The Canada We Want in 2020
Increasing Innovation and Productivity
INCREASING INNOVATION AND PRODUCTIVITY
About Canada 2020

• Canada 2020 is a non-partisan, progressive centre working to create an environment of social and economic prosperity for Canada and all Canadians

• Our primary focus is on the role of the federal government
The Canada We Want in 2020

• Launches a debate about the role of the federal government in Canada
• Intended to engage a wide range of interested parties
• Oriented towards policy influence
What are we doing?

• Five inter-related challenges
  – Increasing innovation and productivity
  – Rising to meet the Asia challenge
  – Squaring the carbon circle
  – Reducing income disparities and polarization
  – Securing our health system for the future

• Three stages to the project
  – Initial publication (15 authors): November 2011
  – Panels and discussion: January – May 2012
  – Synthesis document: fall 2012
Productivity and Innovation

The problem

• Between 1984 – 2007 relative Canadian productivity fell from 90% of the US level to 76%
  – Between 2005 and 2009 no growth in business sector productivity
  – Some (largely cyclical and stimulus-driven) growth in 2010 but tracking back around 0.4% for 2011
  – Losing ground compared to most of our major competitors
Labour productivity growth across OECD countries

Average labour productivity growth

What are we talking about?

• Productivity is the amount of output per unit of input (labour, equipment or capital)
• Innovation is our ability to create new products, new markets or to produce products in different ways
  – product innovation
  – process innovation
  – marketing innovation
  – organizational innovation.
• Innovation is a key source of productivity gains and competitiveness
• Given a stagnant workforce, increased productivity is critical for us to achieve economic growth
The innovation system

- Has many connected parts: government more active in some areas than others
- Current Canadian situation
  - Higher education research infrastructure thriving partly due to government action in the 1990s
    - Commercialization still lags
  - Financing for innovation (venture capital and angel investment) remains a concern
  - Government support for innovation narrowly targeted (to high tech, telecommunications, pharma, etc.) leaving out large sections of the economy
The innovation system

• Current Canadian situation (cont.)
  – Canadian companies significantly under-invest in R&D, machinery and, especially, information and communications technologies
  – Human capital in Canada generally good, but
    • Growing skills mismatch
    • Significant deficit in sales & marketing leadership versus US
  – Public sector innovation is at a very low ebb due to fiscal austerity, concerns about accountability, ideological beliefs about the role of the state, etc.
Key questions

• What role does the federal government play? Can policy address the problems?

• How much does our industrial structure dictate levels of productivity?
  – Resource industries and branch manufacturing are not big innovators or investors in R&D

• Does it matter that the Canadian venture capital is very thin?
  – Is ability to access US finance sufficient?

• How can public sector innovation be catalyzed?
What is the role of the federal government?

• How can the federal government persuade companies to invest more in innovation and productivity?
  – Expected changes in R&D support: who gains and who loses?

• How can the federal government further integrate Canada into the US innovation system and ensure Canada is an attractive place to invest?

• Are there ways that federal leadership can help alter the business culture in Canada to make it more innovation friendly
  – Counter complacency and the fear of failure
What is the role of the federal government?

• Is deregulation the solution or the problem?
• Increasing attention being paid to the ‘developmental state’ model: does this make sense for Canada?
  – What would this entail?
• Is more sectoral support politically feasible?
Public sector innovation

• Public sector in Canada is larger than the entire manufacturing economy

• Critical need for innovation to:
  – Meet society’s changing, and growing, needs (e.g. in health and education)
  – Increase productivity to counter the effects of fiscal austerity
  – Catalyze private innovation (e.g. more innovative regulation)
The Canada We Want in 2020
Increasing Innovation and Productivity: Authors

• The Hon. Kevin Lynch
  – Vice Chair of BMO Financial Group
  – Former Clerk of the Privy Council (2006-9)

• Lawson Hunter and Peter Nicholson
  – Lawson Hunter head of Competition/Antitrust group at Stikeman Elliott
  – Peter Nicholson former Deputy Chief of Staff for Policy to Prime Minister Martin and inaugural CEO of the Council of Canadian Academies

• Jim Stanford
  – Economist with the Canadian Auto Workers
Authors: Kevin Lynch

• Innovation and productivity are largely corporate responsibilities but take place at the nexus with public policy
  – Collaboration and leadership required on both sides

• Status quo is no longer viable
  – Canadian firms dramatically under-investing, especially in machinery and equipment and information and communications technology (ICT)

• Innovation system requires a complete makeover
Kevin Lynch Proposes

- Change regulation to increase competition
- Establish National Productivity and Innovation Council to provide benchmarks and information to the private sector on innovation performance
- Sign new international trade agreements
- Replace R&D support through the tax system with direct financial support and assist firms with the development of new, common purpose technologies
- Make better use of government purchasing power
- Examine our intellectual property system and its effects on the commercialization of research
• Direct public sector innovation essential
  – Huge part of the economy c. 26% of GDP
  – Demonstration effect
  – Required to maintain/improve services in times of fiscal austerity

• Need to overcome the natural tendency for caution and lack of innovation in the public sector (fear of large-scale failure, press hounding, accountability, no cost accounting)

• Need to find better ways to measure public sector innovation
Peter Nicholson Proposes

- Healthcare: focus on disseminating best practice
  - System of federally-supported ‘Med Reps’ to share information face to face and require justification for divergence
- K-12 Education: experiment to find solutions that will engage ‘digital natives’ and build effective human capital.
  - Canada Foundation for Innovation and Research in Education
- Invest in public infrastructure
  - 2007 per capita stock 70% of 1980 peak
  - Need smart infrastructure tailored to new economy and using innovative materials, energy reduction, etc.
  - Public/private partnerships key
Authors: Lawson Hunter

• Canada still has significant regulatory burden
  – Important (negative) impact on productivity growth

• Need more innovative approach to regulation (which would spur innovation and productivity in private sector)
  – Would also ensure better ongoing review of government activities and eliminate the need for episodic departmental reviews (which are costly and disruptive).
Lawson Hunter proposes

• ‘Standards-based regulation’ to provide direct guidance on scope of regulation
  – Moves beyond ‘public interest-based’ regulation which is too wide and discretionary (and subject to regulatory proliferation)

• One option is to adapt the Oakes test. Regulation should:
  – have a clear and pressing objective
  – be proportionate and clearly connected to the objective
  – interfere to the minimum extent necessary to achieve the objective
  – meet a cost benefit test

• Essential that the ability for legal challenge is enshrined
  – Possibly through the Competition Tribunal
• Labour productivity grew (vs. US) until early 1980s, then fell
  – Now back to 1950s levels vs. the US
  – Corresponds with the Macdonald Commission, NAFTA and push to more liberal market economy
• More liberalization is not the solution
  – Markets work best when guided, supported and constrained (developmental state)
• Countries with more interventionists governments (e.g. Korea, Sweden, Finland) doing much better than us
• Deindustrialization has an impact: manufacturers spend more than service organizations on R&D and have higher productivity growth
• Resource dependence is a problem for productivity
  – Decreasing accessibility of resources and low R&D investment
Jim Stanford Proposes

• Consider (effective and creative) public interventions as a key asset, not an impediment
  – Rebuild government capabilities to design and manage these
• Target sectors for support as other exporting nations do
  – No further free trade agreements
• Regulate foreign investment to ensure the outcomes that we want: do not cede all control of our industrial structure and financial flows
• Help key firms (national champions) on the global stage: more strategic use of trade policy
What you can do

• Our goal in this project is to increase debate
• We actively encourage feedback on our work
  – Submit comments or opinion pieces through our website www.canada2020.ca
  – Contact us directly info@canada2020.ca
• Use our materials to host your own events and discussions

Thank you for your interest