

# The Cost of Business Subsidies in Canada

*By Tegan Hill and Joel Emes*

Federal, provincial, and local government spending on business subsidies totalled \$352.1 billion (inflation-adjusted) from 2007 to 2019. For perspective, Canada spent \$327.5 billion (inflation-adjusted) on national defence over the period, \$24.6 billion less than was spent on business subsidies. Such spending came with significant costs to Canadian taxpayers and government budgets. Given ongoing budget deficits, and the questionable efficacy of business subsidies in achieving widespread economic growth, Canadian governments should carefully re-evaluate this area of spending.

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A significant body of research finds little evidence that business subsidies generate widespread economic growth and/or job creation. In fact, business subsidies might have a negative impact on economic development as governments' attempts to pick winners by interfering in the free market ultimately distort private decisions and misallocate resources. The questionable efficacy of business subsidies warrants a closer review of the cost of government spending in this area.

Specifically, this report puts a dollar amount on the level of subsidies delivered through government spending from 2007 to 2019. We find that, after adjusting for inflation, federal subsidies totalled \$76.7 billion, provincial subsidies \$223.3 billion, and local subsidies \$52.1 billion. It is important to note that this is not a comprehensive measure of government support to businesses, which would include all amounts delivered through tax expenditures, loan guarantees, direct investment, and regulatory privileges extended

to particular firms or industries. The true level of government support to select businesses would be even higher.

The fiscal cost of business subsidies ultimately is borne by taxpayers. For Canadians who filed taxes from 2007 to 2019, the cost of total subsidies per tax filer by province was (in descending order): \$18,785 in Saskatchewan, \$18,334 in Quebec, \$14,811 in Prince Edward Island, \$13,285 in Alberta, \$12,627 in Ontario, \$11,573 in British Columbia, \$11,290 in Manitoba, \$8,511 in Nova Scotia, \$7,057 in Newfoundland and Labrador, and \$6,048 in New Brunswick. That is a significant amount of taxpayer money not available for programs and services for Canadians.

It is also useful to review the cost of subsidies in a budgetary context. One way to do this is to assess provincial subsidies as a share of corresponding corporate income tax revenue from 2007 to 2019. This represents the amount of taxes that could be reduced or even eliminated in the absence of such subsidies.

The results are stark, particularly for certain provinces. Prince Edward Island had the highest level of provincial subsidies as a share of corporate income tax revenue, averaging 162.9 percent from 2007 to 2019. In other words, Prince Edward Island could have eliminated all corporate income taxes over the period if it had ended subsidies to businesses, and still have money left over.

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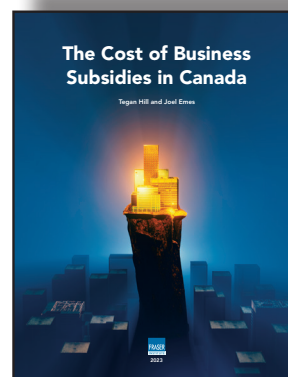
Two provinces spent the equivalent of roughly all corporate income tax revenue on provincial subsidies. On average, provincial subsidies in Quebec over the 2007–19 period represented 100.9 percent of annual provincial corporate income tax revenue. In Manitoba, the comparable figure was 97.6 percent. In other words, in Quebec and Manitoba, the provincial government effectively could have eliminated all provincial corporate income taxes over the period if they had also ended provincial subsidies to businesses.

Saskatchewan and British Columbia also had relatively high spending on provincial subsidies as a share of provincial corporate income tax revenue. Provincial subsidies in Saskatchewan (on average) represented 88.6 percent of provincial corporate income tax revenues. The equivalent of nearly nine in every ten dollars of corporate income tax revenue was sent back to businesses in the form of subsidies from 2007 to 2019. On average, provincial subsidies in British Co-

lumbia represented 70.7 percent of all provincial corporate income tax revenue, equivalent to more than two in every three dollars of corporate income tax revenue being sent back to select businesses.

Business subsidies represented roughly half of all corporate income tax revenue (on average) in Ontario (46.1 percent) and Nova Scotia (47.6 percent) from 2007 to 2019. In the three remaining provinces—New Brunswick, Alberta, and Newfoundland and Labrador—business subsidies represented between 30 and 40 percent of corporate income tax revenues on average. Corporate income taxes could have been reduced meaningfully if governments had ended business subsidies in any of these provinces.

Clearly, business subsidies come with significant costs to Canadian taxpayers and government budgets. To the extent that these subsidies do not have broad economic benefits, as the literature suggests, this is a key area for spending reform.



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