January 2026 | No. 7

BARRIERS AND BRIDGES: RETHINKING TRADE WITHIN THE FEDERATION

The Politics of Internal Trade: Narratives, Public Opinion and Canadian Federalism

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CENTRE D'EXCELLENCE SUR LA FÉDÉRATION CANADIENNE
CENTRE OF EXCELLENCE ON THE CANADIAN FEDERATION

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ABOUT THIS ESSAY

This essay was published as part of the series Barriers and Bridges: Rethinking Trade Within the Federation, published under the direction of Valérie Lapointe by the Centre of Excellence on the Canadian Federation. Editorial co-ordination was by Étienne Tremblay, proofreading was by Zofia Laubitz, and production and layout were by Chantal Létourneau and Anne Tremblay.

A French translation of this essay is available on the Centre's website under the title *La politique du commerce intérieur : discours, opinion publique et fédéralisme canadien*.

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To cite this document:
Jiang, D., Béland, D. & Tombe, T. (2025). *The politics of internal trade: Narratives, public opinion and Canadian federalism*. Institute for Research on Public Policy.

ACKNOWLEDGMENTS

The authors thank Valérie Lapointe for her comments and suggestions.

Cover: Luc Melanson

INTRODUCTION

In response to the ongoing trade war between Canada and the United States, triggered by Donald Trump's return to the White House, calls to liberalize trade within Canada have gained unprecedented attention in recent months. The potential economic benefits have been particularly salient. In fact, internal trade is often framed as a substitute for international trade and as a direct economic offset to costs associated with rising U.S. protectionism. While lower internal trade costs could boost gross domestic product (GDP), improve competitiveness and help Canada's economy in general, this perspective overlooks the deeper politics of internal trade. Unlike international trade, interprovincial trade liberalization is deeply affected by constitutional constraints, regulatory complexity, divergent provincial priorities and broader fiscal arrangements, including important implications for existing federal-provincial transfers, such as Equalization, that may not be broadly appreciated.

In this paper, we argue that the politics of internal trade can operate on two levels. First, elite narratives and the public attitudes toward the subject shape how internal trade liberalization is framed in the Canadian context: as a national unity project and economic strategy. Second, Canada's federal fiscal arrangements, including its decentralized regulatory system and Equalization transfers, create incentives that can either incentivize or disincentivize reform. Understanding the politics of internal trade, therefore, requires examining the symbolic appeal of unity and efficiency as well as the institutional constraints embedded in Canadian federalism.

This paper explores the politics of internal trade in Canada through these two dimensions. More specifically, it examines why internal trade liberalization became a politically attractive yet conceptually fuzzy concept, what public opinion really reveals about support for broad reforms and how fiscal federalism may affect the size and distribution of gains from internal trade liberalization over time.

FROM SYMBOLIC RHETORIC TO POLICY REALITY

Although debates about interprovincial trade barriers have long been a part of the Canadian political landscape, renewed trade tensions with the United States following Trump's return to the White House in January 2025 pushed them up on the political agenda. His administration has also floated "Buy American" provisions tied to procurement, imposed sectoral tariffs on Canadian agricultural and steel exports and raised questions about energy subsidies. Against this backdrop, internal trade liberalization has re-emerged as a politically attractive idea in Ottawa and gained traction across provincial capitals. While previous initiatives, such as the Canada Free Trade Agreement of 2017, sought to modernize interprovincial commerce and harmonize regulations, progress has been uneven and slow. In practice, internal trade in Canada has advanced along two distinct yet interconnected tracks: mutual recognition, which enables provinces to accept one another's standards and credentials (see Manucha, 2025), and trade barrier reduction, which seeks to harmonize or eliminate divergent regulatory and procurement rules. This institutional distinction, though often blurred in political rhetoric, underlies the debates analyzed below. Most notably, during the federal election campaign, Prime Minister Mark Carney pledged to "unleash free trade in Canada by Canada Day" (Liberal Party of Canada, 2025), pushing internal trade liberalization to the forefront of Canadian priorities (Cabrera, 2025). The logic appears to be simple: if access to the U.S. market is uncertain, Canada should strengthen its own domestic market by lowering barriers at home.

The economic logic

Federal and provincial elites have advanced internal trade liberalization as a technical, efficiency-oriented reform rather than as a contentious political project. Framing it as an economic strategy aimed at boosting GDP, improving productivity and helping Canadian firms compete despite external shocks allows the government to cast these reforms in terms of simple economics rather than intergovernmental compromise. This framing also blurs the line between the two main approaches to internal trade reform — mutual recognition and barrier reduction — treating both as parts of a single project of efficiency and modernization. However, in political and media discourse, internal trade is also often framed as a project for Canadian identity and resilience: a way to reinforce unity, demonstrate national solidarity and build resiliency against hostile external forces. Together, these two key narratives structure much of the federal and provincial rhetoric on internal trade, even as they sit uneasily together.

At the federal level, policymakers have consistently linked internal trade with key economic themes, such as welfare and efficiency. In his announcement of Bill C-5, the *One Canadian Economy Act*, the prime minister explicitly highlighted the bill's ability to eliminate barriers that cost the Canadian economy around $200 billion annually (Aiello, 2025). In his speech, he frequently mentioned the bill's benefits, such as "new opportunities for Canadian businesses" and lowered "costs for Canadian consumers" (para. 3). By situating the initiative in terms of productivity gains, consumer benefits and business competitiveness, Ottawa echoed a long-standing economic analysis of liberalization's potential monetary GDP gains. In this framing, the matter is cast as a means of maximizing aggregate gains, an argument that resonates with economists, businesses and policy elites.

This framing has also been reinforced by federal ministers and industry groups, often relying on technical economic cues. Officials repeatedly cite studies such as Albrecht and Tombe (2016), which estimated that interprovincial trade costs remain equivalent to a tariff of between 7 to 15 per cent. For example, in June, then Minister of Transport and Internal Trade Chrystia Freeland cited the potential 7 per cent increase in productivity and emphasized that internal trade liberalization would help "increasing our productivity, creating jobs" and be beneficial to the economy "battered by tariffs" (Senate of Canada, 2025, para. 142). Business associations such as the Canadian Chamber of Commerce (2024) and the Business Council of Canada (2025) similarly pointed to internal barriers, such as red tape, that undermine small and medium-sized enterprises. In this narrative, internal trade liberalization is not only about abstract efficiency but also about creating a level playing field for Canadian firms, encouraging investment and strengthening supply chains in the face of external shocks.

By grounding the debate in quantifiable measures of duplication as well as lost output and efficiency, Ottawa was able to cast internal trade liberalization as a matter of correcting well-documented distortions rather than of pursuing a partisan agenda.

Similarly, provinces have also embraced the internal trade agenda and mirrored this framing, although with different emphases. Nova Scotia, in particular, introduced the *Free Trade and Mobility within Canada Act* to recognize occupational licences and regulatory standards from other provinces on a reciprocal basis. Premier Tim Houston characterized the strategic initiatives as "cut[ing] red tape" for business and workers (Thomas, 2025), reducing compliance costs and attracting investment by making the economy more streamlined and competitive. Similarly, Ontario Premier Doug Ford has repeatedly linked the issue to Ontario's role as Canada's "economic engine" (Government of Ontario, 2025). His rhetoric often greatly emphasizes the impacts on small and medium-sized enterprises, portraying the internal free trade agenda as both an affordable measure for consumers and a competitiveness strategy for firms. Both Nova Scotia's and Ontario's cases closely mirror the federal economic logic in deploying economic cues, signals emphasizing compliance costs, efficiency gains and consumer benefits. Overall, these economic cues and frames operate as building blocks of a broader narrative that propels the internal trade agenda. By grounding needed internal trade reform in economic rather than political terms, federal and provincial leaders have reinforced a consensus among analysts that internal trade liberalization is about correcting inefficiency rather than reconciling competing regional interests.

The identity frame

Whereas the economic logic portrays internal trade liberalization as a strategy for efficiency and competitiveness, the identity frame casts it as a project of national unity and resilience. Here, too, elites often conflate distinct mechanisms of mutual recognition and barrier reduction under the same symbolic banner, presenting both as a step toward realizing "One Canadian Economy." By invoking collective strength in the face of external threats, federal leaders transform a technical reform into a moral and patriotic cause. Carney, during his election campaign, captured this rhetoric when he declared, "We can give ourselves far more than Donald Trump can ever take away. We can have one economy" (Jolly & Murughappun, 2025, para. 3). This rhetoric went beyond efficiency arguments, casting internal trade liberalization as a nation-building exercise through which Canadians respond to external threats by strengthening ties across the country. In this framing, lowering barriers is not merely an economic adjustment but an affirmation of national solidarity — Canadians stand together when access to external markets is constrained. Federal ministers have reinforced this by presenting reform as a patriotic duty: the language of one Canadian economy suggests that, rather than being a narrow technical exercise, dismantling internal trade barriers is part of realizing Canada's national potential.

Provinces have also adopted that identity frame, though often in ways that blend appeals to national unity with provincial distinctiveness. In Ontario, Ford's government has repeatedly argued that Ontarians should not face barriers when they want to work anywhere in this country, presenting liberalization not only as an economic reform but as a fairness issue that speaks to the integrity of Canada as a country. Nova Scotia's Houston echoed similar themes when introducing his *Free Trade and Mobility within Canada Act*, describing it as a step toward making Canada "a stronger country" by enabling workers and firms to operate seamlessly across jurisdictions (MacInnis, 2025, last para.). Even in Quebec, where enthusiasm for internal liberalization has historically been tempered by concerns over autonomy (Trew & Lee, 2025), provincial leaders have nonetheless adopted elements of the national unity narrative, framing co-operation on professional mobility agreements as a way to strengthen both Quebec's economic identity and its role within the federation. These variations reveal the flexibility of the identity frame. Indeed, while it provides a shared national narrative that provinces adopt to serve regional goals, it also shows the limits of the unity narrative, a theme that becomes evident when national and provincial interests collide in practice.

Tensions

Together, the economic and identity frames have pushed forward the internal trade liberalization agenda, yet the co-existence of these narratives also exposes deep contradictions. The same leaders who extol the virtues of national unity and efficiency often advance policies that privilege local producers or reinforce provincial distinctiveness.

Part of this tension reflects the institutional complexity of internal trade liberalization itself. In fact, the internal trade liberalization agenda advances along two distinct yet partially overlapping legislative streams: mutual recognition and barrier reduction. While the former aims at allowing goods, services and labour certified in one province to circulate freely in another, the latter focuses on harmonizing or eliminating underlying regulatory and procurement rules that fragment the Canadian market. The two are often pursued through separate bills or intergovernmental agreements and carry different political implications. Mutual recognition tends to be framed as co-operative and unifying, aligning easily with national identity narratives, whereas barrier reduction demands deeper structural change that can provoke resistance over provincial autonomy. As a result, governments can rhetorically champion internal free trade while selectively advancing the version that best aligns with local political incentives.

One of the most apparent tensions is exhibited in the co-existence of slogans like "Buy Canadian" and "Buy [province]." In other words, while provincial leaders have responded to internal trade liberalization with great enthusiasm, at least verbally, these policymakers also simultaneously endorse "buy local" provisions that work at cross-purposes with this economic logic. On the one hand, provinces pass legislation in support of interprovincial trade, such as the *Ontario Free Trade and Mobility Act (OFTMA)*, which ensures the free flow of trade between Ontario and other Canadian provinces. On the surface, the legislation committed Ontario to recognizing occupational licences and regulatory standards from other provinces on a reciprocal basis, echoing the federal government's framing of internal liberalization as a matter of competitiveness and consumer welfare. However, on the other hand, Ontario reinforced its *Building Ontario Businesses Initiative Act* (BOBIA), implemented in 2024, which explicitly requires provincial ministries and agencies to prioritize Ontario-based suppliers for contracts below designated thresholds. Notably, the OFTMA makes no explicit reference to BOBIA, leaving Ontario's procurement preferences intact despite the province's simultaneous commitments to internal trade liberalization. This dual posture demonstrates the tension at the heart of the economic frame: while celebrating the removal of interprovincial barriers, the province simultaneously entrenched barriers to protect local firms.

These elite-level tensions are also mirrored in public opinion. In fact, it is well established that Canadians hold strong regional and provincial identities, sometimes even stronger than their national one (Henderson et al., 2025). According to the 2024 Confederation of Tomorrow survey (Parkin, 2024), provincial and national attachment levels are high among the majority of Canadians surveyed, and in some provinces, such as Quebec and Newfoundland and Labrador, people feel more attached to their province than their country. This tension of regional and national identities, which is often argued to be at the heart of Canadian federalism's structure, can actually create tensions between the seemingly simple promise of internal trade liberalization and the prioritization of the local economy. Indeed, as Breton and Parkin (2025) noted, support for free trade within Canada is highly conditional: while Canadians broadly endorse the principle in the abstract, enthusiasm weakens when liberalization is seen to compromise provincial autonomy or local economic interests. This is particularly true in Quebec, where, according to a Confederation of Tomorrow Survey, more than a third of respondents agreed that their provincial government should be able to block businesses from other provinces, underscoring how provincial identity continues to shape attitudes toward internal market integration (Breton & Parkin, 2025).

Importantly, these sentiments can potentially be amplified during election periods, when candidates and parties have strong incentives to champion local industries and jobs. The beneficiaries of protectionist measures are typically visible, organized and concentrated, whereas the gains from liberalization are diffuse, long-term and spread across consumers and potential entrants who may not yet exist. As with international liberalization, this asymmetry makes internal liberalization politically difficult: the costs are immediate and salient, while the benefits are broad and delayed. This dynamic illustrates the deeper structural challenge of internal trade liberalization: federal leaders may call on Canadians to "buy Canadian" in the name of unity and resilience, yet provincial governments are often compelled to promote "buy local" measures that resonate more strongly with their electorates. In Canada's decentralized federation, these dual imperatives are not easily reconciled, leaving policymakers caught between the logic of efficiency and national unity on the one hand and the imperatives of provincial autonomy and local protection on the other.

These tensions are not only rhetorical but also reflect the very nature of Canadian federalism. Indeed, regional autonomy, which is so deeply important in the Canadian context, allows different provincial governments to champion "buy local" initiatives. This very same structure also sets up the fiscal and regulatory incentives that shape provincial behaviours. In other words, the limits of internal trade liberalization are not just politically symbolic but also institutional: Canada's fiscal arrangements, Equalization formula and decentralized regulatory system create powerful disincentives for provinces to fully embrace the “One Canadian Economy” ideal. To best understand why internal trade reform so often stalls despite cross-partisan support, we must look beyond discourse and public opinion to the fiscal foundations of the federation itself.

INSTITUTIONAL CONSTRAINTS: FEDERALISM AND FISCAL INCENTIVES

When it comes to internal trade liberalization, the tension between the economic and identity frames is rooted in the structure of Canadian federalism itself. In fact, the federal government’s appeal to national unity and efficiency can often clash with the institutional logic of a decentralized system. Internal trade sits at the centre of this tension. While Ottawa promotes liberalization as a unity project, provinces face fiscal and political incentives that actually encourage local protectionism. The nature of Canadian federalism, associated with regulatory autonomy, regional identity and fiscal redistribution, makes the topic politically attractive to lean into but structurally difficult to enact and sustain.

Canada is one of the most decentralized countries in the world, and provincial identities are strong, even if their intensity varies from province to province (Lecours & Béland, 2010). Under most circumstances, this situation reinforces the pressure on premiers to respond positively to pressures from voters and interest groups who might benefit from provincial procurement or regulatory policies that result in internal trade barriers. As suggested by former Quebec Premier Philippe Couillard (2025) in his recent IRPP essay on internal trade, provinces seek to protect some of their key industries and, in the case of Quebec at least, its language and culture.

Comparative experience further illustrates this institutional constraint. In the United States, “the Supreme Court developed the Dormant Commerce Clause doctrine as a judicial mechanism to limit such protectionist state legislation and address the concerns and goals of various framers” (Patel, 2024, p. 1018). Although the Dormant Commerce Clause has long been criticized by legal scholars and practitioners because it is not written down in the U.S. Constitution and is the direct product of Supreme Court jurisprudence, it “aims to remove protectionist regulations enacted by states, which substantially burden interstate commerce. Thus, equipped with this doctrinal tool, courts can effectively remove state regulations that impose a barrier to internal trade” (p. 1020). Canada lacks both the constitutional doctrine and a binding mutual recognition framework, thus granting much regulatory autonomy to the provinces.

Here, the institutional logic of Canadian federalism is closer, at least in part, to the institutional logic of Australian federalism, in which mutual recognition has long been used to remove internal trade barriers. This is especially the case with the 1992 *Mutual Recognition Act*, which has done much to reduce trade barriers in that country. As Manucha (2025) explained, “Mutual recognition (MR) is an arrangement where two or more governments agree to accept each other’s standards, regulations, or laws in respect of goods, labour, and services without the need for additional testing or compliance checks. This approach stands in contrast to that of harmonization, which requires uniform rules” (para. 4). As in

Australia, MR is central to the politics of trade liberalization in Canada. A powerful example is the recently adopted *Free Trade and Labour Mobility in Canada Act*, of which MR is a central component. As part of this legislation enacted to foster internal trade in the context of the trade war with the United States, “the federal government will recognize provincial requirements such as product standards as meeting federal requirements, when both levels of government regulate the same aspect of a good or service traded interprovincially, in the pursuit of comparable objectives” (Schwanen, 2025, para. 3). This legislation, which is the result of the rise of both economic anxieties and a sense of national solidarity stemming from the deterioration of Canada-U.S. relations, is a step in the right direction. Yet mutual recognition between the provinces is especially important in the Canadian context (Schwanen, 2025). While some provinces have adopted their own mutual recognition legislation and have signed bilateral agreements with other provinces to foster internal trade, much more work is needed.

However, the nature and characteristics of fiscal federalism in Canada might stand in the way of this harmonization logic by creating negative incentives for the provinces vis-à-vis internal trade liberalization. Understanding this requires tracing the links between internal trade, federal-provincial fiscal arrangements and the federal budget.

Fiscal arrangements and redistribution

Canada’s federal taxation and transfer systems do not merely redistribute income but also alter incentives for provinces to pursue economic policies such as trade liberalization. When economic gains translate into higher tax outflows or lower transfers, the net fiscal payoff to liberalization can shrink, dulling enthusiasm for reform.

At first glance, the connection between federal finances and internal trade is not obvious. Yet it is strong. Federal revenue and expenditure patterns vary systematically across provinces: lower-income provinces typically benefit more from federal expenditures they receive than from the revenues collected from their taxpayers. The resulting fiscal balance — the net inflow of federal funds — can represent a significant share of economic activity, directly raising real incomes in those regions. This redistribution design is often an explicit policy goal aimed at reducing regional income inequality within Canada.

These fiscal flows also influence interprovincial trade patterns. By sustaining trade deficits in lower-income regions, they allow for higher levels of consumption and imports than does local production alone. This dynamic is somewhat analogous to international capital flows, which are typically counterbalanced by current account deficits of equal magnitude. However, the scale of financial flows and internal trade imbalances within Canada is considerably larger. Further, since shifts in trade costs can alter economic activity and incomes, which in turn affect the distribution of federal revenues and transfers, the very scale and responsiveness of fiscal arrangements in Canada means that they can either reinforce or dampen the incentives for provinces to liberalize trade internally.

Two features of federal finances are key. On the revenue side, the overwhelming majority of federal revenue in Canada is raised through taxes on income and consumption. On the expenditure side, most federal expenditures take the form of transfers to individuals and provinces. As a result, the federal government's budget balance within any particular province — that is, the difference between revenue raised from taxpayers in that province and the expenditures or transfers delivered to people there — is closely tied to the province's underlying economic strength. Per capita amounts raised through personal and corporate income taxes, the Goods and Services Tax and other excise taxes are almost perfectly correlated with GDP per capita across provinces. Similarly, expenditures — especially non-defence purchases and transfers such as Equalization and Old Age Security — are strongly negatively correlated with a province's GDP per capita.

Therefore, when a province undertakes measures such as internal trade liberalization that boost economic performance, this can lead to higher levels of federal tax being collected due to increased income and consumption. It may also result in reductions in federal transfers. This is particularly true of explicit transfer programs like Equalization, which are designed to bring provinces with below-average fiscal capacity up to a national benchmark. While the exact methodology for calculating fiscal capacity is somewhat complex and beyond the scope of this paper, per capita fiscal capacity is largely explained by provincial differences in GDP per capita. As such, efforts to strengthen a province's economy through internal trade can increase its measured per capita fiscal capacity and thereby reduce the overall amount of Equalization dollars it receives.

This built-in disincentive to increase fiscal capacity can be quite significant. In fact, and in most cases, an increase in a province's per capita fiscal capacity results in nearly a dollar-for-dollar reduction in Equalization payments. Even beyond the Equalization program, broader redistribution through income taxes and federal expenditures can considerably dampen the net gains a province might expect from trade-enhancing measures. However, the impacts of effective trade liberalization on federal finances and transfers are more nuanced than simply reflecting changes in a province's economic strength.

In effect, the Canadian federal fiscal structure creates the same paradox found in political discourse on internal trade. Ottawa's "One Canadian Economy" rhetoric emphasizes unity and shared prosperity, yet the fiscal structure rewards provincial divergence. Understanding these feedback effects between trade policy and fiscal capacity is therefore important to help explain why internal trade reform often stalls despite broad rhetorical consensus.

Fiscal responses to trade cost changes

There are two key ways in which internal trade liberalization can affect a province's real GDP. First, reducing internal trade barriers may lead to an increase in demand for goods and services produced in the province by buyers located elsewhere in Canada. This results in higher business profits and increased wages and salaries for workers. Second, gains also arise in the opposite direction: when lower internal trade costs reduce the prices paid by buyers in a province for goods and services sourced from other provinces. These lower prices increase real incomes — meaning that, for a given nominal income, households can purchase a greater quantity of goods and services.

Importantly, gains from higher wages and profits differ in fiscal impact from gains from lower prices. Federal taxes are levied on nominal income, not real purchasing power. As such, increases in wages and business profits lead to higher federal tax revenues. In contrast, improvements in purchasing power through lower prices do not raise federal tax revenues because they do not change nominal incomes.

Transfer programs, especially Equalization, are also typically tied to nominal incomes. Fiscal capacity is measured solely in nominal terms and does not account for price differences across regions or over time. Thus, if a region experiences increases in average wages and profits due to trade liberalization, its measured fiscal capacity rises, leading to a reduction in Equalization payments. Conversely, if the gains from internal trade come mainly in the form of lower prices, there is little to no change in measured fiscal capacity, and transfer levels remain unaffected.

Recent research by Tombe and Winter (2021) quantifies these distinctions. Their analysis indicates that a 10 per cent reduction in internal import costs to a province leads to only minor changes in federal transfers and has a minimal impact on taxes. This means that the real after-tax income available to residents increases by nearly the full amount of the underlying productivity gain. On the other hand, gains from 10 per cent lower export costs — which, from the exporting province's perspective, represent other provinces reducing their trade barriers — result in significant declines in federal transfers. For instance, their analysis finds that, in Nova Scotia, a 10 per cent drop in export costs leads to a 4.7 per cent increase in real wages, but this translates into only a 0.3 per cent increase in real incomes. The reason is that federal taxes and transfers adjust in such a way that they almost entirely offset the initial gains.

The overall effect of these dynamics on provincial incentives to pursue internal trade liberalization is complex. While efforts by a province to unilaterally ease the ability of local firms to import goods and services from other provinces are not directly undermined, the story is different when it comes to exports. Gains from selling more to other provinces may be significantly offset by reductions in federal transfers, particularly through programs like Equalization. In other words, the same institutional design that underpins regional solidarity through horizontal fiscal redistribution can also entrench the very provincialism that created tension with the "One Canadian Economy" ideal. This dynamic closes the feedback loop between fiscal structure and political narrative: what appears as rhetorical tension at the surface reflects structural disincentives at the core of Canadian federalism.

Reform options

While the Canadian federal system and its fiscal arrangements create disincentives for internal trade, these are not insurmountable. However, policymakers may need to fundamentally rethink how certain federal transfers are designed.

One option is the introduction of targeted transfers to encourage provincial governments to implement trade liberalization measures. During the 2025 federal general election, the Conservative Party of Canada loosely proposed this idea; it bears a resemblance to Australia's national competition policy, which includes financial incentives to promote harmonization and reform across regions. This approach would recognize that internal trade reform produces collective gain but uneven political costs, thereby justifying federal compensation to align incentives regionally.

Internal trade liberalization may also generate fiscal space for Ottawa to increase or redesign transfers. Evidence consistently shows that trade liberalization leads to larger productivity gains in lower-income provinces. As a result, greater internal trade liberalization can reduce regional economic disparities, potentially lowering the total amount of federal transfers required to address those inequalities.

In fact, if the Equalization program were not based on a fixed-funding envelope, its formula would automatically yield smaller payments to recipient provinces as regional inequality declines. The resulting fiscal savings could then be reallocated to support new or reformed transfer programs — programs designed to help provinces undertake meaningful policy reforms, including trade liberalization.

CONCLUSION

The current politics of internal trade in Canada reveal a persistent paradox: while there is broad rhetorical and public consensus for a unified Canadian market, this has not translated into substantive reform. This paper shows that this gap is, in fact, a reflection of the interaction between narrative, political and fiscal dynamics. At a rhetorical level, the economic and identity reasonings of reform make it symbolically powerful yet conceptually ambiguous, even conflicting. Public opinion further strengthens the tension between national unity and provincial autonomy. At the structural level, fiscal federalism creates incentives that reward provincial protectionism and penalize growth. Together, these forces make reform politically appealing yet institutionally difficult. Moving toward a genuinely integrated domestic market, therefore, requires more than technical fixes: it demands that we align Canada's fiscal structure with its political aspiration so that the vision of "One Canadian Economy" becomes not just a slogan but a viable policy reality.

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