



MEI

Ideas for a
More Prosperous
Society

BRIEF

Federal pre-budget brief 2025-2026

The MEI is submitting this brief as part of the federal pre-budget consultations for the 2025-2026 fiscal year. To ensure sound public financial management and maintain a dynamic and resilient Canadian economy, the federal government will need both to reduce spending in the next budget to return quickly to budgetary balance, and establish a regulatory framework that promotes the development of the country's natural resources.

► For a reduction in spending

Better control of spending is needed to return to balanced budgets

The successive deficits of recent years have put Canada on an alarming trajectory in terms of its public finances. Deficits of \$61.9 billion in 2023-2024 and \$46 billion in 2024-2025 reflect the previous federal government's lack of concern about Canada's chronic debt.¹

The trajectory of these recent years is worrying, as no credible path toward a return to fiscal balance has even been envisaged. Worse still, the latest projections from the C.D. Howe Institute indicate that the deficit for the next fiscal year could reach \$92 billion.² Under no circumstances should this be allowed to happen. Instead, Canada must send a clear signal, both to the population and to the ratings agencies, that the government considers sound management of public finances to be a matter of utmost importance.

So as not to place an undue burden on future generations, Canada's new government must make fiscal discipline one of its priorities for the next budget.

The Carney government has set reduction targets for operating expenditures of 7.5% for 2026-2027 and of up to 15% by 2028-2029, but given the changes it wants to make to national accounting methods, exactly what this means remains unclear. The cuts also seem insufficient given the government's desire to increase capital spending.³ The current government seems to want to allocate budget expenditures differently, which may instead result in an overall increase in government spending. Rating agencies will look at actual spending to assess credit ratings. Furthermore, the government should base its approach on generally accepted accounting principles, namely that subsidies paid to businesses fall under the category of operations rather than capital expenditures.⁴

In order to demonstrate sound management of public finances, the government needs to reduce all government spending, not just *operating* expenses.

Toward a reduction in the size of the federal bureaucracy

There are multiple factors underlying the rapid growth in government spending, and an explosion in the size of the federal public service is one of the most salient. Indeed, since Justin Trudeau's Liberals came to power in 2015, approximately 100,000 additional civil servants have been hired, representing an expansion of 38% between 2016 and 2025.⁵

This has unavoidably increased pressure on government spending, particularly in terms of public sector employee compensation. To reverse this trend and generate a credible strategy for returning to a

balanced budget, the federal government will need to establish an ambitious plan to reduce the federal public service workforce.

To achieve this, the government should look to the approach of former Liberal Prime Minister Jean Chrétien for inspiration. The Chrétien government reduced the size of the civil service in order to restore budgetary balance, and even generated a surplus across several years.

The current government does not appear to have any intention of renewing all its contract employees, particularly at the CRA.⁶ This approach should be extended throughout the entire civil service, which employs tens of thousands of contract workers.⁷ If necessary, even more should be done to achieve ambitious reductions in compensation expenditures.

Jean Chrétien reduced the size of the civil service by 17.4% over a five-year period. For the present government to follow suit would require gradual reductions totalling approximately 64,000 civil servants, which we estimate would generate annual savings of approximately \$10 billion in public funds.⁸ This would represent a significant contribution to restoring budgetary balance via better spending control.

The necessary abolition of costly new programs

The previous government launched several programs that proved particularly expensive for the federal treasury—and therefore for Canadians. It is now necessary to consider abolishing them. One example is the Canada Dental Care Plan (CDCP), which could cost up to \$13 billion over the first five years,⁹ and \$4.4 billion per year after that. This program contributes a significant chunk to the federal deficit.¹⁰ Another candidate is drug insurance, which the Parliamentary Budget Office estimates will cost \$13.4 billion starting in 2027-2028.¹¹ This federal single-payer drug insurance plan would lead to an overall reduction in the quality of coverage provided by programs for a large portion of the Canadian population.

These programs can also produce harmful side effects beyond the purely financial. For example, public drug insurance would lead to reductions in the coverage offered by private insurance companies, thus reducing the quality of coverage for Canadians who are covered through their employers. This is particularly problematic, as the coverage offered by provincial public plans is generally inferior to what private insurance companies offer.

There is one additional factor that is key: both of the programs above tread on provincial jurisdictions. It goes without saying that the federal government's intervention is ill-advised, as it is less well placed than provincial governments to determine what the population really needs.

The federal government should scrap both of these initiatives—and others like them—to reduce the financial pressure caused by expensive programs ill-suited to the needs of the population.

All subsidies to business must also be eliminated. These handouts position the federal government as a central planner of the economy, a role it has no capacity to carry out successfully, which costs taxpayers dearly.¹² Indeed, recent years have witnessed the dramatic failure of several high-profile subsidized companies, Northvolt being the most recent example. Worse still, this type of economic policy entails a significant opportunity cost for the Canadian economy, as it indirectly necessitates tax increases in order to finance these subsidies. Under the previous federal government, for example, subsidies financed by an increase in the marginal tax rate in 2015, for the years 2016 to 2020, were favoured over the status quo. However, maintaining the previous rate would have allowed for the creation of 9,820 additional businesses,¹³ thereby promoting greater prosperity in Canada.

Canada Post must be privatized

Canada Post has lost money every year since 2018. Over the past decade, it has accumulated more than \$3.6 billion in deficits, demonstrating the organization's clear inability to adapt to the changing market.¹⁴

In the parcel sector, Canada Post's market share has fallen from 62% in 2019 to 24% in 2024.¹⁵ Among other factors, this decline can be explained by the Crown corporation's persistent failure to respond to new market realities. This diagnosis is nothing new: a report by EY had already predicted a heavily deficit-ridden and uncertain future for Canada Post if nothing was done to correct its structural weaknesses. And nothing has been done, as evidenced by the \$841-million deficit for 2024 alone.

In the face of this chronic deficit, and the federal government loans required to keep the organization afloat, it has become obvious that a new approach is required: the Crown corporation must be privatized and the entire postal sector, particularly mail delivery, liberalized to allow the entry of new players capable of providing quality service to Canadians.

This change would solve an organizational and financial impasse by freeing the public from the burden of risk associated with Canada Post's potential default on its loans. To achieve this, the federal government should plan to transition toward privatization over a two-year period. In the first year, a significant portion (approximately 40%) of its shares should be allocated, or sold at a low price, to current employees.¹⁶ In the second year, the remaining shares should be made available to all investors. This approach would encourage employee buy-in for the project. At the same time, the opening of the sector to competition should initially target just part of the postal market, followed by full liberalization in the second year.¹⁷

This plan will enable the government to generate significant revenue from the sale of Canada Post. But more importantly, it will no longer bear the operational risk and financial burden of an organization that, far from demonstrating a willingness to adapt, is instead continually threatening to strike.

► Toward an increase in government revenue

It is time to revise federal regulations

Federal regulations have grown continuously over the past few decades, expanding by 37% between 2006 and 2021, to total 320,900 separate regulatory requirements.¹⁸ This phenomenon has been deleterious to the country's economic development. Its concrete effects include a decline in the productivity of Canadian workers, a slowdown in GDP growth, and reduced capital investment.¹⁹

In order to reverse this trend, the federal government must significantly reduce the number of regulations accumulated over the decades. It has expressed its intention to review these regulations, notably through the use of tools such as artificial intelligence. One of the stated objectives is to reduce the regulatory burden where it duplicates provincial regulations.

While this is a step in the right direction, the review must be much more ambitious in order for Canada to fully realize its economic potential and thus contribute to the prosperity of its population.

The federal government should emulate Jean Chrétien's approach of some thirty years ago. To conduct a comprehensive and rigorous regulatory review, analysts must ask themselves the following six questions:

1. What is the goal of the regulation?
2. Does the regulation serve the public interest?
3. Taking into account the role of the federal government, is this regulatory intervention necessary?
4. What is the expected economic cost of the regulation?
5. Is there a cheaper or less intrusive way to address the issue the regulation seeks to resolve?
6. Is there a net benefit?²⁰

All of these questions should guide the review of each regulation in order to remove those that are unnecessary, redundant, or that generate excessive economic costs.

Highlighting the potential of Canadian resources

Canada is a country rich in natural resources. While this is a widely accepted truism, much more needs to be done—particularly by modifying the regulatory framework—to develop untapped resources that could contribute significantly to the population's prosperity.

The oil and gas sector plays a central role in the country's economic prosperity, contributing nearly \$209 billion to GDP and accounting for 25% of exports in 2023.²¹ In fact, Canada ranks fourth in the world in terms of oil reserves and production, and third in terms of oil exports.²²

Despite this key contribution to the Canadian economy, more needs to be done to increase Canadian prosperity and thereby boost government revenues. To achieve this, substantial amendments to C-69, particularly to the *Impact Assessment Act* (IAA), will be necessary.

Specifically, the government will have to:

1. Limit the scope of the federal evaluation to areas within its jurisdiction, in accordance with constitutional limits.
2. Accelerate projects that rely on existing infrastructure or rights-of-way, such that assessments focus only on new or additional impacts that were not considered in a previous assessment, rather than re-evaluating the entire project.
3. Eliminate the ability of the Minister (or the Governor in Council) to extend deadlines or suspend the process.
4. Automatically recognize evaluations carried out at the provincial level.
5. Limit the scope of factors taken into account during an assessment, so that projects can be completed within a reasonable time frame and in an environmentally friendly way.
6. Enable project developers to determine with certainty whether an assessment is indeed necessary.²³

Among other things, this approach will reverse the downward trend in capital investment that the oil and gas sector has seen over the past decade.²⁴ Indeed, these proposed amendments to the law will help mobilize the capital required for energy development and transport infrastructure. They should also be accompanied by regulatory reforms, including the abolition of emission caps on oil and gas production and the Clean Electricity Regulations.²⁵

Together, these measures will increase federal government revenues through the collection of royalties,²⁶ corporate taxes, and taxes on the high salaries in an economic sector where the average yearly income is around \$150,000.

A welcome diversification of our natural resources

Such amendments to the *Impact Assessment Act* will facilitate the construction of major energy resource transportation projects, which will enable us, in turn, to diversify our trading partners. In 2024, Canada relied heavily on the United States, exporting more than 90% of its oil and 100% of its natural gas to its southern neighbour.²⁷

As a result, over \$100 billion worth of hydrocarbon exports are sent to the United States every year. This lack of diversification should encourage policymakers to facilitate development of energy transport infrastructure in order to open access to other markets, particularly in Asia and Europe.

In the past, both the federal and Quebec governments have rejected certain projects and established regulatory frameworks unfavourable to the development of this type of infrastructure. A notable example was the case of Energy East, which could have transported 1.1 million barrels of oil per day (worth \$36.7 billion annually) to Europe, the equivalent of 27.7% of Canada's oil exports in 2024. As for GNL Québec, 46 million cubic metres per day (or 19.4% of the volumes currently destined for the United States) could have been exported elsewhere, equivalent to \$1.73 billion at 2024 resource prices.²⁸

These two examples clearly demonstrate the need to facilitate the construction of new energy infrastructure in order to enable greater diversification of our trading partners, especially in the context of current trade tensions. Ultimately, this infrastructure could also lead to increased production and exports which would, in turn, lead to higher government revenues.

Developing an AI regulatory framework that promotes Canadian economic dynamism

In order to contribute to the economic growth of particularly promising sectors, other measures must also be considered. Chief among these is artificial intelligence (AI), which is playing an increasingly important role in the lives of Canadians.

In order to promote the development of the AI sector, the government should strive to minimize regulatory constraints so as to avoid stifling innovative momentum.

In this sense, it is important to avoid replicating the European model, which imposes various measures designed to achieve unrealistic objectives, particularly with respect to the innovation process specific to artificial intelligence. This type of regulatory framework impairs the industry's ability to attract capital, to the detriment of Europeans, start-ups and, consequently, innovation.

Indeed, investment in the sector has been stagnating for several years now, while other places with less restrictive regulatory frameworks, such as the United States, are attracting more capital.

Faced with the negative effects of excessive interventionism observed in Europe, the federal government should view this as an opportunity to define its own regulatory framework focused on economic development. Otherwise, the Canadian AI industry will miss out on significant opportunities for growth and capital investment.²⁹

Endnotes

1. The latter figure is an estimate made by the Parliamentary Budget Officer for the 2024-2025 fiscal year. Government of Canada, *Public Accounts of Canada 2024 – Volume 1*, December 9, 2024, p. 11; Office of the Parliamentary Budget Officer, *Economic and Fiscal Monitor – June 2025*, June 19, 2025, p. 6.
2. William B.P. Robson *et al.*, “The Fiscal Update the Government Should Have Produced and the Budget Canada Needs,” C.D. Howe Institute, July 3, 2025, p. 3.
3. Peter Zimonjic, “Carney’s plan to cut tens of billions in spending is tough but doable, experts say,” *CBC News*, July 12, 2025.
4. *Op. cit.*, endnote 2, p. 5.
5. Conrad Eder and Gabriel Giguère, “Reining in Canada’s Federal Bureaucracy by Emulating Chrétien’s Approach,” *Viewpoint*, MEI, May 2025, p. 1.
6. The Canadian Press, “CRA won’t renew contracts for more than 1,000 term workers, union says,” *CTV News*, May 2, 2025.
7. Government of Canada, Infographic for Government of Canada, People, Employee Type (March 2020 to March 2024), consulted on July 18, 2025.
8. Conrad Eder and Gabriel Giguère, *op. cit.*, endnote 5, p. 2.
9. Health Canada, The Canadian Dental Care Plan, December 11, 2023.
10. *Idem.*
11. Lisa Barkova *et al.*, *Cost Estimate of a Single-payer Universal Drug Plan*, Office of the Parliamentary Budget Officer, October 12, 2023, p. 18.
12. Statistics Canada, Table: 10-10-0147-01 - Canadian government finance statistics (CGFS), statement of operations and balance sheet for consolidated governments (x 1,000,000), November 22, 2024.
13. Emmanuelle Faubert, *Encouraging Entrepreneurship: Billions of Dollars of Subsidies or Tax Cuts?* Research Paper, MEI, September 2023, p. 15.
14. Vincent Geloso and Gabriel Giguère, “Privatizing Canada Post: Lessons from Germany,” *Economic Note*, MEI, July 2025, p. 1.
15. *Idem.*
16. *Idem.* p. 4.
17. *Idem.*
18. Wulong Gu, *Regulatory Accumulation, Business Dynamism and Economic Growth in Canada*, Statistics Canada, February 2025, p. 25.
19. *Idem.*
20. Shal Marriott, Renaud Brossard, and Krystle Wittevrongel, “How to Cut the Regulatory Burden in Canada,” *Viewpoint*, MEI, May 2025, p. 1.
21. Krystle Wittevrongel and Gabriel Giguère, *Oil and Gas Development, Investment, and Regulation: Canada’s Impact Assessment Act*, Research Paper, MEI, January 2025, p. 9.
22. *Ibid.*, p. 10.
23. Krystle Wittevrongel and Gabriel Giguère, “Canada Deserves a Project Approval Process That Is Swift by Default,” *Viewpoint*, MEI, March 18, 2025, p. 2.

24. Krystle Wittevrongel and Gabriel Giguère, *op. cit.*, endnote 21, pp. 10–11.
25. Government of Canada, Environment and natural resources, Climate change, Climate change: our plan, Oil and gas sector greenhouse gas pollution cap, March 14, 2025; Government of Canada, Clean Electricity Regulations (SOR/2024-263), consulted July 18, 2025.
26. Statistics Canada, Table: 25-10-0065-01 - Oil and gas extraction revenues, expenses and balance sheet (x 1,000,000), September 25, 2024.
27. Meghan Potkins, “Canada’s first large-scale shipment of LNG delivered to port in South Korea,” *Financial Post*, July 17, 2025.
28. Gabriel Giguère, “Diversifying Our Exports by Building Energy Infrastructure in Quebec,” Viewpoint, MEI, March 2025, p. 1.
29. Nestor Maslej *et al.*, *Artificial Intelligence Index Report 2025*, Stanford University – Human-Centered Artificial Intelligence, April 2025, p. 254.

The MEI is an independent public policy think tank with offices in Montreal, Calgary, and Ottawa. Through its publications, media appearances, and advisory services to policymakers, the MEI stimulates public policy debate and reforms based on sound economics and entrepreneurship.

910 Peel Street, Suite 600, Montreal QC H3C 2H8 - T 514.273.0969
150 9th Avenue SW, Suite 2010, Calgary AB T2P 3H9 - T 403.478.3488
170 Laurier Avenue W, Suite 716, Ottawa ON K1P 5V5

iedm.org