



# A Diagnostic of Entrepreneurship in Canada: The Shrinking Engine of Economic Dynamism

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This study was commissioned by the Centre for Civic Engagement. The CCE is a non-partisan Canadian charity dedicated to conducting original research on public policy issues related to Canadian prosperity, productivity, and national flourishing. The CCE's research informs an active program of policy seminars, events, conferences, and lectures all aimed at providing the policy making community with actionable insights that encourage informed decision making on issues that matter to Canadians.

# Introduction

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In late January, Y Combinator<sup>1</sup>—the world’s most prestigious startup accelerator—changed its deal terms and removed Canada from its list of acceptable countries for startup incorporation.

The news lit a fire in Canadian tech circles. John Ruffolo, Maverix Private Equity co-founder and Council of Canadian Innovators vice-chair, said the change sent “the absolute wrong message—that’s not substantiated with fact—to leave Canada.” Garry Tan, Y Combinator’s Winnipeg-born CEO, defended the move: “Where you are incorporated increases your access to capital.”

Days later, Y Combinator reversed course<sup>2</sup> and added Canada back to its accepted list. Tan acknowledged their top-performing Canadian companies had reincorporated in the US for easier access to investor capital, but insisted YC still funds Canadian startups.

The episode exposed an important problem: Canada is losing entrepreneurial talent and ambition. This study examines the data behind Canada’s entrepreneurship decline, compares our performance against international peers, and identifies the factors driving the trend.

<sup>1</sup> Alex Riehl, “Y Combinator website no longer lists Canada as a country it invests in,” *betakit*, January 26, 2026, <https://betakit.com/y-combinator-website-no-longer-lists-canada-as-a-country-it-invests-in/>.

<sup>2</sup> Garry Tan, “Adding Canada Back to Our List of Accepted Countries of Incorporation,” *Y Combinator*, February 5, 2026, <https://www.ycombinator.com/blog/adding-canada-back>.

# Why Entrepreneurship Matters

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Entrepreneurship fuels<sup>3</sup> economic growth and innovation. New businesses challenge incumbents, push adaptation, and move resources to more productive uses. Without this competitive pressure, business formation slows and economies stagnate.

This idea builds on Joseph Schumpeter's<sup>4</sup> concept of "creative destruction,"<sup>5</sup> the process through which innovation reshapes economic structures from within, replacing outdated business models with new ones.

In 2025, three scholars<sup>6</sup> won the Nobel Prize in economics for advancing these insights. Canadian economist Peter Howitt of Brown University, along with Joel Mokyr and Philippe Aghion, was honoured for research showing how innovation drives growth and how new technologies displace older ones through creative destruction.

Productive entrepreneurship, especially employer firms, is closely linked<sup>7</sup> to economic dynamism and growth. Countries with strong startup ecosystems outperform those without.

And the social benefits extend beyond the entrepreneurs themselves. When entrepreneurs develop life-saving medical devices, efficiency-enhancing software, or environmentally beneficial products, the gains spread across the economy. Research by Nobel laureate William Nordhaus found that entrepreneurs capture only about 2 percent<sup>8</sup> of the total value their innovations create; the remaining 98 percent flows to consumers and society through better products, lower prices, and improved processes.

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<sup>3</sup> Alexander S. Kritikos, "Entrepreneurs and their impact on jobs and economic growth," *World of Labour*, 2024, <https://wol.iza.org/articles/entrepreneurs-and-their-impact-on-jobs-and-economic-growth/long>.

<sup>4</sup> "Joseph Schumpeter," *Wikipedia*, [https://en.wikipedia.org/wiki/Joseph\\_Schumpeter](https://en.wikipedia.org/wiki/Joseph_Schumpeter).

<sup>5</sup> Richard Alm and W. Michael Cox, "Creative Destruction," *Econlib*, <https://www.econlib.org/library/Enc/CreativeDestruction.html>.

<sup>6</sup> "The Prize in Economic Sciences 2025," Press release, October 13, 2025, <https://www.nobelprize.org/prizes/economic-sciences/2025/press-release/>.

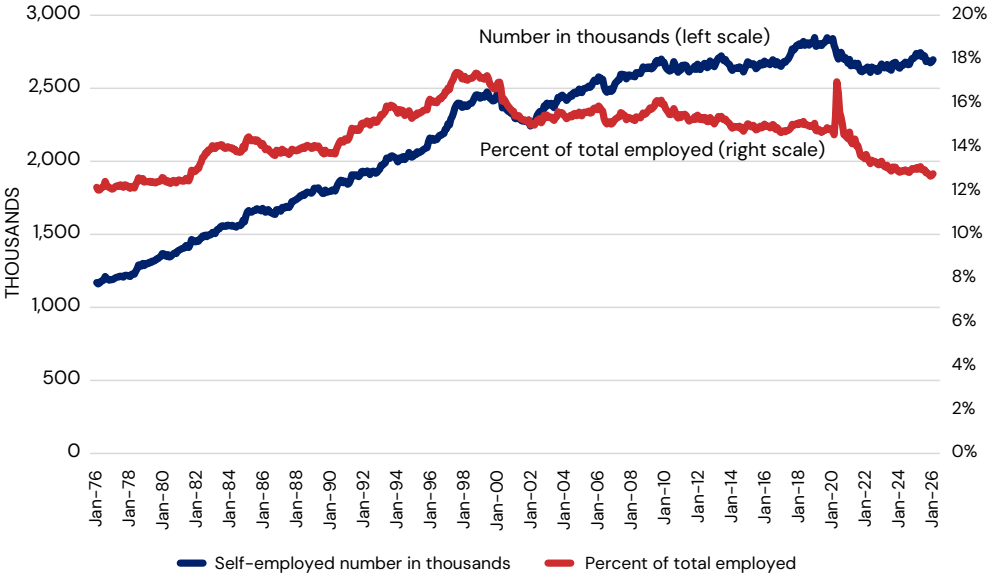
<sup>7</sup> OECD, *Entrepreneurial Ecosystem Diagnostics* (OECD Publishing, 2025), [https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/entrepreneurial-ecosystem-diagnostics\\_6c99f4e7/7096961f-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/entrepreneurial-ecosystem-diagnostics_6c99f4e7/7096961f-en.pdf).

<sup>8</sup> Michael R. Strain, "Thankful for Billionaire Innovators," *American Enterprise Institute*, November 27, 2019, <https://www.aei.org/op-eds/thankful-for-billionaire-innovators/>.

# Canada's Entrepreneurial Decline

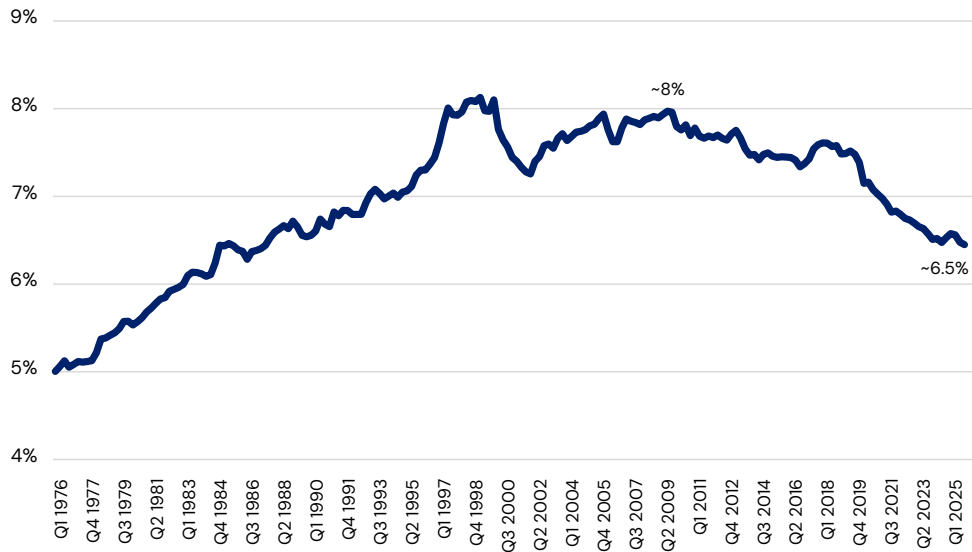
Multiple indicators point to declining entrepreneurship. Self-employment data, while imperfect, offers the longest historical view. As of January 2026, just under 2.7 million Canadians are self-employed, roughly the same number as 17 years ago despite substantial population growth. As a share of total employment, self-employment now sits at 12.8 percent, well below the 17.3 percent recorded 26 years earlier, even with a brief pandemic spike. The same pattern emerges when looking at the share of the overall population that is self-employed.

Figure 1: Canada: Self-Employed and Percent of Total Employed



Source: Statistics Canada

Figure 2: Canada: Self-Employed as Share of Population



Source: Statistics Canada; author's calculations

Self-employment is a crude measure because it doesn't distinguish between those with paid employees and those working alone. A business with employees is more likely to scale. In Canada, the share of self-employed with paid help has been falling.<sup>9</sup> The Business Development Bank of Canada (BDC) tracks the number of self-employed Canadians with paid employees per 1,000 working-age adults. On this measure, Canada's rate collapsed<sup>10</sup> from 3.0 to 1.3 per 1,000 Canadians, a striking 57 percent decline between 2000 and 2022.

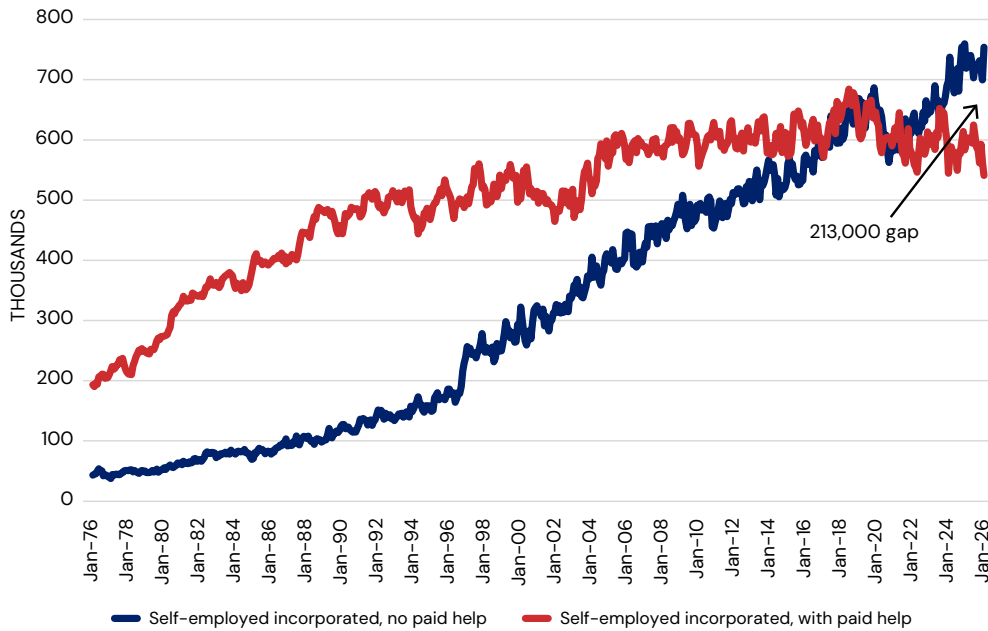
The distinction between incorporated and unincorporated self-employment also matters.<sup>11</sup> Unincorporated self-employment often reflects people earning income from side hustles with no intention of building a scalable firm. Incorporated businesses, especially those with paid employees, usually signal growth ambitions. Incorporated firms without employees, by contrast, may simply be professionals using incorporation for tax planning. The number of incorporated self-employed with paid help is lower today than in 2018 and has been surpassed by the number of incorporated self-employed without employees. As of January 2026, the gap stood at 213,000: 754,000 compared with 541,000.

<sup>9</sup> Cynthia Leach, "Proof Point: The ranks of Canadian entrepreneurs are shrinking," *RBC*, October 5, 2023, <https://www.rbc.com/en/economics/canadian-analysis/featured-analysis/insights/proof-point-the-ranks-of-canadian-entrepreneurs-are-shrinking/>.

<sup>10</sup> James Dunne, "Canada has fewer entrepreneurs today than it did 20 years ago — and that's a big problem for everyone," *CBC News*, October 20, 2023, <https://www.cbc.ca/news/business/canada-entrepreneurs-shortage-solutions-1.7002171>.

<sup>11</sup> David Watt, "A lament for the entrepreneur and the small firm," *...Not just Canada*, February 6, 2026, [https://dgwatt0801.substack.com/p/a-lament-for-the-entrepreneur-and?utm\\_campaign=post-expanded-share&utm\\_medium=web&triedRedirect=true](https://dgwatt0801.substack.com/p/a-lament-for-the-entrepreneur-and?utm_campaign=post-expanded-share&utm_medium=web&triedRedirect=true).

Figure 3: Canada: Self-Employed Incorporated With Paid Help vs. No Paid Help



Source: Statistics Canada

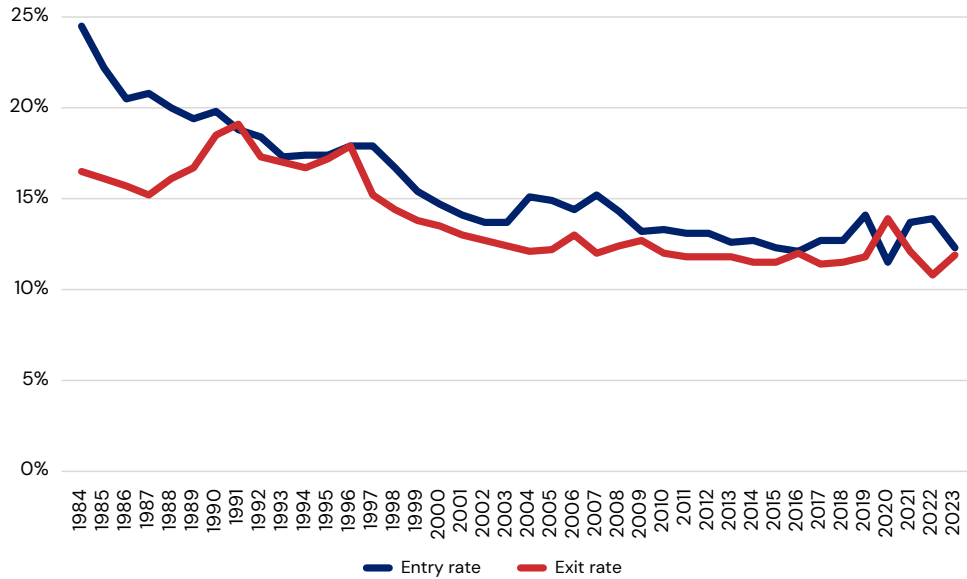
Statistics Canada tracks business dynamism<sup>12</sup> through entry (birth) and exit (death) rates, which measure the share of new firms entering the market and those closing relative to the total number of active businesses. The entry rate in 2023, the most recent year available, is 12.3 percent and remains below the 15.2 percent recorded 15 years earlier. Looking further back,<sup>13</sup> the entry rate was close to 25 percent in the early 1980s and declined steadily over the next two decades. At 11.9 percent, the exit rate in 2023 also sits well below its historical peak, pointing to the same long-run loss of dynamism. This matters because falling entry rates, combined with rising industrial concentration, weaken<sup>14</sup> firm investment, a central factor behind Canada’s poor productivity performance.

<sup>12</sup> Canada, Statistics Canada, *Business Dynamics measures, by industry*, Data, Table 33-10-0164-01, Ottawa, 2026, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3310016401>.

<sup>13</sup> Ryan Macdonald, Statistics Canada, *Business Entry and Exit Rates in Canada: A 30-year Perspective*, Economic Insights, Catalogue no. 11-626-X, Ottawa, 2014, <https://www150.statcan.gc.ca/n1/en/pub/11-626-x/11-626-x2014038-eng.pdf?st=PkucasqF>.

<sup>14</sup> Wulong Gu, Government of Canada, *Investment Slowdown in Canada After the Mid-2000s: The Role of Competition and Intangibles*, Analytical Studies Branch Research Paper Series 11F0019M No. 474, Ottawa, 2024, <https://www150.statcan.gc.ca/n1/pub/11f0019m/11f0019m2024001-eng.htm>.

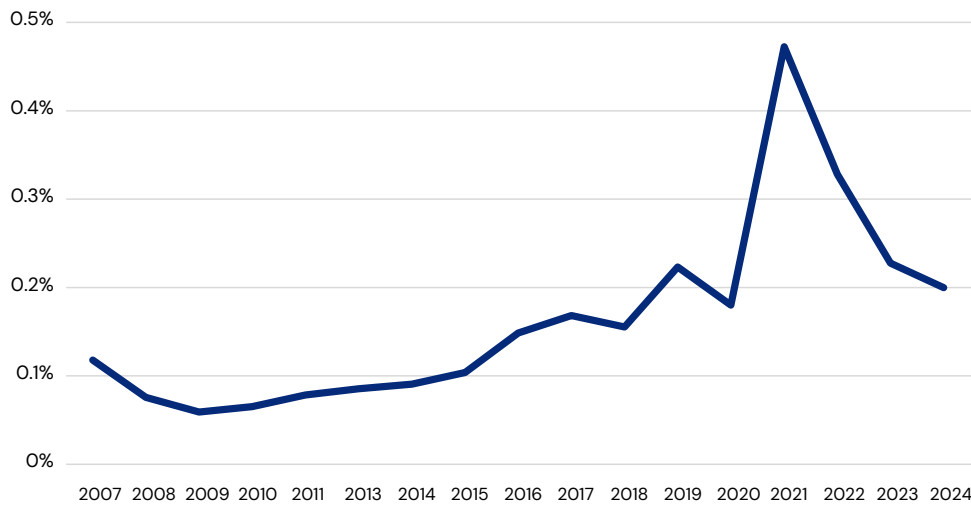
Figure 4: Canada: Business Entry and Exit Rates



Source: Statistics Canada; Macdonald (2014)

Venture capital offers another warning sign. Canada's venture capital investment as a share of GDP has dropped from nearly 0.5 percent in 2022 to 0.2 percent in 2024—a decline of more than half in just two years.

Figure 5: Canada: Venture Capital as Share of GDP



Source: OECD

Canadian venture capital is facing a squeeze on two fronts: raising funds and deploying them.

First, VC funds are struggling to secure their own capital from institutional investors. According to a recent RBCx report,<sup>15</sup> only 21 funds closed in 2025, raising just \$2.1 billion and making it one of the worst fundraising years since 2018. The capital that did materialize was highly concentrated, with Canada's five largest funds capturing 83 percent of the total, leaving first-time managers with a record-low \$249 million.

The flow of capital out to startups tells a similar story of concentration. The CVCA's year-end 2025 report<sup>16</sup> shows that while total deployed capital (\$8 billion) dropped slightly from 2024, overall deal volume fell 12 percent. Investment is pooling into a handful of big bets: 26 mega-deals accounted for 66 percent of all funding.

VCs appear to be playing defense. Only 42 percent of committed capital is earmarked for new startups. The majority is now reserved to keep existing portfolio companies afloat, a sharp departure from historical trends.

A recent BDC analysis highlights the consequence of these combined trends: Canadian investors dominate early-stage seed rounds, while US and foreign investors control the critical later-stage growth capital. Ultimately, this creates an environment where entrepreneurs prove their concepts in Canada, only to move south to scale.

## The exodus to America

Research from Leaders Fund shows<sup>17</sup> that only about one-third of startups founded by Canadians that raised more than \$1 million in 2024 were actually based in Canada—down from two-thirds between 2015 and 2019. Nearly half of these high-potential firms are now located in the US, almost double the share in 2019.

The shift is understandable. Canada's three major startup cities—Toronto, Vancouver, and Montreal—attract just 5 percent<sup>18</sup> of the venture capital investment that flows to America's three leading hubs: San Francisco, New York, and Boston.

Mai Trinh's experience illustrates<sup>19</sup> the forces pulling founders south. After helping build Vancouver's tech community through Red Thread Club, she moved to San Francisco in fall 2025 to work on her startup, Internet Backyard. She and co-founder Gabriel Ravacci raised \$4.5 million USD at a \$25 million valuation for their data-centre financing platform. Trinh had hoped to stay in Canada, even planning to learn French to strengthen her permanent residency application. But her lawyer warned that working on a startup rather than holding a more secure job would complicate the PR process. The advice was to leave. Once she raised venture capital, US visa requirements were straightforward.

Beyond immigration, Trinh pointed to Canada's fragmented financial regulatory landscape and slower procurement cycles. "US customers are more comfortable piloting," she said. "In Canada, procurement cycles are slower, and people wait for regulatory certainty. So the US lets us test, ship, and scale faster."

<sup>15</sup> John Rikhtegar and Ethan Rotstein, *Capital Under Pressure* (RBCx, 2025), [https://www.rbcx.com/wp-content/uploads/2026/01/CapitalUnderPressure\\_2025.pdf?utm\\_source=www.readthepeak.com&utm\\_medium=newsletter&utm\\_campaign=down-round&\\_bhlid=067f52a71004c20edc51a136880dcdf466c308b3](https://www.rbcx.com/wp-content/uploads/2026/01/CapitalUnderPressure_2025.pdf?utm_source=www.readthepeak.com&utm_medium=newsletter&utm_campaign=down-round&_bhlid=067f52a71004c20edc51a136880dcdf466c308b3).

<sup>16</sup> Canadian Venture Capital, *Unleashing the Power of CVCA Intelligence* (Canadian Venture Capital, 2025), <https://www.cvca.ca/insights/market-reports/h1-2025/>.

<sup>17</sup> Gideon Hayden, "Where have all the Canadian startups gone?," *Leaders Fund*, September 22, 2025, <https://leaders.vc/research/canadianstartups>.

<sup>18</sup> Richard Florida and Karen King, "Canada's High-Tech Startup Cities," *University of Toronto - School of Cities*, <https://schoolofcities.github.io/venture-capital-canada/>.

<sup>19</sup> Madison McLauchlan, "She tried to bring Silicon Valley's tech energy to Vancouver. Why did she leave to build a US startup instead?," *BetaKit*, December 10, 2025, <https://betakit.com/she-tried-to-build-vancouver-s-y-combinator-why-did-she-leave-to-build-a-us-startup-instead/>.

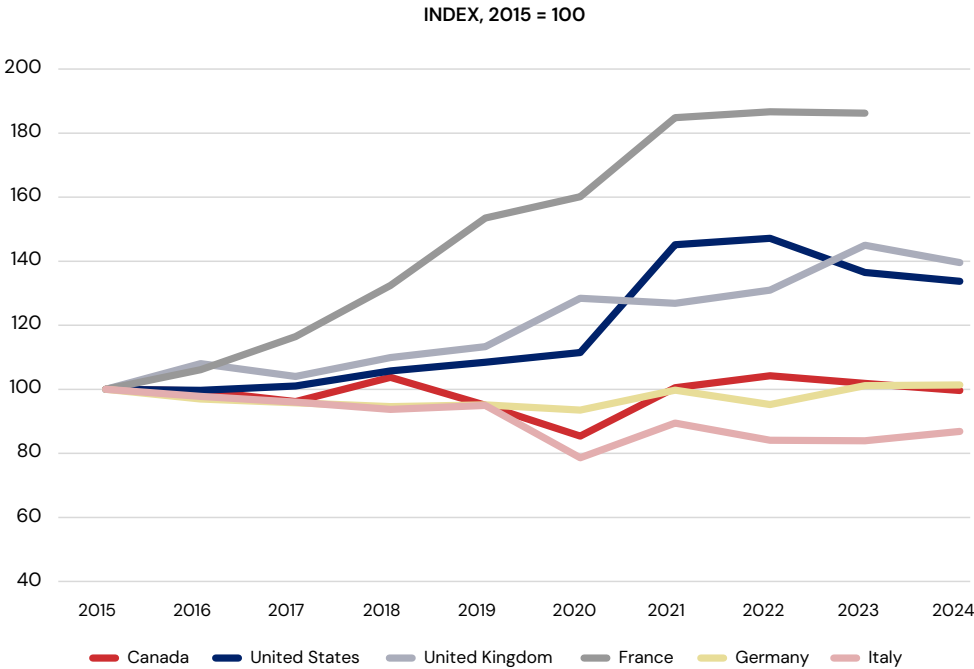
# Canadian Entrepreneurship in a Global Context

Entrepreneurial decline is not unique to Canada; research points to a broad downturn<sup>20</sup> across advanced economies. Yet Canada’s performance stands out in troubling ways.

OECD data on business entries shows a clear divergence between Canada and its G7 peers. While other major economies expanded their entrepreneurial capacity over the past decade, Canada flatlined. In 2015, Canadians created about 191,000 new businesses. By 2024, the figure was 190,399, essentially unchanged despite substantial population growth.

The contrast with peer countries is stark. The United States saw annual business entries rise by 34 percent over the same period, while the United Kingdom and France posted increases of 40 percent and nearly 86 percent. On a per-capita basis, Canada now generates fewer new businesses than it did a decade ago and trails key competitors.

Figure 6: Number of Business Entries in the G7 - Annual



Note: Data not available for France in 2024 or Japan for the entire series.

Source: OECD

<sup>20</sup> “Declining Business Dynamism – Structural and Policy Determinants,” *OECD Science, Technology and Innovation Policy Papers* no. 94 (2020).

The Global Entrepreneurship Monitor (GEM) 2024/2025 report,<sup>21</sup> which surveys entrepreneurial attitudes across 56 economies, offers another perspective. On its key measure—Total Early-stage Entrepreneurial Activity (TEA)—Canada ranks 4th globally at 25.4 percent, ahead of the US at 19.3 percent. TEA captures the share of adults aged 18–64 who report taking steps to start a business or running one less than 3.5 years old, covering both formal and informal ventures.

That ranking hides deeper weaknesses. On Established Business Ownership—the share of adults running firms that have survived beyond 3.5 years—Canada ranks just 24th at 5.8 percent. The survey suggests Canadians are comparatively active in starting ventures, formal and informal alike, but struggle to sustain them.

Motivation data helps explain the gap. An extraordinary 71.9 percent of Canadian entrepreneurs cite “earning a living because jobs are scarce” as a key driver, compared with 34.2 percent in the US. Canada’s entrepreneurship is driven more by necessity than opportunity—side hustles rather than growth-oriented firms.

The report also surveys national experts on structural conditions for entrepreneurship. Among the 23 high-income economies assessed, Canada ranks mediocre to poor on most components, including ease of entry (burdens and regulations), entrepreneurial finance, and government policy (taxes and bureaucracy).

<sup>21</sup> *GEM 2024/2025 Global Report: Entrepreneurship Reality Check*, (Global Reports, 2025), <https://www.gemconsortium.org/report/gem-20242025-global-report-entrepreneurship-reality-check-4>.

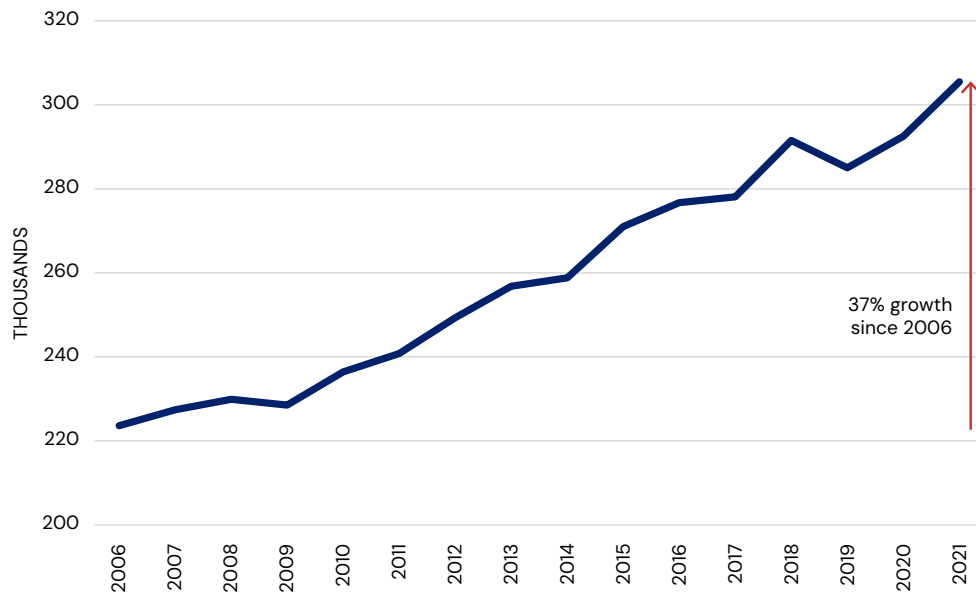
# Why Entrepreneurship Has Declined

Canada's entrepreneurial decline stems from a combination of policy and non-policy factors that reinforce one another.

## Over-regulation

Canada has built a regulatory maze that discourages business formation. Statistics Canada found that federal industrial regulatory requirements alone grew 37 percent from 2006 to 2021, directly reducing<sup>22</sup> business dynamism, innovation, and productivity. This doesn't account for provincial regulations.

Figure 7: Canada: Industrial Federal Regulations



Source: Statistics Canada

<sup>22</sup> Wulong Gu, Government of Canada, *Regulatory Accumulation, Business Dynamism and Economic Growth in Canada*, Analytical Studies Branch Research Paper Series 11F0019M, 2025, <https://www150.statcan.gc.ca/n1/pub/11f0019m/11f0019m2025002-eng.htm>.

The costs of red tape are substantial. Research by the Canadian Federation of Independent Business estimates that regulatory compliance costs small businesses alone \$51.5 billion<sup>23</sup> each year. While smaller firms struggle because they lack the resources and expertise to navigate complex rules, large firms face their own challenges, as documented<sup>24</sup> by the Business Council of Canada.

Regulatory delays translate into capital sitting idle. General construction permits took nearly 250 days<sup>25</sup> in Canada as of 2020 (latest year of data), tripling the time in the US. Major resource projects can take a decade or more to receive approvals, discouraging entrepreneurs from developing resources in Canada. The uncertainty and cost of navigating environmental assessments, Indigenous consultations, and overlapping federal-provincial jurisdictions make resource entrepreneurship far more challenging<sup>26</sup> than in countries like Australia or the US.

International comparisons reinforce the point. Canada's regulatory framework ranks 33rd out of 101 economies in the World Bank's 2025 Business Ready<sup>27</sup> assessment, placing us in the second quintile and well behind G7 peers such as the US (5th) and the United Kingdom (12th). The policy environment clearly prioritizes stability over entrepreneurial dynamism.

Regulations also create cascading effects. Heavy licensing requirements, complex permitting processes, and fragmented provincial regimes impose disproportionate costs on new entrants. Established firms with dedicated compliance teams can manage this complexity; startups cannot. The OECD's latest economic outlook<sup>28</sup> devoted an entire chapter to the need for regulatory reset, noting that excessive regulation suppresses competition and innovation.

## Insufficient competition and market concentration

Canada's economy is marked by entrenched oligopolies<sup>29</sup> that limit entry. Key sectors—telecom,<sup>30</sup> banking, air travel, agriculture,<sup>31</sup> groceries,<sup>32</sup> and professional services<sup>33</sup>—remain shielded from competition. The regulatory barriers outlined above reinforce this protection, insulating incumbents while discouraging new firms from entering the market.

<sup>23</sup> Laure-Anna Bomal and Marvin Cruz, *Canada's red tape report*, (CFIB, 2025), <https://www.cfib-fcei.ca/hubfs/research/reports/2025/Canadas-Red-Tape-Report-2025.pdf>.

<sup>24</sup> Business Council of Canada, *Stifled by Red Tape* (Business Council of Canada, 2025), [https://www.thebusinesscouncil.ca/wp-content/uploads/2025/09/Stifled-by-red-tape\\_EN.pdf](https://www.thebusinesscouncil.ca/wp-content/uploads/2025/09/Stifled-by-red-tape_EN.pdf).

<sup>25</sup> Carl Farah, "Supercharging Canada's Construction Permitting Woes," *Global Regulation Tomorrow*, November 8, 2022, [https://www.regulationtomorrow.com/2022/11/supercharging-canadas-construction-permitting-woes/#\\_ftn2](https://www.regulationtomorrow.com/2022/11/supercharging-canadas-construction-permitting-woes/#_ftn2).

<sup>26</sup> Marla Orenstein, *Competitive Canada - How we can get better stuff built faster recommendations to improve federal assessment for major projects* (Canada West Foundation, 2023), [https://cwf.ca/wp-content/uploads/2023/08/2023-08-31-CWF\\_Competitive-Canada-IAA-Report-WEB.pdf](https://cwf.ca/wp-content/uploads/2023/08/2023-08-31-CWF_Competitive-Canada-IAA-Report-WEB.pdf).

<sup>27</sup> World Bank, *Business Ready 2025* (World Bank Group, 2025), <https://openknowledge.worldbank.org/server/api/core/bitstreams/77ab6e06-9934-435c-a84e-03a4c99bbe48/content>.

<sup>28</sup> OECD, *OECD Economic Outlook Volume 2025 Issue 2: Resilient Growth but with Increasing Fragilities* (OECD Publishing, 2025), [https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2025-issue-2\\_9f653ca1-en/full-report/time-for-a-regulatory-reset\\_90ca6147.html](https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2025-issue-2_9f653ca1-en/full-report/time-for-a-regulatory-reset_90ca6147.html).

<sup>29</sup> Vincent Geloso, "Canada still needs to open up to competition," *Fraser Institute*, 2024, <https://www.fraserinstitute.org/sites/default/files/canada-still-needs-to-open-up-to-competition.pdf>.

<sup>30</sup> David Collins, "Canada has tinkered with competition policy for too long. It's time to fully open up the market," *Macdonald-Laurier Institute*, November 1, 2024, <https://macdonaldlaurier.ca/canada-has-tinkered-with-competition-policy-for-too-long-its-time-to-fully-open-up-the-market-david-collins-in-the-hub/>.

<sup>31</sup> David Clement, "DeepDive: Canada should get rid of supply management once and for all. Here's a plan to do it," *The Hub Canada*, February 10, 2025, <https://thehub.ca/2025/02/10/deepdive-canada-should-get-rid-of-supply-management-once-and-for-all-heres-a-plan-to-do-it/>.

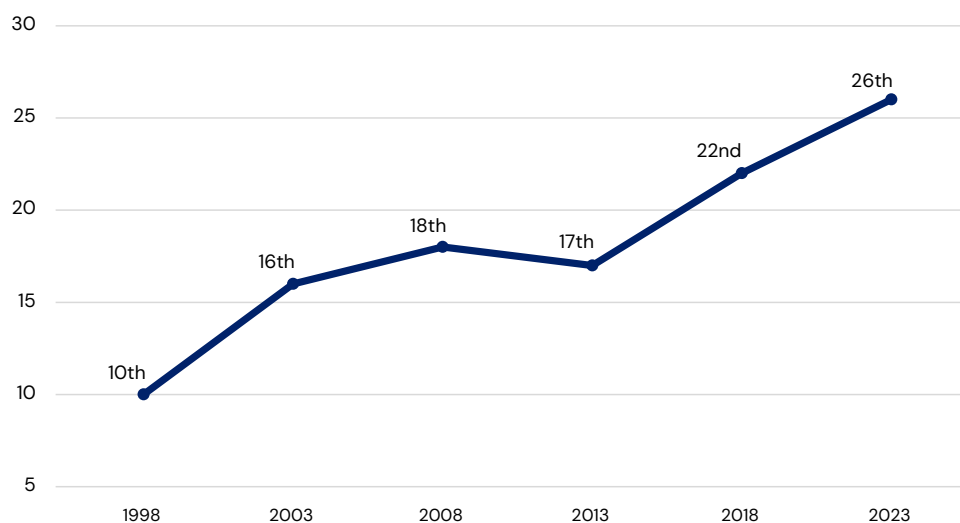
<sup>32</sup> Government of Canada, *Competition Bureau Retail Grocery Market Study Report* (Competition Bureau Canada, 2023), <https://competition-bureau.canada.ca/en/how-we-foster-competition/education-and-outreach/canada-needs-more-grocery-competition>.

<sup>33</sup> Gilbert Cette, Jimmy Lopez, Giuseppe Nicoletti and Océane Vernerey, "Productivity and Growth in Canada: The Role of Procompetitive Reforms," (2025). [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=5557159](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5557159).

Concentrated markets deter entrepreneurial activity. When a small number of firms dominate an industry, potential entrants face not only economies of scale but also political influence, regulatory capture, and aggressive responses to new competition. The OECD has repeatedly noted<sup>34</sup> that restrictions on services trade remain high in network sectors, suppressing dynamism and innovation.

Canada's standing on the OECD Product Market Regulation (PMR) indicators, which measure barriers to entrepreneurship, has deteriorated<sup>35</sup> from 10th in 1998 to 26th in 2023. On a relative basis, Canada's markets have become more closed.

**Figure 8: Canada's OECD Product Market Regulation Ranking**



Source: Matthew Chiasson

A new Competition Bureau-commissioned study<sup>36</sup> examining 15 OECD countries across 19 sectors over 25 years estimates that aligning Canada's regulations in energy, transport, retail, and professional services with international best practices could raise long-run GDP by 6.5 to 10 percent. Anticompetitive rules in these upstream sectors ripple through the economy, lowering productivity in downstream industries. These estimates are conservative, excluding gains from removing internal trade barriers and attracting more foreign investment.

<sup>34</sup> OECD, *OECD Economic Surveys: Canada 2025* (OECD Publishing), 2025, [https://www.oecd.org/en/publications/oecd-economic-surveys-canada-2025\\_28f9e02c-en.html](https://www.oecd.org/en/publications/oecd-economic-surveys-canada-2025_28f9e02c-en.html).

<sup>35</sup> Matthew Chiasson, "Canada is stuck in a growth rut, but competition can get us out: Hunter Prize 2025," *The Hub Canada*, November 28, 2025, <https://thehub.ca/2025/11/28/canada-is-stuck-in-a-growth-rut-but-competition-can-get-us-out/>.

<sup>36</sup> Competition Bureau Canada, "Study finds Canada could unlock major economic gains through stronger competition," News release, February 4, 2026, [https://www.canada.ca/en/competition-bureau/news/2026/02/study-finds-canada-could-unlock-major-economic-gains-through-stronger-competition.html?utm\\_campaign=cb-bc-social-media-25-26&utm\\_medium=smo&utm\\_source=lnk&utm\\_content=pmr-en-260204](https://www.canada.ca/en/competition-bureau/news/2026/02/study-finds-canada-could-unlock-major-economic-gains-through-stronger-competition.html?utm_campaign=cb-bc-social-media-25-26&utm_medium=smo&utm_source=lnk&utm_content=pmr-en-260204).

Interprovincial trade barriers further fragment what should function as a single national market. A recent IMF report estimates<sup>37</sup> these barriers are equivalent to a 9.5 percent tariff. Fully eliminating them could raise Canada's real GDP by roughly 7 percent—about \$210 billion—over the long run.

For entrepreneurs, this fragmentation means that building a national business requires navigating 13 separate regulatory regimes. A firm selling professional services or consumer products across Canada faces licensing rules, compliance requirements, and local protections that vary by province. For young and small firms, this makes scaling prohibitively difficult.

The age of Canada's corporate giants underscores the competition problem. Rudyard Griffiths has shown<sup>38</sup> that Canada's largest publicly traded companies have a median age far higher than those in comparable economies. We excel at producing century-old resource firms and regulated monopolies but struggle to generate a steady pipeline of young, globally competitive companies.

A separate analysis<sup>39</sup> found that the median age of Canada's 15 largest public companies is 122 years. These include CN Rail (founded 1918), Royal Bank (1869), and Bell Canada (1880). This is not a sign of economic vitality; it reflects an environment where incumbents rarely face meaningful competitive threats.

By contrast, among America's largest firms, the median age is far lower. Companies such as Apple, Microsoft, Amazon, and Google—all founded after 1975—rose by displacing older giants through innovation and superior business models.

## Hostile tax policy and disincentives to scale

Since 2016, federal tax changes have signalled hostility toward entrepreneurs and discouraged business growth.

In 2016, the Trudeau government raised the top federal income tax rate from 29 to 33 percent for income over \$200,000. Combined with provincial rates, entrepreneurs in high-tax provinces now face marginal rates above 53 percent, among the highest<sup>40</sup> in the developed world. Canadian evidence<sup>41</sup> finds that increasing the top income tax rate reduces the entry of new employer businesses.

<sup>37</sup> International Monetary Fund, *Canada – 2025 Article IV Consultation—Press Release and Staff Report* (IMF Country Report No. 26/12, 2026), <https://www.imf.org/-/media/files/publications/cr/2026/english/1canea2026001.pdf>.

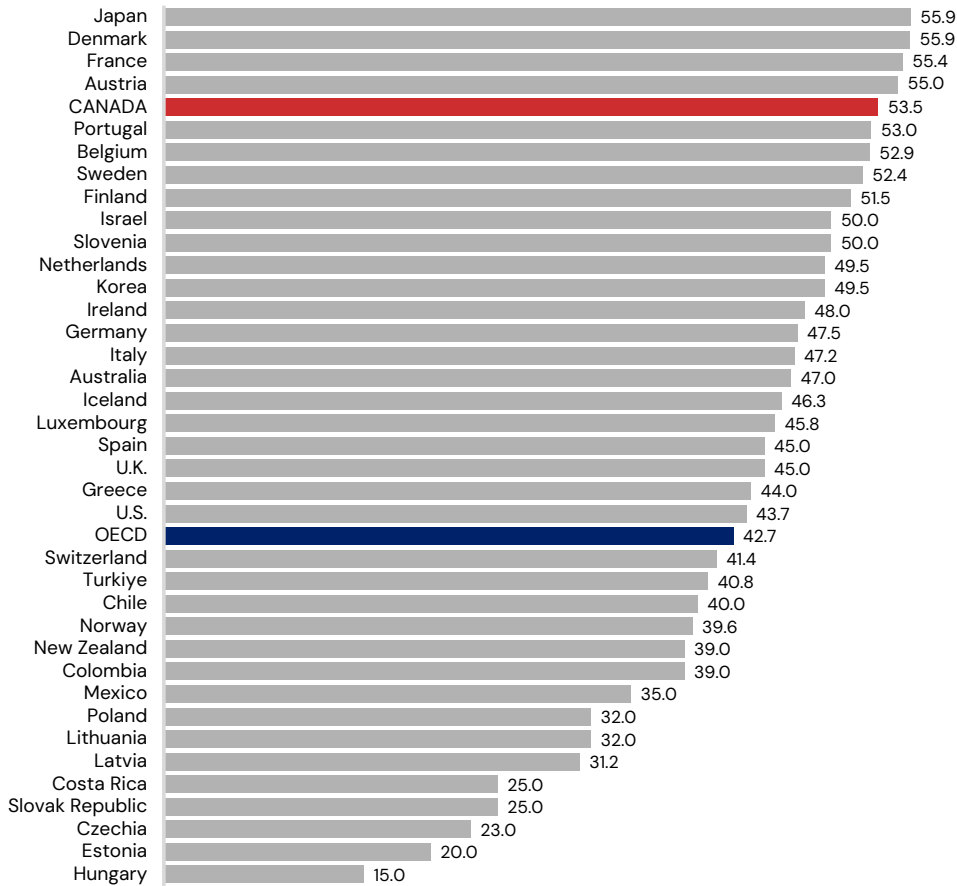
<sup>38</sup> Rudyard Griffiths, "Corporate Canada has a gerontocracy problem," *The Hub Canada*, November 26, 2025, <https://thehub.ca/2025/11/26/canada-has-a-corporate-gerontocracy-problem/>.

<sup>39</sup> Vass Bednar and Graeme Moffat, "Opinion: Canada already has big companies—it needs young, dynamic ones too," *The Hub Canada*, December 16, 2021, <https://thehub.ca/2021/12/16/canada-already-has-big-companies-it-needs-young-dynamic-ones-too/>.

<sup>40</sup> Charles Lammam, "Canada's slow economic growth is a national emergency, and small tweaks won't fix it: Hunter Prize 2025," *The Hub Canada*, November 28, 2025, <https://thehub.ca/2025/11/28/canadas-slow-economic-growth-is-a-national-emergency-and-small-tweaks-wont-fix-it-hunter-prize-2025/>.

<sup>41</sup> Ergete Ferede, "Entrepreneurship and personal income tax: evidence from Canadian provinces," *Small Business Economics* 56 (2021): 1765–1781.

Figure 9: Top Marginal Rate on Personal Income (%)



Source: OECD

In 2017, Finance Minister Bill Morneau proposed sweeping tax changes targeting private corporations, describing entrepreneurs as exploiting “loopholes” and engaging in tax avoidance. Business owners and innovators felt singled out for standard tax planning. Although the proposals were later modified, the episode signalled that government viewed entrepreneurs with suspicion rather than as drivers of economic growth.

The 2024 federal budget proposed raising the capital gains inclusion rate, again framing entrepreneurs as tax cheats. The move triggered strong pushback from the entrepreneurial community. The government created prolonged uncertainty through 2024–2025, delaying implementation before Prime Minister Carney cancelled the measure in March 2025. By then, much damage was done.

In Canada, 50 percent of capital gains are included in taxable income and taxed at the individual's marginal rate, which varies by province and income level. Capital gains taxes discourage<sup>42</sup> long-term investment and entrepreneurial activity. Economist Douglas Cumming estimates<sup>43</sup> that raising the inclusion rate would have reduced venture capital deals by 20 percent and private equity investment by 50 percent. A broad capital gains rollover provision that defers the tax on reinvested gains, by contrast, would improve<sup>44</sup> entrepreneurial finance and unlock idle capital.

The federal government did increase the lifetime capital gains exemption for qualified small business corporation shares to \$1.25 million, indexed to inflation. While this provides modest relief for entrepreneurs selling their businesses, it is not major reform.

Beyond income and capital gains taxes, the federal government has added further costs. The federal carbon tax, introduced in 2019,<sup>45</sup> increased expenses for transportation, heating, and supply chains. Large industrial emitters face separate carbon pricing through the Output-Based Pricing System, adding compliance complexity for manufacturers and resource firms.

Payroll contributions have also risen: CPP rates<sup>46</sup> increased from 9.9 percent in 2018 to 11.9 percent in 2026. While EI premium rates<sup>47</sup> fell slightly, higher maximum insurable earnings pushed total costs up. For many small businesses, these taxes represent additional burdens since 2018 that could otherwise support hiring or expansion.

Importantly, Canada's tax system discourages scaling. A recent Statistics Canada study<sup>48</sup> highlights the unintended consequences of the preferential Small Business Deduction. Using firm-level tax returns from 2001–2019, the study documents companies “bunching” just below the Small Business Deduction threshold. When a Canadian-Controlled Private Corporation (CCPC) crosses the \$500,000 taxable income threshold, its marginal tax rate more than doubles from 12.2 to 26.5 percent in Ontario—a cliff that discourages growth.

<sup>42</sup> Jack M. Mintz, “DeepDive: The capital gains tax increase on Canada's economy was far from trivial,” *The Hub Canada*, September 25, 2024, <https://thehub.ca/2024/09/25/deepdive-the-capital-gains-tax-increase-on-canadas-economy-was-far-from-trivial/>.

<sup>43</sup> Douglas Cumming, “If Ottawa moves ahead with planned capital gains tax increase, private equity investment will fall by nearly half, harming entrepreneurs and businesses,” *Fraser Institute*, March 7, 2025, <https://www.fraserinstitute.org/studies/capital-gains-tax-hikes-canada-and-their-impact-venture-capital-and-private-equity>.

<sup>44</sup> Douglas Cumming, “Reforming capital gains ‘rollover’ rules would have positive impact on financing for entrepreneurs,” *Fraser Institute*, May 13, 2025, <https://www.fraserinstitute.org/studies/capital-gains-tax-rollovers-canada>.

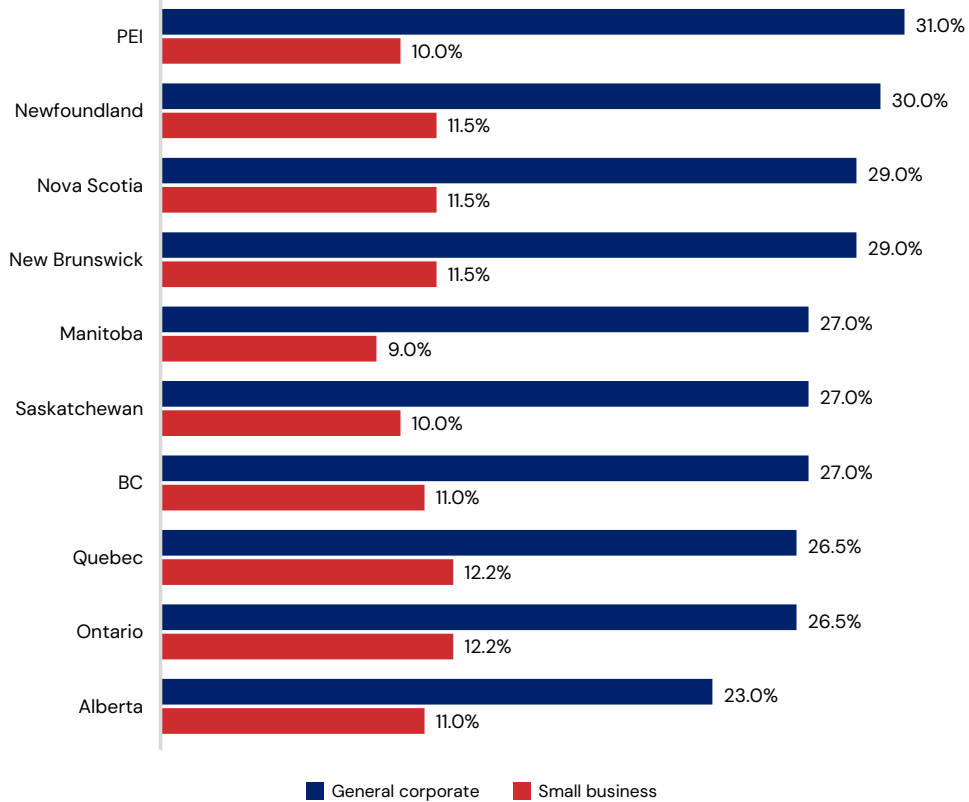
<sup>45</sup> Government of Canada, *Carbon pricing systems across Canada*, (Environment and natural resources, 2025), <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work.html>.

<sup>46</sup> Government of Canada, *CPP contribution rates, maximums and exemptions*, (Taxes, 2025), <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/canada-pension-plan-cpp/cpp-contribution-rates-maximums-exemptions.html>.

<sup>47</sup> Government of Canada, *EI premium rates and maximums*, (Taxes, 2025), [https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html#h\\_1](https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html#h_1).

<sup>48</sup> Josip Lesica, Statistics Canada, *Responsiveness of small businesses to corporate income taxation in Canada: A summary of new findings*, Economic and Social Reports Catalogue no. 36-28-0001, Ottawa, 2025, <https://www150.statcan.gc.ca/n1/en/pub/36-28-0001/2025003/article/00003-eng.pdf>.

**Figure 10: Combined Small Business and General Corporate Tax Rates**



Source: PwC

The analysis reveals that many small businesses actively adjust their taxable income to remain below the threshold. When the threshold increased in 2009, firms shifted their taxable income almost immediately, indicating tax planning rather than genuine economic decisions. Other CCPC-specific preferences, such as the SR&ED program, further weaken incentives to scale.

As National Bank of Canada recently reported,<sup>49</sup> Canada has a disproportionate share of micro-firms compared with the US. Nearly 70 percent of Canadian businesses have fewer than 10 employees, versus about 50 percent in the US. Canada also has far fewer firms in the “scale-up zone,” where companies build the capabilities needed to invest, innovate, and export. Nearly 80 percent of US GDP comes from firms with 100 or more employees, compared with 63 percent in Canada.

National Bank’s analysis concludes: “It’s no coincidence that Canada has so many micro-enterprises—our tax system has influenced this outcome.” The Small Business Deduction “effectively penalizes firms for growing, holding back the very businesses that should be scaling, investing, and competing globally.”

<sup>49</sup> Stéfane Marion and Ethan Currie, “Base Hits to Make Canada Investable Again (Chapter 4),” *National Bank of Canada*, October 28, 2025, [https://www.nbc.ca/content/dam/bnc/taux-analyses/analyse-eco/etude-speciale/special-report\\_251028.pdf](https://www.nbc.ca/content/dam/bnc/taux-analyses/analyse-eco/etude-speciale/special-report_251028.pdf).

## Government programs that crowd out private capital

Well-intentioned government programs often end up crowding out private capital and distorting entrepreneurial incentives.

Canadian research<sup>50</sup> shows that firms financed by government-sponsored venture capital underperform their privately backed peers in value creation (likelihood and size of IPOs and M&As) and innovation (patent generation). Government-backed funds not only invest in lower-quality firms; they also displace more effective private investment.

Labour-Sponsored Venture Capital Corporations (LSVCCs) are a clear example.<sup>51</sup> Created with federal and provincial tax incentives to address perceived funding gaps, they attracted retail investors through generous tax credits. Yet research consistently found that LSVCCs underperformed private VC funds and created distortions that discouraged institutional capital formation.

BDC illustrates the scale of government involvement in venture capital. BDC is the country's largest VC investor, and according to BetaKit's analysis<sup>52</sup> of a shelved government report, private investors increasingly view it as a competitor rather than a support. When a Crown corporation dominates venture investing, it signals market failure, but that failure may be partly self-inflicted. With more than \$6 billion<sup>53</sup> in assets under management, BDC Capital may be crowding out the private markets it aims to strengthen. Private fund managers struggle to raise capital when entrepreneurs can access subsidized government funding. The result is an ecosystem with abundant government VC but insufficient private capital with the discipline, networks, and risk tolerance that drive success elsewhere.

Similar dynamics affect many federal and provincial entrepreneurship programs. When government provides grants, loans, or subsidized capital, it often disrupts price discovery and weakens the relationships that typically form between entrepreneurs and private investors. Programs targeted at specific sectors, regions, or demographics may achieve social objectives but rarely build the commercial discipline needed for globally competitive firms.

The proliferation of overlapping programs<sup>54</sup>—federal accelerators, provincial innovation funds, municipal entrepreneurship centres—adds another layer of complexity. This environment rewards those who can navigate bureaucracy rather than those focused on customers, product development, or scaling operations.

Compounding this challenge, Canada's public sector has grown as a share of total employment over the past five years while self-employment has fallen. This shift represents a reallocation of talent and ambition away from entrepreneurial activity toward government employment. Public sector jobs offer stability, benefits, and defined career progression—attributes that can attract capable individuals who might otherwise build companies.

<sup>50</sup> James A. Brander, Edward Egan and Thomas F. Hellmann, "Government Sponsored versus Private Venture Capital: Canadian Evidence," *NBER Working Paper Series* 14029 (2008).

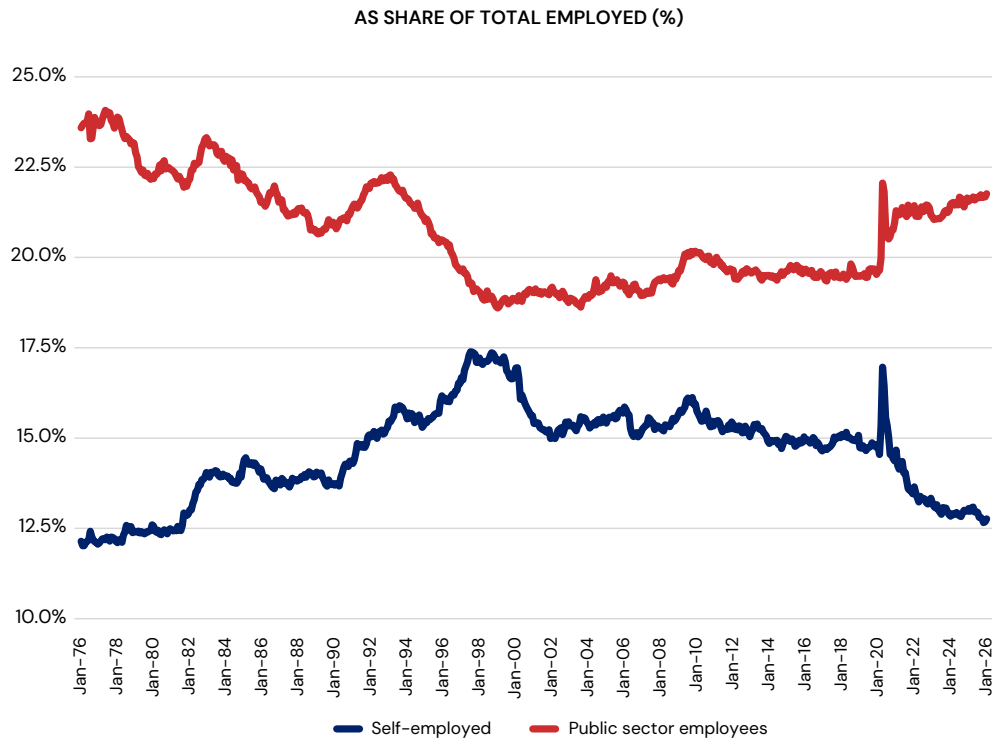
<sup>51</sup> Douglas Cumming, "Financing Entrepreneurs – Better Canadian Policy for Venture Capital," *C.D. Howe Institute Commentary* no. 247 (2007).

<sup>52</sup> Douglas Soltys, "Is BDC too big to change?," *BetaKit*, February 16, 2026, <https://betakit.com/is-bdc-too-big-to-change/>.

<sup>53</sup> Madison McLauchlan, "BDC Capital targets late-stage tech companies with nearly \$1 billion in new fund commitments," *BetaKit*, February 18, 2025, <https://betakit.com/bdc-capital-targets-late-stage-tech-companies-with-nearly-1-billion-in-new-fund-commitments/>.

<sup>54</sup> Government of Canada, *Business Benefits Finder* (Business and Industry, 2026), [https://innovation.ised-isde.canada.ca/innovation/s/?language=en\\_CA](https://innovation.ised-isde.canada.ca/innovation/s/?language=en_CA).

Figure 11: Canada: Public Sector Employees & Self-Employed



Source: Statistics Canada

## Insufficient access to capital

Beyond the VC drought and government crowding out, Canada faces capital availability challenges for entrepreneurs.

The Competition Bureau launched a market study<sup>55</sup> in January 2026 examining SME financing concerns, including how concentrated banking creates barriers for entrepreneurs seeking capital. New or smaller financial lenders face barriers to entry, and SMEs struggle to compare loan options or switch providers. As a result, small firms pay higher borrowing costs than large ones, with the gap wider in Canada than in most OECD countries.

Early-stage capital presents a similar challenge. While angel investors and seed funds exist, many startups hit a financing wall once they have proven their concept and need larger, longer-term investment to scale. Too often, that capital cannot be found domestically, forcing promising companies to relocate or sell prematurely.

These pressures compound the VC drought. When both traditional banks and growth-stage investors fall short, entrepreneurs have few places to turn. The answer, given the crowding-out dynamics described earlier, is not more government programs but structural reform to create conditions that draw private capital off the sidelines.

<sup>55</sup> Competition Bureau Canada, "Competition Bureau launches study of competition in the financing of Canada's small and medium-sized enterprises," News release. January 12, 2026, <https://www.canada.ca/en/competition-bureau/news/2026/01/competition-bureau-launches-study-of-competition-in-the-financing-of-canadas-small-and-medium-sized-enterprises.html>.

## Demographics compound the challenge

Canada, like other advanced economies, faces aging demographics that intensify entrepreneurial decline because older cohorts are less likely to start new businesses. Population projections show the share of Canadians aged 65 and over will continue rising through 2040, while the working-age share contracts.

Successful entrepreneurship peaks around age 45.<sup>56</sup> As the cohort in this range shrinks relative to retirees, fewer Canadians<sup>57</sup> will be in their prime entrepreneurial years (25–49). Without rising entrepreneurship rates among younger cohorts, demographic pressures will continue to push business formation downward.

Canada also faces a major succession challenge. According to the CFIB, more than \$2 trillion<sup>58</sup> in business assets are set to change hands as baby-boomer owners retire over the next decade, yet 91 percent of small business owners have no formal succession plan. The country risks losing not only future entrepreneurs but also the accumulated capital and knowledge embedded in thousands of existing firms.

A recent BDC study<sup>59</sup> quantifies the scale of the opportunity. Sixty-one percent of small and medium-sized businesses are led by owners aged 50 or older, and nearly one in five plan to exit within five years. This represents roughly \$300 billion in business value.

## Other factors

Beyond policy, cultural attitudes and structural challenges reinforce entrepreneurial decline.

As Shopify CEO Tobi Lütke observed, Canada struggles with a “go-for-bronze”<sup>60</sup> culture, a tendency to celebrate mediocrity over excellence. It’s hard to separate culture from policy. When government programs favour lifestyle businesses, tax incentives discourage scaling, and procurement cycles punish speed, ambition naturally fades.

Housing pressures and mental-health strains may play a role too. High housing costs in cities like Toronto and Vancouver make it harder<sup>61</sup> for would-be founders to take on the income volatility that early-stage entrepreneurship demands, while also forcing small firms to pay higher wages to retain staff. At the same time, BDC data shows entrepreneurs experience mental-health challenges. Policy uncertainty compounds these pressures, pushing talented people toward stability rather than risk-taking.

<sup>56</sup> Pierre Azoulay, Benjamin Jones, J. Daniel Kim and Javier Miranda, “Age and High-Growth Entrepreneurship,” *NBER Working Paper Series* 24489 (2018).

<sup>57</sup> Steven Globerman and Jason Clemens, “Demographics and Entrepreneurship – Mitigating the Effects of an Aging Population,” *Fraser Institute* (2018).

<sup>58</sup> CFIB, “Over \$2 trillion in business assets are at stake as majority of small business owners plan to exit their business over the next decade,” News release, January 10, 2023, <https://www.cfib-fcei.ca/en/media/over-2-trillion-in-business-assets-are-at-stake-as-majority-of-small-business-owners-plan-to-exit-their-business-over-the-next-decade>.

<sup>59</sup> BDC, “Historic \$300-billion wave of business acquisitions set to reshape Canada’s economy: BDC study,” News release, January 28, 2026, <https://www.bdc.ca/en/about/mediaroom/news-releases/historic-300-billion-wave-of-business-acquisitions-set-to-reshape-canada-economy>.

<sup>60</sup> Jared Lindzon, “Shopify CEO says Canada must overcome “go-for-bronze” culture at BetaKit Town Hall,” *BetaKit*, May 7, 2024, <https://betakit.com/shopify-ceo-says-canada-must-overcome-go-for-bronze-culture-at-betakit-town-hall/>.

<sup>61</sup> Jazib Ahmad, “Built on Shaky Ground: How Canada’s Housing Policies are Hurting Economic Growth,” *OpenRoom*, March 13, 2026, <https://learn.openroom.ca/post/canada-housing-policy-economic-growth>.

## Canada can reverse course

Canada has world-class universities producing exceptional talent. Our institutions—rule of law, property rights, democratic stability—provide a strong foundation for prosperity. And despite the obstacles, talented Canadians continue to build companies.

But advantages don't translate into outcomes without the right policies. Estonia transformed itself from a Soviet backwater into a digital innovation leader through regulatory reform and entrepreneurship-friendly tax policy. Ireland went from European laggard to a magnet for high-growth firms by adopting competitive tax rates and business-friendly regulation. Singapore built a dynamic startup ecosystem from a resource-poor city-state by focusing on business ease, talent attraction, and competitive taxation. Israel created a venture ecosystem that rivals Silicon Valley despite a tiny domestic market and regional instability.

Canada can do the same. But it will require a major shift in policy direction.

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