate, its addition brought the share of the Canadian economy that is protected from competition from 22.1 percent to 30.6 percent. For 2022, its inclusion brings the total to 28.6 percent. This solution can be complemented by an adjustment to account for the government's monopoly on education and health care. As stated above, accurately determining the proportion of the health care and education markets that face competition is challenging. We can bypass this problem by omitting these sectors from the denominator. Rather than dividing the protected segments of the economy by its overall size, we would divide them by the size of the economy after removing health care and education. When this is done, we arrive at 32.6 percent for 2022 compared with 35.1 percent in 2017.

These barriers hurt Canadians. The true gauge of a competitive economy is not how many firms are active in any industry. Rather, it is the possibility to challenge the incumbent from either inside or outside of the industry (Demsetz 1973, 1982).[2] A single firm that dominates a market entirely may still act in a competitive manner because it fears the entry of a competing firm. This fear of being contested puts incumbent firms on their toes and presses them to keep prices low while improving quality. Doing otherwise invites a challenge from players not yet known.

This fear has a dual effect. The first is a downward effect on prices which means that workers' real wages are increased through greater purchasing power. The second is an upward effect on wages. In the face of a constant threat of contest, firms have very few choices other than improving productivity. This is done by innovating through new products, new production processes, new technologies, etc. Firms are forced to be more dynamic. In turn, rising productivity generates increases in wages as firms try to induce workers to shift between them. Combined, these two effects from this fear of contest produce a powerful force to push up the living standards of Canadians.

In contrast, barriers to competition in the forms discussed above produce the opposite effect. They dull the innovative reflexes of firms. A popular quip in economics is that the true profit of a monopolist is a quiet life. Unperturbed by fears of his competitors, he can sail steady and stop worrying about what consumers—who are unable to credibly leave him—want and need. This means not only higher prices for consumers who purchase the good of that protected firm, it also means higher prices for all goods that use this good as an input. In the end, general economic competitivity is depressed.

Before hitching on the bandwagon of adding more government policies to boost competition, it might be good to consider how governments have reduced it in Canada. After all, 'first, do no harm' should apply to economic policy too. ❖