

The Cost of Business Subsidies in Canada

Updated Edition

Tegan Hill, Joel Emes, and Jake Fuss



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Executive Summary

- Business subsidies delivered through government spending since 1961 came with significant costs to Canadian taxpayers.
- In 2019, provincial business subsidies reached \$27.0 billion (\$2022). This represents the single largest year of provincial subsidies in Canadian history prior to COVID.
- Federal business subsidies increased significantly as a result of COVID-related programs, reaching \$88.5 billion in 2020 and \$47.0 billion in 2021.
- Although federal business subsidies declined in 2022, the new total (\$11.2 billion) is nearly double the amount the federal government spent in the final pre-COVID year (\$6.5 billion in 2019).
- The cost of total subsidies—federal, provincial, and local—per taxpayer from 2007 to 2019 was highest in Quebec (\$30,579), closely followed by Saskatchewan (\$29,414). Total subsidies per taxpayer were lowest in New Brunswick (\$9,484) over this time period.
- On average, federal business subsidies represented 13.2% of federal corporate income-tax revenue over the period from 2007 to 2019.
- Prince Edward Island had the highest level of provincial business subsidies as a share of corporate income-tax revenue at 160.8%, on average, from 2007 to 2019.
- Two other provinces spent the equivalent of roughly all corporate income-tax revenue on provincial business subsidies from 2007 to 2019. Provincial subsidies, on average, represented 100.8% of annual provincial corporate income-tax revenue in Quebec and 97.5% in Manitoba.
- The evidence suggests that business subsidies do not foster widespread economic growth and, thus, stand out as a key area of spending to be reformed.

Introduction

Governments should always be concerned with efficient and effective government spending. Ongoing budget deficits, which existed long before the COVID-19 pandemic, should further prompt Canadian governments to re-evaluate and prioritize their spending.¹ This report reviews one specific area of government spending: business subsidies.

A significant body of research finds little evidence that business subsidies generate widespread economic growth and/or net job creation; in fact, they might have a negative impact on overall economic development.² In general, governments' attempts to pick winners by interfering in the free market ultimately distort private decisions and misallocate resources.³

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- 1 Relatively high levels of federal and provincial government spending over the past decade and a half have contributed to routine deficits and a significant accumulation of debt, which come with real costs to Canadians (Canada, 2021; Finances of the Nation, 2021; Fuss and Lafleur, 2021; Fuss and Palacios, 2020). Three provinces are projecting surpluses in fiscal year 2023/24, but these surpluses are largely fuelled by a temporary jump in revenue from natural resources and these provinces likely will return to deficits once the higher revenue dissipates.
 - 2 For a complete literature review, see Milke, 2007; Mitchell, Horpedahl, and Gonzalez, 2022; Peters and Fisher, 2004; Pack and Saggi, 2006.
 - 3 A main reason business subsidies might not have an overall demonstrable positive economic impact is the substitution effect. This effect occurs when jobs and investment are shifted among jurisdictions, industries, or companies, rather than actually created on a net basis. A clear example is when Industry Canada paid \$2.2 million to help construct a new fish-processing plant in Quebec on the premise that the project would create 250 new jobs. A review by the Auditor General found that a nearby fish-processing facility closed with job losses equivalent to those created by the new facility—in other words, jobs were transferred, not created, at a significant cost to taxpayers (Canada, 1995). Similarly, provincial governments frequently use different forms of subsidies to lure companies and investments from other provinces. For example, a leading video-game publisher shut down its operations in Vancouver and moved to Ontario to take advantage of \$2 million in grants from the Ontario government, more generous tax credits (a form of business subsidy), and potentially other “undisclosed” financial support (Hutchins, 2012; Mudhar, 2012). The substitution effect can be even more localized. For example, the Opportunity Calgary Investment Fund (OCIF) paid Parkland Corporation up to \$4 million to consolidate its national operations to the city and reallocate 100 jobs from the company's office in Red Deer (Varcoe, 2019). Business subsidies can result in a net loss to the economy when resources are shifted to less productive uses. For instance, an analysis of the impact of subsidies to motor-vehicle manufacturers—a prominent recipient of business subsidies in Ontario—estimates that each dollar directed to this industry corresponds to a decline of 4.6 cents in value added (that is, income) to the overall economy as resources are transferred from other sectors that could create more value (Tombe, 2015). In some cases, subsidies

The literature finds that, at most, subsidies have a narrow and limited effect on local economic behaviour. Although the questionable efficacy of business subsidies is not the focus of this report, it does invite a closer review of the cost of government spending in this area.

The purpose of this report is to put a dollar amount and provide perspective on the level of subsidies delivered through government spending in Canada since 1961. To be clear, the report does not provide a comprehensive measure of government support to businesses, which would include all tax expenditures,⁴ loan guarantees, direct investment, and regulatory privileges extended to particular firms or industries. We do not seek to quantify the effect of all such policy interventions, largely because of data and information constraints.⁵ Governments should improve transparency in reporting their support to business, most importantly by producing a comprehensive accounting detailing such support in all forms.⁶

keep businesses alive that would not otherwise be economically viable. Once subsidies end, the business fails and taxpayers are left with the cost. For instance, the British Columbian government offered a pulp mill in Prince Rupert \$300 million in loans and guarantees to remain open amid competition from new, more efficient, less polluting mills. The mill eventually closed anyway, with an estimated total loss to taxpayers of \$333.2 million (British Columbia, 2002: 36). See Milke (2007) for more illustrative examples.

- 4 Tax expenditures are included only if they are related to the levels of productive activities or the quantities or values of the goods or services produced, sold, or imported by profit-making enterprises—for example, tax credits related to capital expenditures/acquisition. (E-mail correspondence with a consulting analyst at Statistics Canada, December 7, 2022.)
- 5 The tax system is the main method for delivering government support to Canadian businesses in all jurisdictions except Quebec (Lester, 2018). The federal government and select provincial governments provide tax expenditure data for some years, but tax expenditure data are not additive. In other words, interactions between tax expenditures are not accounted for, which makes it difficult to determine accurately the total cost of such support. Other data and information constraints have been thoroughly documented in previous attempts to investigate comprehensive business subsidies in Canada; see Lester, 2012, 2018; Milke, 2014; Robson and Laurin, 2017.
- 6 For specific recommendations to improve transparency, see Lester, 2012, 2018; Milke, 2014; Robson and Laurin, 2017.

Definitions and Methodology

This report relies on data from Statistics Canada’s table 36-10-0450-01 and table 36-10-0477-01 (Statistics Canada, 2023e, f), based on the Canadian System of Macroeconomic Accounts. The former provides high level data on federal, provincial, and local subsidies from 1961 to 2022 while the latter provides a breakdown of subsidies by province since 2007. Where available, data is provided up to 2022 in each table. Data in the figures, however, are presented only up to 2019 as this is the latest year of available data before the onset of significant COVID-related spending.⁷ As defined in the Canadian System of Macroeconomic Accounts user guide, subsidies are “current unrequited transfers that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import” (Statistics Canada, 2018).

Subsidies are paid to both private businesses and government business enterprises (GBEs), and there are reasonable arguments for and against including subsidies to the latter. It can be argued that the state cannot truly subsidize itself—in other words, business subsidies to GBEs might simply be seen as the transfer of funds from one part of the public sector to another. Yet, whether a subsidy is paid to a private business or a GBE might not make any real difference from the point of view of the taxpayers and competitors: the subsidy costs taxpayers and disadvantages competitors. For this reason, and because Statistics Canada does not distinguish between the two in the data table used, subsidies to GBEs are included in the overall figures presented in this report. (**Appendix table 1** provides an overview of subsidies to GBEs.⁸)

This report groups capital transfers to business with the standard definition of subsidies. Capital transfers are “unrequited transfers where either the party making the transfer realizes

7 Unfortunately, it is not feasible to parse out COVID-related subsidies from total subsidies. While the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy would likely be included in the data, the cost of these programs in 2020, for instance (\$80.2 billion and \$4.0 billion, respectively), exceeds total federal subsidies (\$80.1 billion). In other words, it is not clear how these types of programs fit into the overall subsidy figures. See Lin and Hoffarth, 2023 for more information on Canada’s business support programs during COVID.

8 Data on GBEs from Statistics Canada table 10-10-0147-01 cannot be netted out from the data provided in table 36-10-0450-01 since the two tables use different accounting approaches. We used table 36-10-0450-01 for this report as it includes a more detailed account of business subsidies in addition to providing more historical data.

the funds involved by disposing of an asset (other than cash or inventories), by relinquishing a financial claim (other than accounts receivable), or the party receiving the transfer is obliged to acquire an asset (other than cash or inventories) or both conditions are met”. In general, capital transfers to business consist of transfers to GBEs, typically for light rail and other transit projects.⁹ The key similarity here is that both the formal definition of “subsidies” and that for “capital transfers” involve “unrequited transfers,” meaning government does not receive anything by way of a financial benefit in return for the transfer.

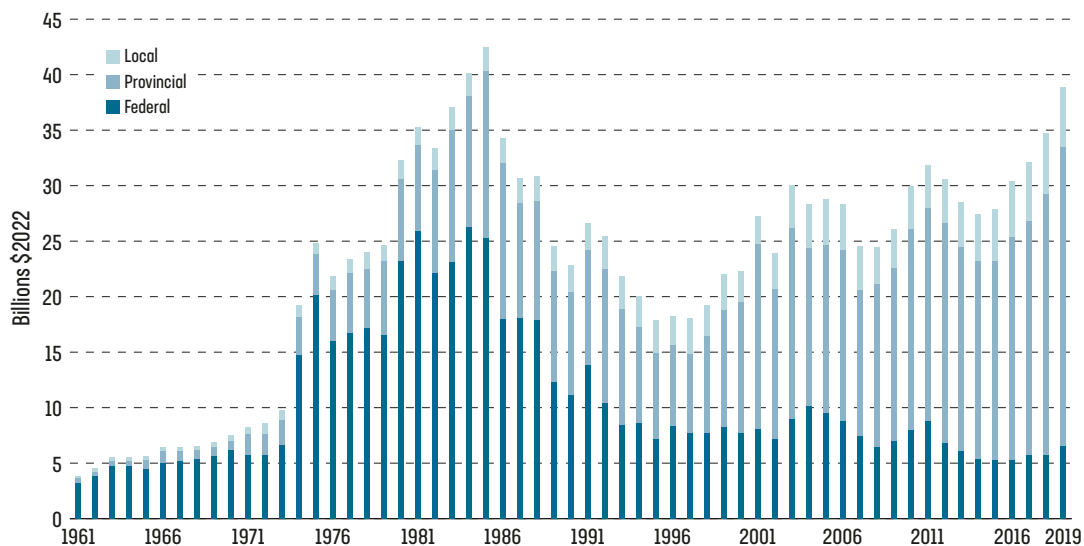
9 Email correspondence with a consulting analyst at Statistics Canada, August 29, 2022.

Spending on Business Subsidies

Figure 1 shows total federal, provincial, and local government subsidies in real terms (2022 dollars) from 1961 to 2019. Total real subsidies were lowest in 1961 at \$3.8 billion. After decades of growth, they peaked at \$42.5 billion in 1985. There was a 19.3% drop in total real subsidies in 1986, primarily as a result of a decline in federal subsidies. Total real subsidies generally decreased over the subsequent decade, falling to \$17.9 billion in 1995. From 1985 to 1995, local subsidies increased while provincial and federal subsidies both declined substantially.

After this period of contraction, total real business subsidies increased again. Between 1995 and 2003, total real subsidies grew by 67.8%. There was a small drop in total real subsidies before the global financial crisis, but spending again increased during the recession and reached \$31.8 billion in 2011. After three subsequent years of decline, Canada’s total real business subsidies began growing once more in 2015. Between 2014 and 2019 (the final pre-COVID year), total real subsidies increased 41.8%, from \$27.4 billion to \$38.9 billion.

Figure 1: Total federal, provincial, and local business subsidies in Canada, inflation-adjusted, billions \$2022, 1961-2019



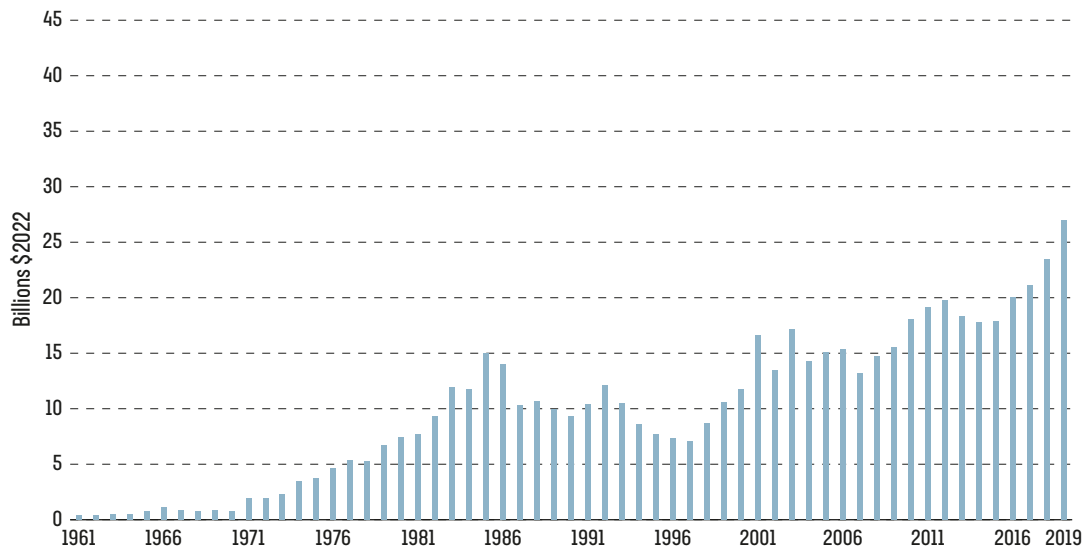
Sources: Statistics Canada, 2023d (table 18-10-0005-01), 2023f (table 36-10-0477-01).

Recall that these data do not include all tax expenditures: tax credits and preferential corporate income-tax rates can total an additional \$15 billion a year, while preferential capital gains and withholding tax rates for corporations can add another \$20 billion (Mintz, 2022). As federal and provincial subsidies accounted for an annual average of 89.4% of total real subsidies from 1961 to 2019, the remainder of this analysis focuses on these two levels of government. Although it is not feasible to identify exactly which private-sector companies and GBEs received these subsidies, general context is provided in the footnotes when available.

Figure 2 isolates the cumulative provincial data from 1961 to 2019. Real provincial subsidies were lowest in 1961 at \$0.4 billion. They increased at a fairly gradual pace until the early 1970s when growth amplified. Between 1970 and 1985, real provincial subsidies increased from \$0.8 billion to \$15.0 billion. Real provincial subsidies generally declined over the following decade or so, reaching \$7.1 billion in 1997. Spending again increased markedly up to 2003, when it peaked at \$17.2 billion. Following a brief decline between 2004 and 2007, real provincial subsidies grew every year afterwards until 2012 (\$19.8 billion). Provincial subsidies dropped marginally for two years again before increasing rapidly from \$17.8 billion to \$27.0 billion between 2014 and 2019. Interestingly, 2019 represents the single largest year of real provincial subsidies in Canadian history prior to COVID.

Table 1 provides a detailed breakdown of business subsidies at the federal, provincial, and local levels of government from 1961 to 2022. In 1961, real federal subsidies were nearly nine times as large as real provincial subsidies. This gap shrank consistently over the decades. Real

Figure 2: Total provincial business subsidies in Canada, inflation-adjusted, billions \$2022, 1961-2019



Sources: Statistics Canada, 2023d (table 18-10-0005-01), 2023f (table 36-10-0477-01).

Table 1: Federal, provincial, and local business subsidies in Canada, inflation-adjusted, millions \$2022, 1961-2022

	Federal	Provincial	Local		Federal	Provincial	Local
1961	3,226	366	231	1992	10,377	12,083	2,927
1962	3,842	390	257	1993	8,367	10,543	2,909
1963	4,705	451	310	1994	8,575	8,637	2,831
1964	4,711	544	304	1995	7,184	7,739	2,957
1965	4,473	810	324	1996	8,337	7,253	2,711
1966	5,020	1,132	302	1997	7,674	7,087	3,274
1967	5,179	886	301	1998	7,737	8,674	2,827
1968	5,429	756	314	1999	8,223	10,554	3,197
1969	5,610	913	437	2000	7,738	11,784	2,794
1970	6,174	752	506	2001	8,072	16,579	2,639
1971	5,686	1,859	615	2002	7,184	13,513	3,227
1972	5,675	1,912	967	2003	9,004	17,218	3,782
1973	6,606	2,287	929	2004	10,055	14,281	3,938
1974	14,681	3,480	964	2005	9,542	15,125	4,177
1975	20,095	3,712	1,017	2006	8,790	15,351	4,141
1976	16,001	4,580	1,177	2007	7,359	13,237	3,927
1977	16,722	5,382	1,292	2008	6,401	14,723	3,413
1978	17,235	5,350	1,491	2009	7,017	15,534	3,579
1979	16,492	6,717	1,421	2010	8,040	18,093	3,754
1980	23,227	7,446	1,732	2011	8,780	19,113	3,943
1981	25,949	7,714	1,668	2012	6,791	19,763	4,012
1982	22,082	9,350	1,980	2013	6,105	18,266	4,068
1983	23,062	11,925	2,061	2014	5,428	17,847	4,153
1984	26,300	11,831	2,046	2015	5,318	17,945	4,743
1985	25,260	15,029	2,208	2016	5,339	20,041	5,076
1986	17,979	14,026	2,291	2017	5,729	21,063	5,293
1987	18,097	10,331	2,317	2018	5,726	23,469	5,481
1988	17,897	10,730	2,194	2019	6,530	26,953	5,404
1989	12,346	10,008	2,241	2020	88,454	31,016	6,348
1990	11,084	9,255	2,404	2021	47,048	42,418	5,927
1991	13,819	10,408	2,432	2022	11,150	35,442	5,430

Sources: Statistics Canada, 2023d (table 18-10-0005-01), 2023f (table 36-10-0477-01).

provincial subsidies surpassed federal subsidies in dollar value in 1992. This trend remained consistent in all but two years from 1992 to 2019. During the final pre-COVID year, in 2019, real provincial subsidies were more than four times as large as real federal subsidies.¹⁰ Business subsidies increased substantially both federally and provincially during the pandemic, however due to significant federal programs, federal subsidies once again exceeded provincial subsidies in 2020 and 2021. This is likely only a temporary development, however, as provincial subsidies were triple the size of federal subsidies in 2022.

Table 2 focuses on real (\$2022) subsidies federally and by province from 2007 to 2022 (provincial specific data is only available to 2021). As shown, federal real subsidies ranged from a high of \$8.8 billion in 2011 to a low of \$5.3 billion in 2015 during the pre-COVID period. They stood at \$6.5 billion in 2019. From 2007 to 2019, real federal subsidies totalled \$84.6 billion. Importantly, tax expenditures, which are not fully included, historically are the largest area of federal government support for businesses (Lester, 2018). The federal government spent \$8.6 billion on two tax measures alone in 2019: the preferential tax rate for small businesses (\$4.9 billion) and the Accelerated Investment Incentive (\$3.7 billion) (Canada, 2022).

Real federal subsidies exploded in dollar value as a result of COVID-related programs in both 2020 and 2021. Temporary programs such as the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS) were implemented to assist eligible businesses throughout the pandemic. As a result, federal subsidies totaled \$88.5 billion in 2020 and \$47.0 billion in 2021. Although federal subsidies declined in 2022, the new total (\$11.2 billion) is nearly double the amount the government spent in the final pre-COVID year.

For context, it is important to break down real provincial subsidies by jurisdiction. Subsidies were highest in Quebec and Ontario over the pre-COVID period, perhaps not surprising given the relatively large size of their populations and economies. In Quebec, real provincial subsidies totalled \$87.8 billion from 2007 to 2019, ranging from a low of \$6.0 billion in 2015 to a high of \$7.8 billion in 2019.¹¹ Provincial subsidies subsequently rose to \$9.8 billion

10 The fact that provincial subsidies greatly exceeded federal subsidies partly reflects the large number of GBEs owned by the provinces—particularly Quebec, Ontario, and British Columbia—and the role these enterprises play as instruments of provincial policy. See **Appendix table 1** for more information.

11 According to Statistics Canada (email correspondence with a consulting analyst, December 6, 2022), Quebec historically has had a higher level of subsidies than most provinces generally as a result of higher levels of refundable corporate tax credits and daycare subsidies. Quebec is also the only province for which spending is the main delivery system for subsidies (Lester, 2018). Statistics Canada's consulting analyst also provided details for certain years. For example, between 2016 and 2018, there were notable increases from the *Fonds des réseaux de transport terrestre* (FORT), a special fund for public transit. As well, in 2018, there were payments to Hydro-Québec to help cover debt-servicing costs, although they were much smaller than the road work and infrastructure transfers. There was a large increase in 2019, again the result of increased transfers for road work and infrastructure from the FORT.

Table 2: Federal and provincial business subsidies in Canada, inflation-adjusted, millions \$2022, 2007-2022

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2007	7,359	84	84	191	136	6,898	1,686	404	453	1,676	1,536
2008	6,401	101	110	205	117	7,083	1,988	421	439	2,336	1,840
2009	7,017	134	134	223	139	6,703	2,270	551	780	2,571	1,951
2010	8,040	158	105	213	123	6,622	3,784	713	1,815	2,723	1,704
2011	8,780	190	83	217	135	6,611	5,988	1,069	1,591	1,316	1,835
2012	6,791	170	93	271	129	6,835	6,706	589	1,278	1,618	2,005
2013	6,105	145	74	243	134	6,544	6,858	481	622	1,294	1,775
2014	5,428	120	72	296	129	6,268	6,503	539	763	1,261	1,789
2015	5,318	101	79	279	148	6,029	6,489	499	720	1,589	1,879
2016	5,339	95	101	296	113	6,693	7,280	505	1,124	1,602	2,129
2017	5,729	107	138	342	133	6,657	7,512	440	682	2,691	2,267
2018	5,726	101	159	333	125	7,034	10,987	359	594	1,467	2,213
2019	6,530	103	161	295	102	7,846	12,747	332	669	2,394	2,204
2020	88,454	119	176	335	93	9,165	13,855	422	764	3,133	2,795
2021	47,048	145	207	354	109	9,845	22,100	404	1,223	3,297	4,538
2022	11,150										

Sources: Statistics Canada, 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

in 2021 during the pandemic. Ontario provided the second-highest real subsidies, totalling \$80.8 billion over the pre-COVID period and ranging from a low of \$1.7 billion in 2007 to a high of \$12.7 billion in 2019, a nearly eightfold increase.¹² Subsidies grew substantially during COVID, peaking at \$22.1 billion in 2021.

12 For Ontario, this was largely driven by a host of new programs introduced starting in 2011, including the Small Business Transition Credit for HST transition, the Ontario Clean Energy Benefit, the Next Generation Jobs Fund, a Long-Term Care Homes program, and the Northern Industrial Electricity Rate Program (email correspondence with a consulting analyst at Statistics Canada, December 6, 2022). Overall, provincial subsidies in Ontario are heavily influenced by electricity subsidies (email correspondence with a consulting analyst at Statistics Canada, August 26, 2022). For instance, in 2009, the Green Energy Act was introduced to subsidize electricity price contracts to generators of renewable energy. The Ontario government introduced a surcharge—the “Global Adjustment”—to electricity prices to fund the program, which has contributed to a drastic increase in the cost of electricity over the past decade (Aliakbari, McKitrick, and Stedman, 2018). In 2017, the Fair Hydro Plan was introduced to reduce electricity bills and, effective November 1, 2019, a new and expanded rebate was introduced (see Financial Accounting Office of Ontario, 2017, 2022, for more details on the cost of such programs). Statistics Canada’s consulting analyst confirms that much of the increase in 2018 and carrying into 2019 was from mitigation of electricity rates.

As table 2 shows, British Columbia had the third-highest level of real provincial subsidies, followed by Alberta. In British Columbia, real provincial subsidies totalled \$25.1 billion from 2007 to 2019, ranging from a low of \$1.5 billion in 2007 to a high of \$2.3 billion in 2017.¹³ During COVID, real provincial subsidies rose to \$4.5 billion in 2021. Real provincial subsidies in Alberta totalled \$24.5 billion over the pre-COVID period, and ranged from a high of \$2.7 billion in 2010 to a low of \$1.3 billion in 2014.¹⁴ Alberta's subsidies grew during the pandemic to \$3.3 billion in 2021.

In Saskatchewan, real provincial subsidies totalled \$11.5 billion from 2007 to 2019, ranging from a low of \$439 million in 2008 and a high of \$1.8 billion in 2010.¹⁵ In Manitoba, real provincial subsidies totalled \$6.9 billion from 2007 to 2019, reaching a high of \$1.1 billion in 2011 and a low of \$332 million in 2019.¹⁶

The Atlantic provinces provided the lowest real provincial subsidies over the period. This is partly a reflection of their relatively small economies and populations. In Nova Scotia, real provincial subsidies totalled \$3.4 billion from 2007 to 2019, ranging from a low of \$191 million in 2007 and a high of \$342 million in 2017. During COVID, subsidies reached \$354 million in 2021.

13 More than half of all provincial subsidies in British Columbia go to GBEs, the highest proportion of any province (Statistics Canada, 2023b).

14 In Alberta, provincial subsidies fluctuated significantly by year (table 2). Overall, agricultural subsidies drove much of the annual variation (email correspondence with a consulting analyst at Statistics Canada, December 6, 2022). For instance, one of the largest year-over-year increases was in 2008: according to Statistics Canada (2023e), a majority of the total \$660 million increase in subsidies was due to higher agricultural subsidies. Also, in the 2000s, the Alberta government required some of the proceeds from electricity auctions to be used to reduce the power bills of industrial and residential users. Between 2006 and 2009, \$840 million in proceeds were used to reduce electricity bills in the form of subsidies (Balancing Pool, 2010: 5). According to a consulting analyst at Statistics Canada, business subsidies in Alberta were relatively high in 2009 and 2010 because of drilling tax credits, intended to stimulate drilling by improving the economics of exploring and developing natural gas (Alberta, 2010). Alberta's highest year-over-year increase (\$1.1 billion), which occurred in 2017, reflects an increase in capital transfers, while agricultural and non-agricultural subsidies decreased (Statistics Canada, 2023b). This represents payments to coal-fired electricity producers (email correspondence with a Statistics Canada consulting analyst, December 6, 2022). The increase in capital transfers also might be attributed to additional funding for the Climate Leadership Plan, which includes light rail transit projects among other initiatives (Alberta, 2017a, 2017b). Finally, capital transfers drove the increase in 2019, from payments for the cancellation of contracts to ship crude oil by rail.

15 In Saskatchewan, fluctuations in provincial subsidies were fuelled by variations in agricultural subsidies (Statistics Canada, 2023e). For example, \$905 million of the \$1.0 billion jump in provincial subsidies in 2010 can be explained by higher agricultural subsidies. Agricultural subsidies also explain the vast majority of the decline in 2013 and increase in 2016.

16 As in Saskatchewan, agricultural subsidies drove the major fluctuations in Manitoba's provincial subsidies. For instance, provincial subsidies increased by \$665 million between 2007 and 2011, \$655 million of which can be explained by higher agricultural subsidies. Similarly, a sustained decline in agricultural subsidies was almost entirely responsible for the reduced level of subsidies in subsequent years (Statistics Canada, 2023d).

In New Brunswick, real provincial subsidies totalled \$1.7 billion from 2007 to 2019. Subsidies were highest in 2015, at \$148 million, and lowest in 2019, at \$102 million. Interestingly, subsidies in the province declined to \$93 million in 2020 during the pandemic. For Newfoundland & Labrador, real provincial subsidies totalled \$1.6 billion from 2007 to 2019. Provincial subsidies in Newfoundland & Labrador ranged from a low of \$84 million in 2007 to a high of \$190 million in 2011. Subsidies rose during the pandemic but were below peak levels (\$145 million in 2021).

Finally, Prince Edward Island spent \$1.4 billion on provincial subsidies from 2007 to 2019. Real provincial subsidies ranged from a low of \$72 million in 2014 to a high of \$161 million in 2019. As was the case for most other provinces, provincial subsidies in Prince Edward Island increased compared to pre-COVID levels (\$207 million in 2021).

The Cost of Business Subsidies per Taxpayer

The fiscal cost of business subsidies ultimately is borne by taxpayers. In this review of real (\$2022) subsidies per taxpayer by province, it is important to note that the amount some taxpayers pay is overstated and the amount others pay is understated, depending on an each taxpayer's income and other factors. Nonetheless, the review is useful in estimating the opportunity cost (the lost potential for another use for that same money) and in providing context to show how much each individual would contribute if costs for the subsidies were allocated equally. To be clear, this is not a comprehensive measure of the cost of such subsidies. For instance, it does not include administrative costs, any additional debt-servicing costs incurred from borrowing to fund spending in this area, or economic costs—that is, it does not factor in any misallocation of resources, rent-seeking losses, or other economic distortions that such subsidies cause.

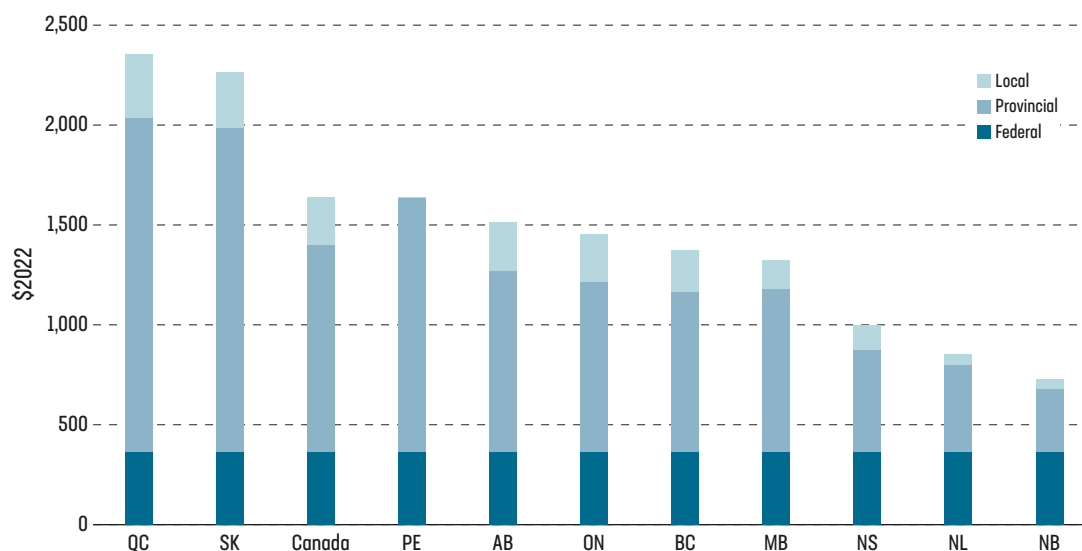
Figure 3 shows the average real cost of federal, provincial, and local government subsidies per taxpayer by province from 2007 to 2019.¹⁷ As shown, there was significant variation by province: average annual subsidies per taxpayer were highest in Quebec at \$2,352 and lowest in New Brunswick at \$730. Note that the annual cost of federal subsidies is applied equally per taxpayer in each province.

Table 3 focuses on the breakdown of real federal and provincial subsidies per taxpayer since 2007.¹⁸ The real cost of federal subsidies ranged from a high of \$4,102 per taxpayer in 2020 (during the pandemic) to a low of \$282 per taxpayer in 2016. Excluding the COVID years, 2011 was the year with the highest federal subsidies per taxpayer (\$504). The cumulative cost of federal subsidies from 2007 to 2019 amounted to \$4,711 per taxpayer. In contrast, the cumulative cost of real federal subsidies during 2020 and 2021 amounted to \$6,264 per taxpayer.

17 Alternatively, it would be reasonable to examine business subsidies per person as both individuals and corporations pay taxes, which ultimately fund business subsidies. Whether the analysis is done per taxpayer or per person, however, it will not perfectly reflect the amount paid by individual Canadians.

18 Although not the focus of this study, local subsidies per taxpayer by province are available in Appendix Table 2 and presented in figures 4 through 13.

Figure 3: Average cost per taxpayer of business subsidies in Canada, inflation-adjusted, \$2022, 2007-2019



Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Table 3: Cost per taxpayer of federal and provincial business subsidies in Canada, inflation-adjusted, \$2022, 2007-2022

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2007	442	315	1,112	386	352	1,830	262	676	895	901	701
2008	378	364	1,422	411	298	1,837	305	695	868	1,217	827
2009	412	487	1,675	438	351	1,774	343	886	1,533	1,345	876
2010	468	571	1,295	418	312	1,717	568	1,135	3,508	1,412	768
2011	504	676	1,008	424	339	1,688	888	1,679	2,987	663	817
2012	383	595	1,118	530	325	1,728	981	909	2,333	783	878
2013	339	506	881	471	338	1,643	987	735	1,110	603	756
2014	295	416	851	588	323	1,552	916	810	1,333	566	737
2015	283	349	924	547	364	1,464	891	735	1,239	706	751
2016	282	328	1,175	574	277	1,615	983	740	1,951	727	834
2017	295	369	1,564	653	321	1,557	990	633	1,177	1,205	863
2018	287	350	1,780	646	294	1,598	1,390	510	1,018	646	819
2019	320	360	1,757	562	241	1,746	1,574	468	1,143	1,034	788
2020	4,102	395	1,805	598	208	1,921	1,608	561	1,241	1,308	957
2021	2,162	479	2,084	625	241	2,034	2,548	533	1,986	1,368	1,540
2022	498										

Notes: 2021 taxpayer values are estimated as the ratio of taxpayers to taxfilers in 2020, multiplied by the number of taxfilers in 2021. 2022 taxpayer values are estimated based on the average five-year growth rate for 2015 through 2020.

Sources: Canada Revenue Agency ..., various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

As the cost of federal subsidies is applied equally per taxpayer¹⁹ and local subsidies account for a relatively small share of total subsidies, provincial subsidies are the main driver of differences in total subsidies per taxpayer across the provinces. Figures 4 to 13 (pages 16 to 20) show, for each province, the inflation-adjusted cost per taxpayer of federal, provincial, and local subsidies from 2007 to 2019.

For **Quebec**, the province with the highest average annual total real cost of subsidies per taxpayer, real provincial subsidies ranged from a low of \$1,464 per taxpayer in 2015 to a high of \$1,837 per taxpayer in 2008. If we include the COVID years, 2021 had the highest provincial subsidies per taxpayer in Quebec (\$2,034) (**figure 4**). The cumulative cost of real provincial subsidies from 2007 to 2019 amounted to \$21,751. Federal (\$4,711) and local subsidies (\$4,117), brought the total cumulative cost of subsidies per taxpayer in Quebec to \$30,579 over the period.

Saskatchewan had the second-highest average annual total real cost of subsidies per taxpayer over the 2007-to-2019 period. Real provincial subsidies cost a low of \$868 per taxpayer in 2008 and a high of \$3,508 per taxpayer in 2010 (**figure 5**). With federal (\$4,711) and local subsidies (\$3,609), the total cumulative cost of subsidies per Saskatchewan taxpayer over the period was \$29,413.

Prince Edward Island had the third-highest average annual real cost of subsidies per taxpayer from 2007 to 2019.²⁰ Real provincial subsidies cost a low of \$851 per taxpayer in 2014 and a high of \$1,780 in 2018 (**figure 6**). If we include COVID years in the analysis, 2021 had the highest real provincial subsidies per taxpayer at \$2,084. Adding federal (\$4,711) and local subsidies (\$25) brought the total cumulative cost of subsidies per taxpayer from 2007 to 2019 to \$21,298.

Alberta ranked fourth in average annual real cost of subsidies per taxpayer from 2007 to 2019. Real provincial subsidies ranged from a high of \$1,412 per taxpayer in 2010 to a low of \$566 in 2014 (**figure 7**). Federal (\$4,711) and local subsidies (\$3,145) brought the total cumulative cost of subsidies per taxpayer to \$19,662.

19 While it would be interesting and useful to allocate federal business subsidies by the recipient provinces, it is more accurate to allocate federal business subsidies equally per taxpayer when assessing the cost.

20 In part, this reflects the province's relatively small population. Note, however, that a significant share of Prince Edward Island's provincial subsidies is directed toward agriculture (41%), a far greater share than in the rest of Atlantic Canada. In real (\$2020) terms, Prince Edward Island spent more than Newfoundland & Labrador and New Brunswick on agricultural subsidies from 2007 to 2019 and just \$2 million less than much more populous Nova Scotia (Statistics Canada, 2023e).

Ontario had the fifth-highest average annual real cost of subsidies per taxpayer over the 2007-to-2019 period. Real provincial subsidies cost a low of \$262 per taxpayer in 2007 and a high of \$1,574 in 2019 (**figure 8**). If we include COVID years, 2021 had the highest real provincial subsidies per taxpayer at \$2,548. Adding federal (\$4,711) and local subsidies (\$3,109) brought the total cumulative cost of subsidies per taxpayer from 2007 to 2019 to \$18,898.

British Columbia had the sixth-highest average annual real cost of subsidies per taxpayer. Real provincial subsidies ranged from \$701 per taxpayer in 2007 to \$878 in 2012 (**figure 9**). There was a noticeable jump during COVID, as subsidies per taxpayer reached \$1,540 in 2021. Federal (\$4,711) and local subsidies (\$2,772) brought the total cumulative cost of subsidies per taxpayer from 2007 to 2009 to \$17,898.

Manitoba had the seventh-highest average annual real cost of subsidies per taxpayer from 2007 to 2019. Real provincial subsidies reached a high of \$1,679 per taxpayer in 2011 and a low of \$468 in 2019 (**figure 10**). Federal (\$4,711) and local subsidies (\$1,904) brought the total cumulative cost of subsidies per taxpayer to \$17,224.

Nova Scotia, Newfoundland & Labrador, and New Brunswick had the lowest average annual real cost of subsidies per taxpayer over the 2007-to-2019 period. In **Nova Scotia**, real provincial subsidies per taxpayer were lowest in 2007 at \$386 and highest at \$653 in 2017 (**figure 11**). Federal (\$4,711) and local subsidies (\$1,628) brought the total cumulative cost of subsidies per taxpayer in that province to \$12,987 over the period.²¹

In **Newfoundland & Labrador**, the real cost of provincial subsidies ranged from a low of \$315 per taxpayer in 2007 to a high of \$676 in 2011 (**figure 12**). Federal (\$4,711) and local subsidies (\$694) brought the total cumulative cost of subsidies per taxpayer to \$11,090.

Finally, in **New Brunswick** from 2007 to 2019, real provincial subsidies per taxpayer were highest in 2015 at \$364 and lowest in 2019 at \$241 (**figure 13**). Adding federal (\$4,711) and local subsidies (\$637) brought the total cumulative cost of subsidies per taxpayer to \$9,484 over the period.

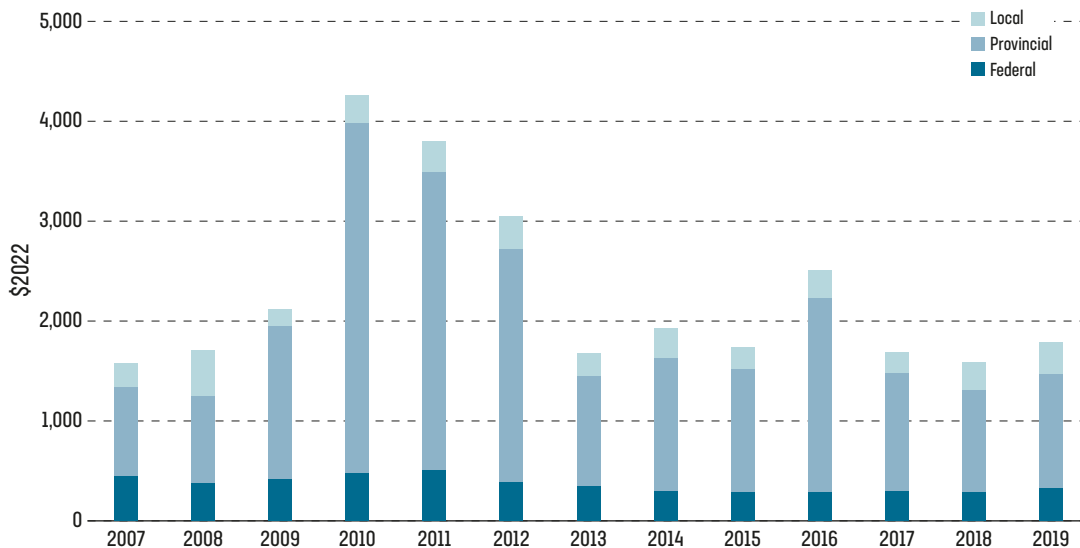
21 Federal subsidies as presented in our tables are the same for all Canadian taxpayers so they do not show the actual amount of federal subsidies allocated to each province. This is an important distinction as the public sector plays a larger overall role in the economy in the Atlantic provinces than in other provinces.

Figure 4: Total cost per taxpayer of business subsidies in Quebec, inflation-adjusted, \$2022, 2007-2019



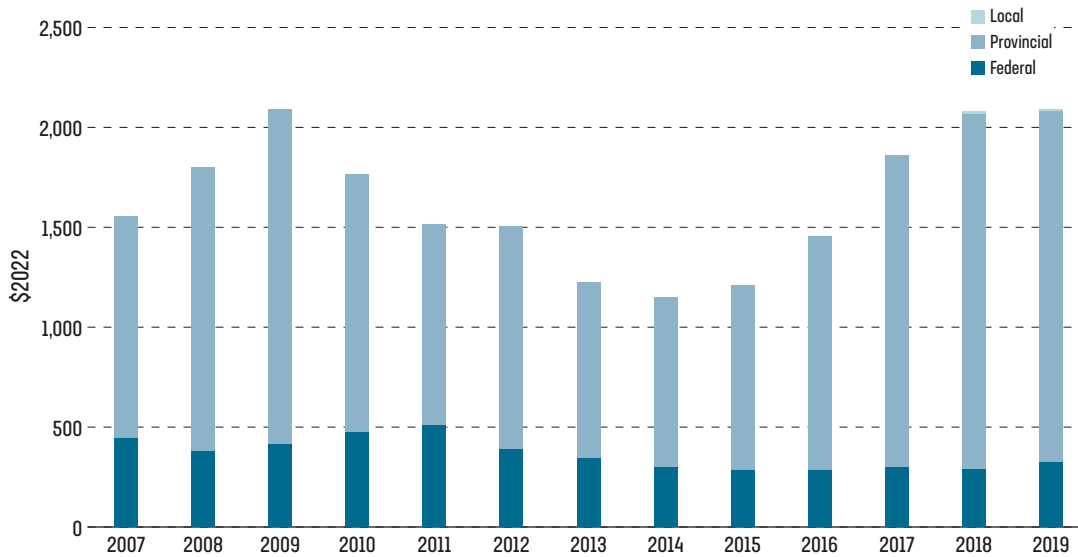
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 5: Total cost per taxpayer of business subsidies in Saskatchewan, inflation-adjusted, \$2022, 2007-2019



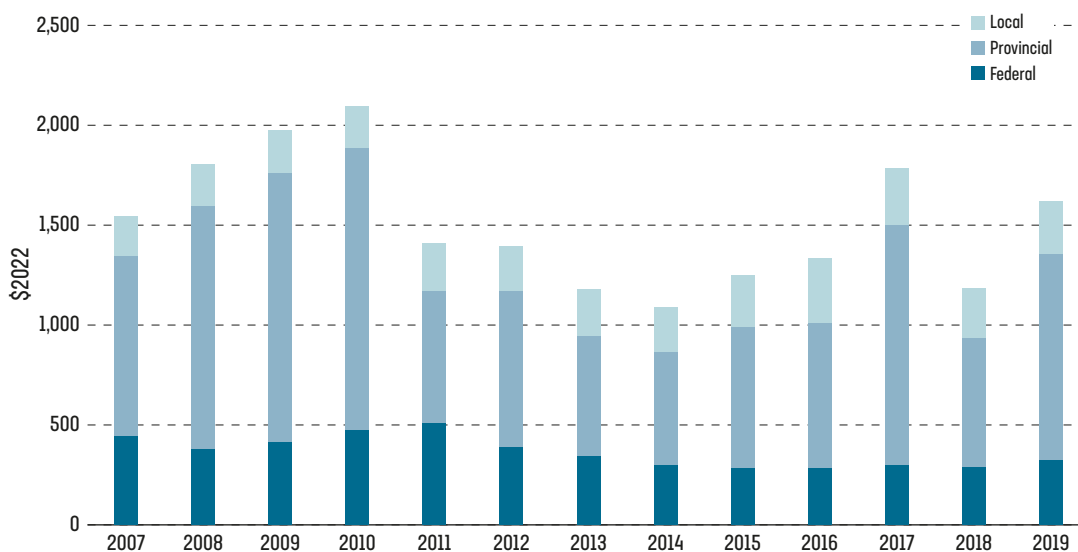
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 6: Total cost per taxpayer of business subsidies in Prince Edward Island, inflation-adjusted, \$2022, 2007-2019



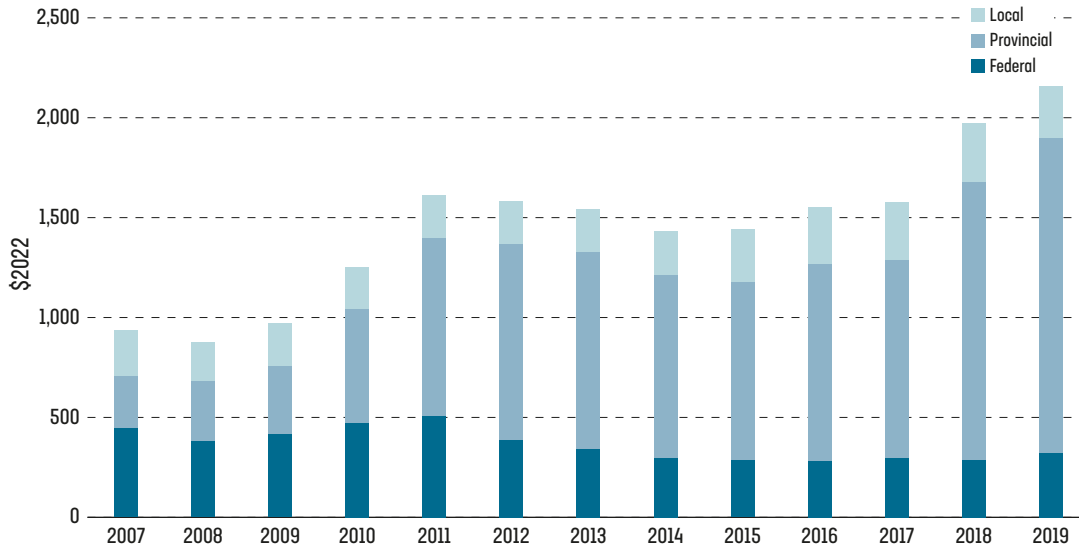
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 7: Total cost per taxpayer of business subsidies in Alberta, inflation-adjusted, \$2022, 2007-2019



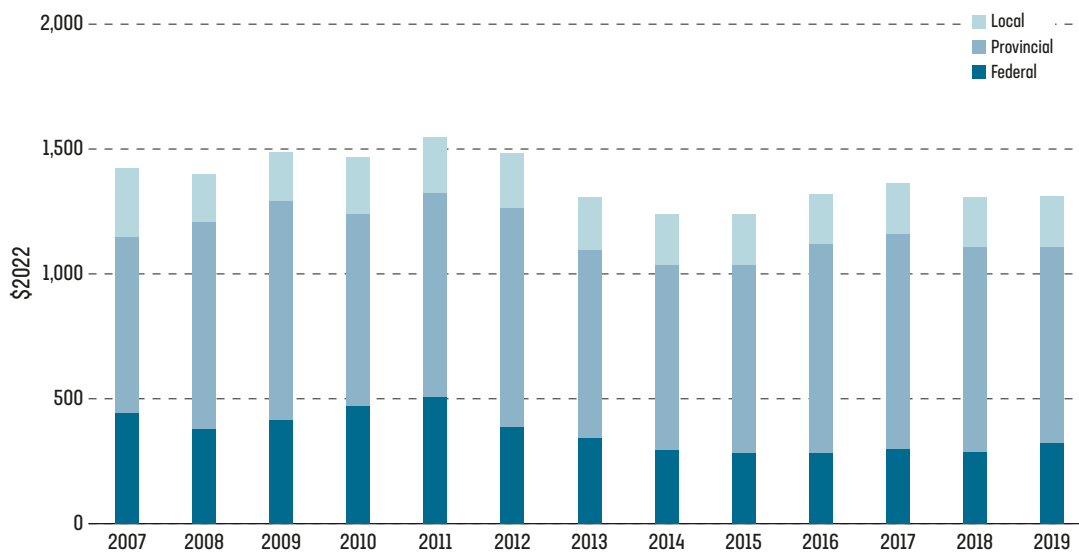
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 8: Total cost per taxpayer of business subsidies in Ontario, inflation-adjusted, \$2022, 2007-2019



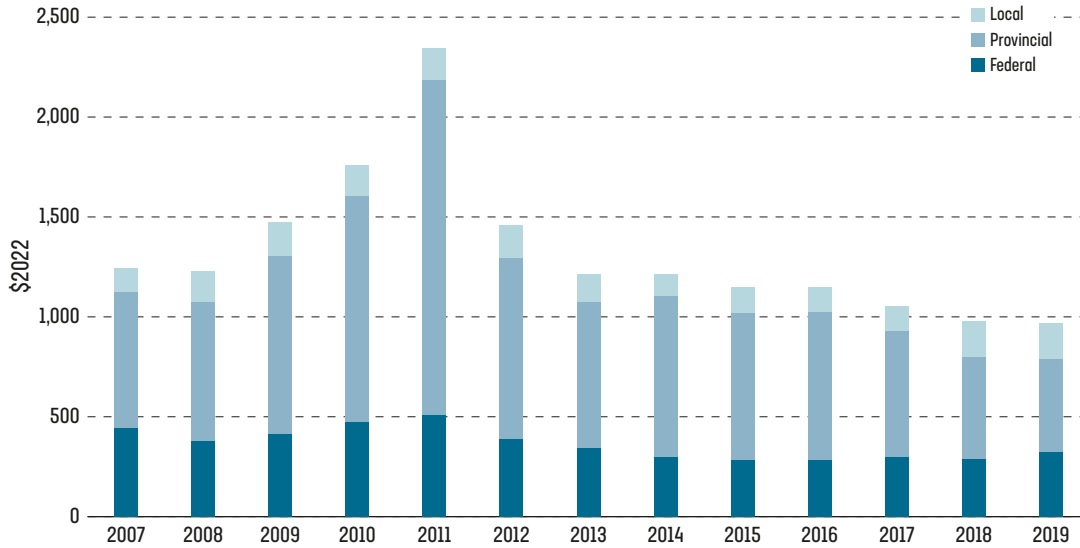
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 9: Total cost per taxpayer of business subsidies in British Columbia, inflation-adjusted, \$2022, 2007-2019



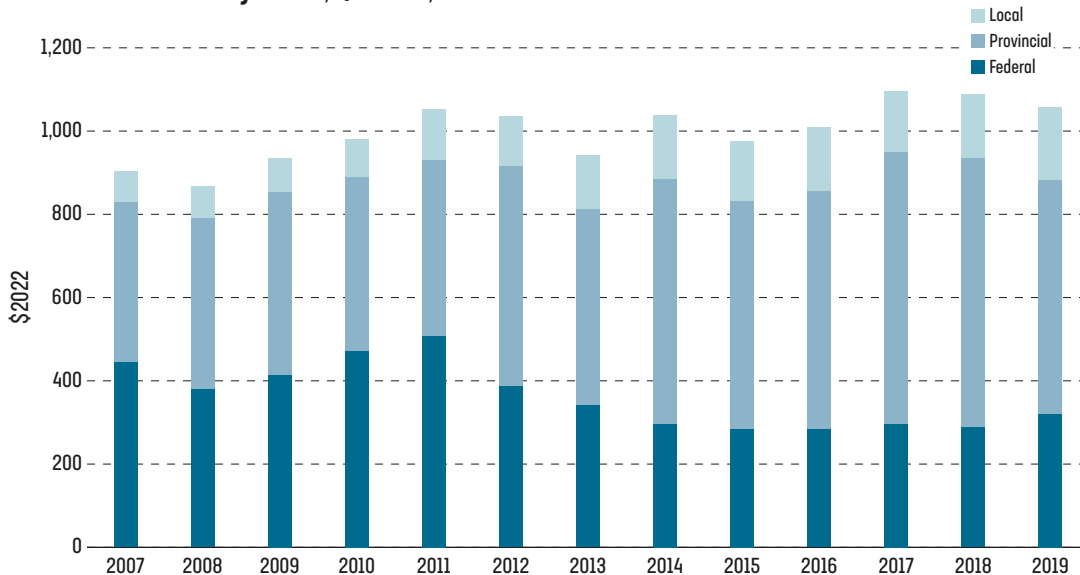
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 10: Total cost per taxpayer of business subsidies in Manitoba, inflation-adjusted, \$2022, 2007-2019



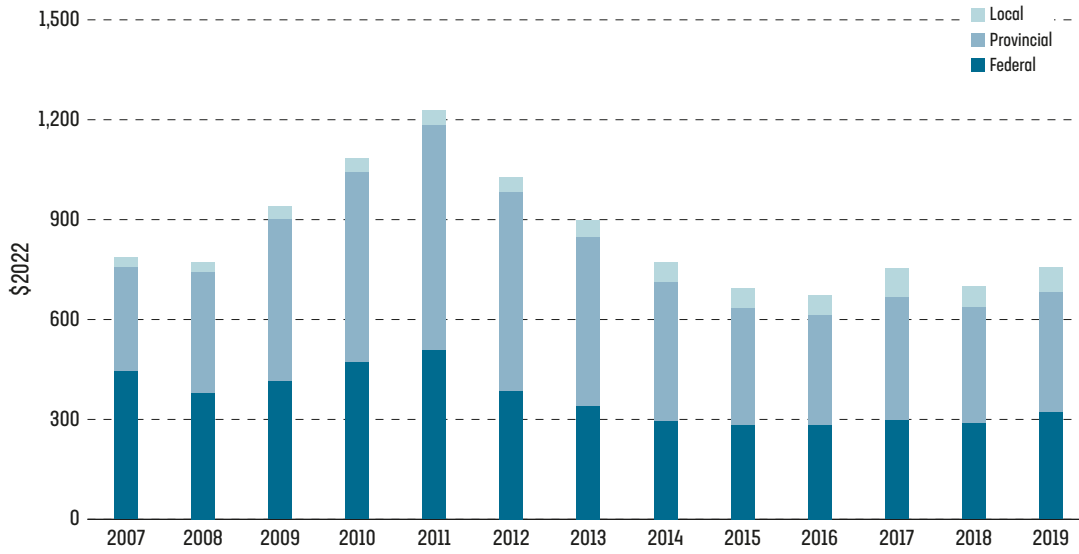
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 11: Total cost per taxpayer of business subsidies in Nova Scotia, inflation-adjusted, \$2022, 2007-2019



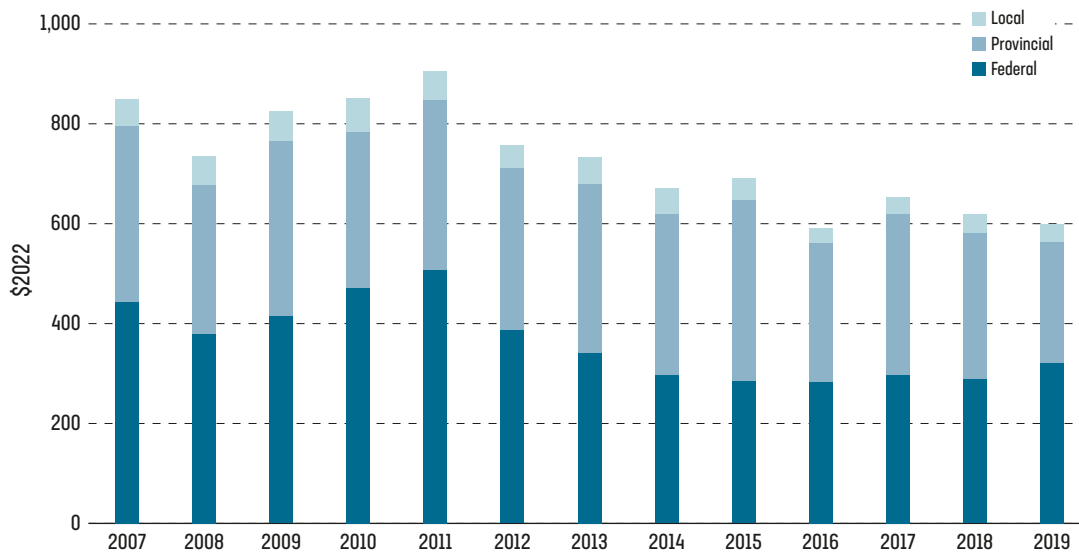
Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 12: Total cost per taxpayer of business subsidies in Newfoundland & Labrador, inflation-adjusted, \$2022, 2007-2019



Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Figure 13: Total cost per taxpayer of business subsidies in New Brunswick, inflation-adjusted, \$2022, 2007-2019



Sources: Canada Revenue Agency, various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

Subsidies as a Share of Corporate Income Tax Revenue

Finally, it is useful to review the cost of subsidies in a budgetary context. **Table 4** provides data on federal and provincial subsidies as a share of corresponding corporate income-tax revenue—a category that includes taxes on incomes from corporations and GBEs.²² This represents the opportunity cost in terms of taxes that could have been reduced or even eliminated in the absence of such subsidies. As there are significant fluctuations in corporate income-tax revenues annually, table 4 includes the averages from 2007 to 2019 and 2007 to 2021.

On average, federal subsidies represented 13.2% of federal corporate income-tax revenue over the 2007-to-2019 period—equivalent to spending more than one of every eight dollars of corporate income-tax revenue on various business subsidies, on average, from 2007 to 2019. Again, this is an underestimate of the true cost of business support since this report does not include all “tax expenditures”, loan guarantees, direct investments, and other types of government support to business in Canada. During COVID, federal subsidies represented 138.2% of federal corporate income-tax revenue in 2020 and 63.3% in 2021.

At the provincial level, subsidies were an even larger share of provincial corporate income-tax revenue. Prince Edward Island had the highest level of provincial subsidies as a share of corporate income-tax revenue²³ at 160.8%, on average, from 2007 to 2019. In other words, the provincial government spent more on business subsidies than it collected in corporate income-tax revenues over the period. Although the entire set of business subsidies and taxes are extremely complex, the absolute size of subsidies and taxes provides a useful starting point for considering reform. In simple terms, Prince Edward Island could have eliminated all corporate income taxes over the period if it had also ended subsidies to businesses—and still have had \$365 million remaining.

Two provinces spent the equivalent of roughly all corporate income-tax revenue on provincial subsidies. As shown in table 4, on average, provincial subsidies in Quebec represented 100.8% of annual provincial corporate income-tax revenue. Again, in simple terms, the Quebec government could have effectively eliminated all provincial corporate income taxes over the

22 To be clear, not all GBEs pay corporate income taxes. For instance, many Crown corporations, such as BC Hydro, are exempt from paying provincial or federal income tax.

23 In part, this is a function of Prince Edward Island’s relatively low corporate income-tax revenues.

Table 4: Federal and provincial business subsidies in Canada as a percentage of corporate income tax, 2007-2022

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2007	14.6%	23.6%	155.0%	45.5%	63.3%	146.3%	15.6%	91.7%	76.3%	34.9%	71.7%
2008	13.7%	23.4%	307.4%	50.5%	41.7%	130.2%	19.5%	95.8%	42.6%	45.9%	80.5%
2009	16.2%	36.1%	206.1%	45.6%	47.7%	104.1%	21.4%	121.2%	73.3%	49.2%	93.4%
2010	18.5%	45.0%	162.0%	46.3%	37.3%	99.5%	34.0%	156.0%	175.6%	49.0%	82.8%
2011	19.8%	32.8%	227.6%	42.0%	54.3%	94.8%	55.5%	210.4%	147.3%	26.1%	89.8%
2012	15.4%	42.8%	178.6%	48.0%	46.0%	104.8%	62.1%	98.1%	123.8%	26.9%	88.3%
2013	13.0%	32.2%	115.4%	43.0%	43.3%	106.7%	60.1%	75.5%	56.0%	18.9%	65.0%
2014	10.8%	32.8%	105.3%	51.5%	39.1%	104.0%	53.3%	90.8%	69.9%	17.6%	64.3%
2015	10.7%	28.3%	110.0%	48.2%	44.1%	97.3%	50.9%	83.4%	67.1%	21.6%	68.1%
2016	9.8%	25.4%	97.7%	41.4%	23.8%	84.8%	43.7%	80.2%	118.5%	38.0%	56.2%
2017	9.7%	23.7%	124.0%	51.3%	26.4%	79.0%	43.4%	65.7%	70.1%	52.7%	55.2%
2018	8.9%	28.1%	147.4%	50.6%	25.1%	72.6%	60.7%	45.5%	56.5%	29.8%	47.8%
2019	11.1%	25.4%	154.3%	51.7%	23.4%	86.7%	76.8%	53.6%	75.3%	43.9%	52.1%
2020	138.2%	20.5%	129.3%	47.9%	15.1%	85.4%	70.8%	55.5%	69.0%	78.3%	51.1%
2021	63.3%	24.3%	149.2%	49.1%	17.2%	67.9%	100.9%	51.6%	107.2%	70.9%	80.6%
2022	15.6%										
Average 2007-2019											
	13.2%	30.7%	160.8%	47.3%	39.6%	100.8%	45.9%	97.5%	88.6%	35.0%	70.4%
Average 2007-2021											
		29.6%	157.9%	47.5%	36.5%	97.6%	51.2%	91.7%	88.6%	40.2%	69.8%

Sources: Statistics Canada, 2023e (table 36-10-0450-01).

period if it had also ended provincial subsidies to businesses. Similarly, the equivalent of nearly all of Manitoba's provincial corporate income tax revenue (97.5%) was spent on subsidies to business (on average) from 2007 to 2019.

Saskatchewan and British Columbia also spent a relatively high share of provincial corporate income-tax revenues on provincial subsidies. Provincial subsidies in Saskatchewan (on average) represented 88.6% of provincial corporate income-tax revenues over the period. In other words, on average, the equivalent of nearly nine of every ten dollars of corporate income-tax revenue was returned to select Saskatchewan businesses in the form of subsidies from

2007 to 2019. On average, provincial subsidies in British Columbia represented 70.4% of all corporate income-tax revenue collected by the provincial government—equivalent to more than two of every three dollars of corporate income-tax revenue collected being sent back to select businesses in the form of subsidies.

For two provinces, business subsidies represented roughly half of all corporate income-tax revenue (on average) from 2007 to 2019. Provincial subsidies in Ontario amounted to 45.9% of provincial corporate income-tax revenue over the period, while in Nova Scotia, the comparable figure was 47.3%.

In the three remaining provinces—New Brunswick, Alberta, and Newfoundland & Labrador—business subsidies represented between 30% and 40% of corporate income-tax revenues. On average, provincial subsidies in Alberta were 35.0% of provincial corporate income-tax revenue annually—the equivalent of more than one of every three dollars collected. Similarly, provincial subsidies in New Brunswick (on average) represented 39.6% of provincial corporate income-tax revenue. Finally, provincial subsidies in Newfoundland & Labrador were the equivalent of 30.7% of provincial corporate income-tax revenue on average over the period.

Conclusion

Governments should always be concerned with efficient spending, and budget deficits should particularly motivate governments to take a closer look at areas of spending; business subsidies are one important area for review. The data presented in this report show that business subsidies delivered through government spending since 1961 came with significant costs to government budgets and to Canadian taxpayers generally. To the extent that subsidies do not foster widespread economic growth—as the literature suggests is the case—business subsidies stand out as a key area for spending reform.

Appendix

Table 1A: Federal and provincial subsidies to government business enterprises, millions \$2022, 2008-2021

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Federal	1,471	1,924	2,035	1,831	797	841	831	709	607	597	616	685	1,013	845
NL	13	19	22	25	17	15	17	18	18	21	23	24	25	28
PE	3	1	1	3	4	0	1	1	0	0	0	0	0	27
NS	40	42	47	62	61	68	77	74	79	77	94	90	109	74
NB	11	11	14	14	15	23	23	18	13	19	16	16	23	23
QC	1,472	1,873	2,198	1,976	1,965	1,968	1,801	1,645	1,680	1,738	2,754	1,766	1,869	1,700
ON	1,381	1,687	1,711	2,270	2,131	2,160	2,232	2,429	2,651	2,914	3,292	3,474	4,889	4,353
MB	91	107	93	76	86	91	72	87	86	84	95	108	116	188
SK	90	97	103	101	87	117	133	127	117	114	107	113	200	313
AB	399	418	408	472	469	506	511	579	707	680	663	604	664	623
BC	1,251	1,326	1,439	1,376	1,443	1,422	1,394	1,465	1,487	1,460	1,543	1,626	2,752	1,799

Sources: Statistics Canada, 2023a (table 10-10-0016-01), 2023b (table 10-10-0147-01), 2023d (table 18-10-0005-01).

Table 1B: Federal and provincial subsidies to private enterprises, millions \$2022, 2008-2021

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Federal	3,048	3,334	3,244	3,150	2,900	2,668	2,439	2,538	2,680	2,726	3,029	8,910	94,534	30,648
NL	102	131	174	166	143	130	117	101	108	110	105	115	136	158
PE	109	134	117	113	116	94	93	112	120	144	171	159	222	244
NS	216	235	212	253	332	245	315	265	317	305	334	248	359	377
NB	131	168	119	117	123	116	105	106	118	121	109	105	78	74
QC	6,364	5,993	6,195	5,527	5,645	5,296	5,084	5,028	5,348	5,322	5,487	6,037	7,875	7,023
ON	1,660	1,635	3,067	3,802	4,008	3,625	3,527	3,545	3,202	3,922	7,251	8,754	11,060	11,331
MB	411	547	663	1,069	594	489	519	510	497	430	333	365	443	501
SK	613	739	1,586	1,453	1,420	641	855	691	1,280	534	712	698	827	3,617
AB	1,901	2,791	2,412	1,097	1,430	1,027	1,264	1,426	2,802	1,444	1,373	2,004	1,744	4,537
BC	863	829	853	991	1,108	883	1,061	1,266	1,072	1,328	1,741	1,586	2,419	2,538

Sources: Statistics Canada, 2023a (table 10-10-0016-01), 2023b (table 10-10-0147-01), 2023d (table 18-10-0005-01).

Table 2A: Cost per taxpayer of local business subsidies in Canada, inflation-adjusted, \$2022, 2007-2021

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2007	30	0	74	53	319	231	122	236	201	278
2008	29	0	79	58	246	191	151	459	208	192
2009	39	0	83	60	271	215	172	169	218	198
2010	42	0	92	69	286	212	153	279	211	226
2011	45	0	121	60	296	216	158	301	238	222
2012	48	0	119	47	304	214	163	329	225	220
2013	51	0	131	53	321	211	139	222	236	212
2014	59	0	154	51	302	220	109	293	229	207
2015	62	0	145	44	334	267	128	220	257	205
2016	61	0	153	32	326	289	126	274	321	204
2017	88	0	146	36	370	292	124	216	284	203
2018	63	13	156	37	376	291	179	284	252	201
2019	77	12	174	37	367	261	180	328	266	204
2020	77	11	197	52	354	338	182	335	283	191
2021	85	11	136	47	350	286	266	314	279	188

Notes: 2021 taxpayer values are estimated as the ratio of taxpayers to taxfilers in 2020, multiplied by the number of taxfilers in 2021. 2022 taxpayer values are estimated based on the average five-year growth rate for 2015 through 2020.

Sources: Canada Revenue Agency ..., various years; Statistics Canada, 2023c (table 11-10-0047-01), 2023d (table 18-10-0005-01), 2023e (table 36-10-0450-01).

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