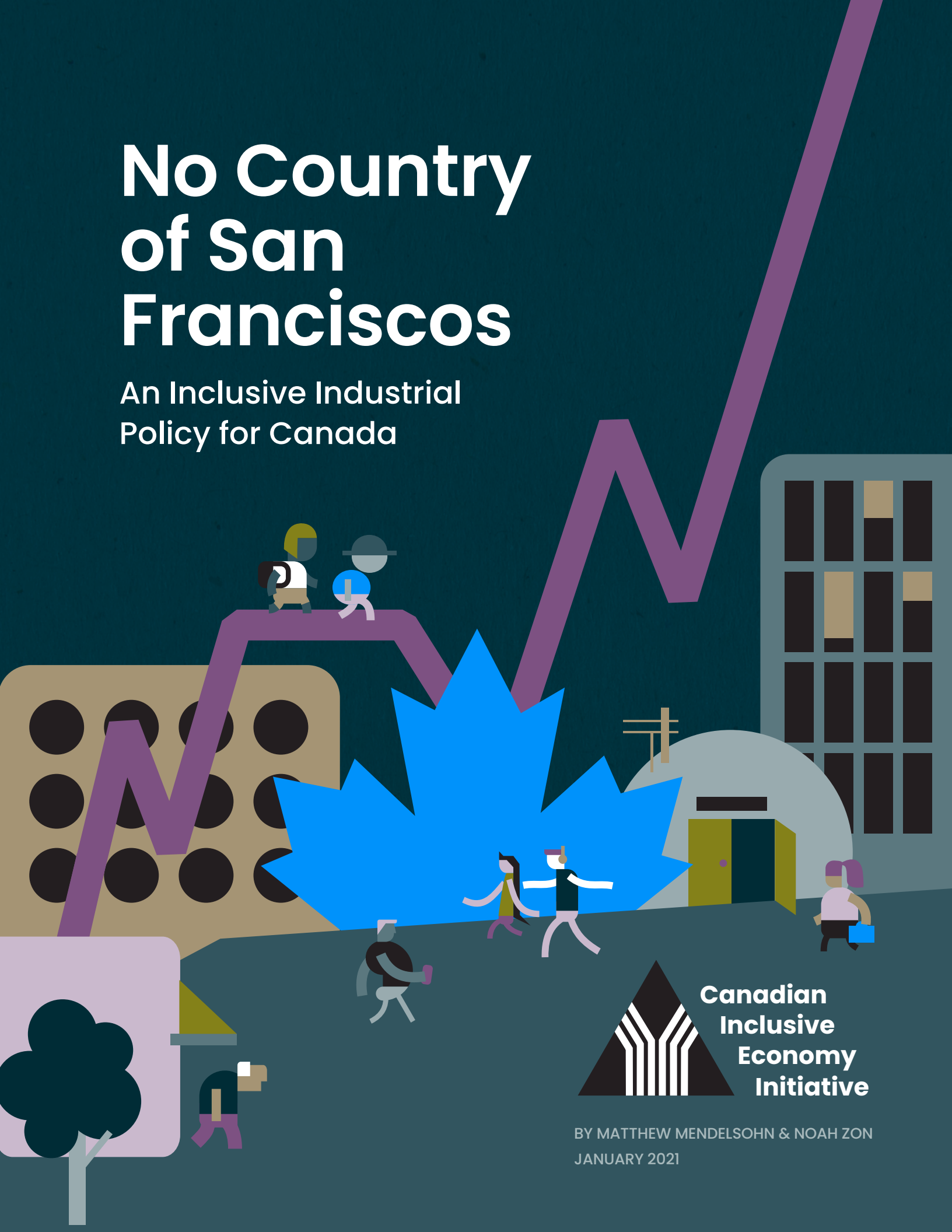


No Country of San Franciscos

An Inclusive Industrial
Policy for Canada



**Canadian
Inclusive
Economy
Initiative**

BY MATTHEW MENDELSON & NOAH ZON
JANUARY 2021



Canadian Inclusive Economy Initiative

The Canadian Inclusive Economy Initiative is a new project to identify, develop and advance policy and program ideas that deliver shared, inclusive and sustainable prosperity for Canadians.

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Executive Summary

Along with the devastating public health crisis of COVID-19, the pandemic has exposed and deepened worrying trends in the Canadian economy. The economic futures we had imagined at the start of 2020 have evaporated, and many Canadians have lost their jobs, their businesses, and the paths they saw for themselves.

Canada has arrived at the end of the policy paradigm shaped by the recommendations of the Macdonald Commission and the long tail of the Washington Consensus, including free trade agreements, deficit fighting and the rules-based multilateral trading system. What comes now?

It is hard to exaggerate the significance of this moment. The pandemic has revealed and exacerbated well-known problems, accelerated changes that were already underway and reminded us that effective government is absolutely essential to help Canadians and businesses through this period of unprecedented disruption. This generational economic crisis demands a generational economic response to ensure a strong economic recovery and lasting prosperity.

There is a surprising emerging consensus across the political spectrum in Canada on two issues: governments need to engage in activist industrial policy; and economic growth isn't a sign of success if it exacerbates inequalities, damages the environment, destroys communities and fails to create good middle class jobs.

Across the political spectrum in Canada, policy leaders are reevaluating the role that industrial policy plays, recognizing the active role that governments have played in Europe, Asia and here in North America to support strong companies and sectors. Facing prospects of weak growth domestically and an increasingly competitive and protectionist international environment, there are growing calls from all corners for an ambitious proactive economic agenda that would look to Canadian governments to build both strong fundamentals *and* directly engage in helping Canadian firms succeed.

The narrative that “government can't pick winners” depicted “industrial policy” as a caricature of grinning politicians and jumbo cheques delivered to failing factories, coupled with barriers to free trade. This was a deeply misleading story but a powerful narrative and it succeeded in making industrial policy taboo, though it did not actually make industrial policy go away. As a result, because Canadian governments engaged in industrial policy without acknowledging it, the results of our policies to support businesses, sectors and regions have been underwhelming and often captured by political imperatives.

The problems made more visible by the pandemic are a product of economic policies that failed to understand that economic growth and inclusion are mutually reinforcing rather than competing policy goals. There is growing evidence that more inclusive growth isn't just more equitable, it's also *stronger growth* – and an active and strategic state helps businesses succeed.

So what should a modern industrial policy should look like?

The goal should not simply be to support the growth of successful Canadian companies. If our industrial policies build great companies that contribute to inequality and wealth concentration, they will have failed. Our industrial policy needs to support economic growth, innovation and successful firms in a way that delivers widely-shared economic, social and environmental value.

Strong macroeconomic fundamentals on their own are not enough to build prosperity in today's environment. Around the world, governments are investing more in their industrial policies. Many are focusing on building competitive advantages in emerging fields like AI, accelerating the shift to a low emission economy and supporting businesses that deliver social returns, like community wealth and good jobs.

Canadian governments are *already* investing public dollars, shaping markets and making industrial policy decisions in explicit and implicit ways. But Canada can undertake its industrial policy in ways that are more effective and better aligned with broader policy goals. It is not a question of whether Canada embraces industrial policy but whether we do it well. With massive public investments occurring in economic recovery, it will be a generational failure if we fail to account for what kind of growth we want to see and what kinds of communities we want to build.

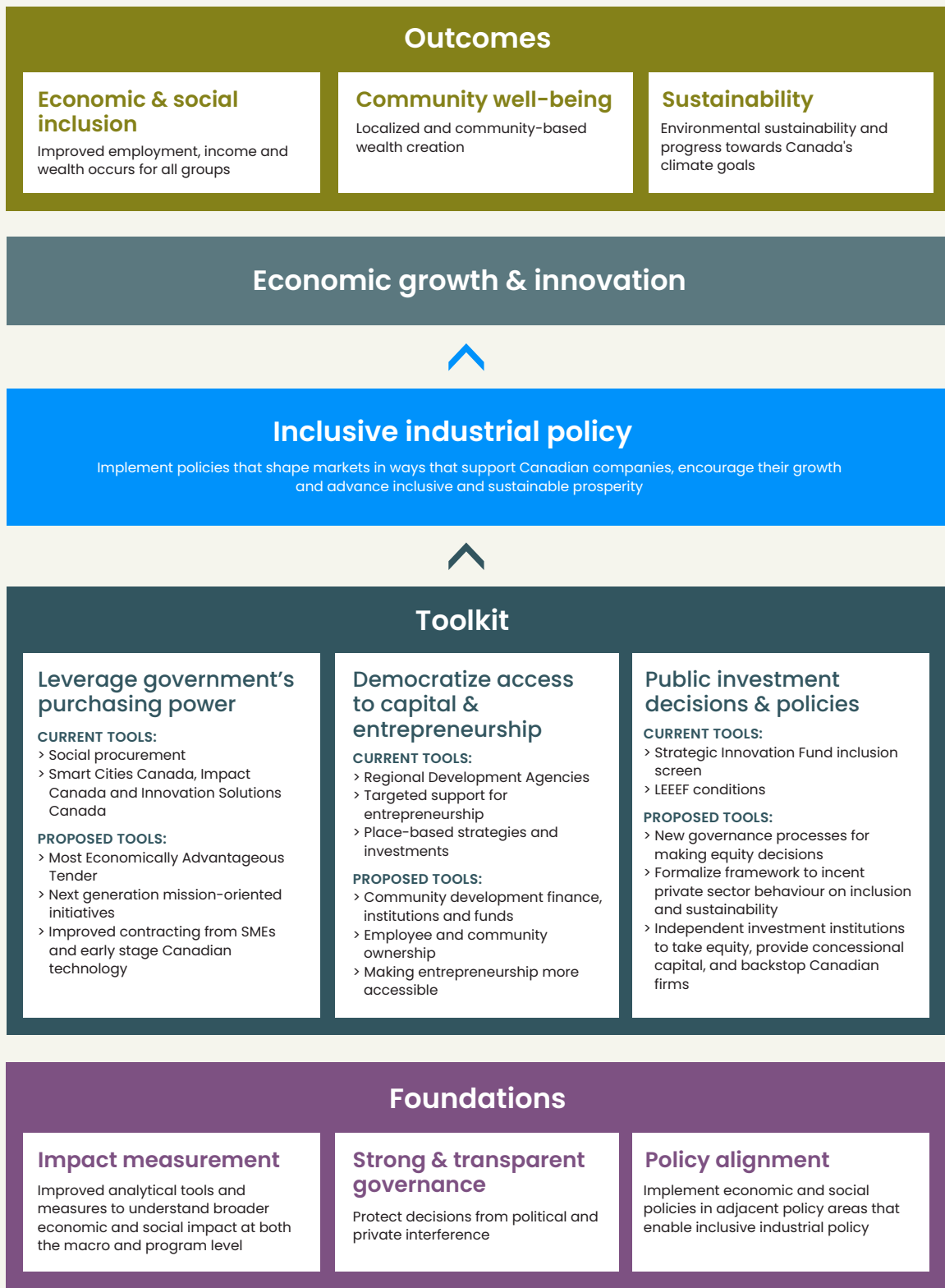
This discussion paper marks the launch of a new project – *the Canadian Inclusive Economy Initiative*. In this first paper, we lay out a framework for an inclusive industrial policy agenda as well as some promising options to pursue.

A well-designed industrial policy seeks to overcome collective action problems, address issues of scale and build ecosystems in which positive economic spillovers are more likely to occur. A well-designed *inclusive* industrial policy understands the additional positive good for society that stems from high quality jobs, broadly-shared economic security, community wealth and sustainable development.

Inclusive industrial policy is a conscious effort to build economic capacity that generates broadly shared wealth for individuals and communities on a sustainable basis.

Our proposed framework for an inclusive industrial policy focuses on three overarching goals: inclusion, community wealth, and sustainability. And successful industrial policy efforts rest on a foundation of strong governance, policy alignment, and sophisticated and varied measurement of impact.

Framework for Inclusive Industrial Policy





The core of this paper outlines a toolkit of promising practices that have been used successfully in Canada and internationally that could comprise an inclusive industrial policy. We organize these tools into three overarching themes: more strategic use of procurement; democratizing access to capital; and using government investment decisions to shape behaviour in ways that advance the goals of inclusion, community wealth and sustainability, which should include more equity investing by governments in firms.

Some will argue that Canada has enough trouble simply creating and retaining innovative, high-growth companies and as Canada engages more actively in industrial policy we should first focus on building advantages and that our industrial policy should focus on helping businesses succeed.

That is a reasonable argument. But our concern is that even if we are successful in that project, the risks to inequality, sustainability, and social stability will need to be addressed and redistribution through the tax and transfer system is not a substitute for shared, inclusive, sustainable growth. This discussion paper sketches a framework and toolkit that will make it more likely that we can deliver on both projects at the same time.

Introduction

Across Canada, a broad consensus is emerging around two policy challenges that must be addressed in order for our economy and society to thrive:

- › **If we want to succeed in the global economy, Canada needs an economic strategy that includes an active industrial policy.**

Canadian governments already intervene heavily in the economy in attempts to spur economic development, but these efforts are often uncoordinated and ineffective. Economic nationalism, deteriorating multilateral economic institutions, and a rising intangibles economy require more proactive economic strategies. As a country, we are clearly entering a period of economic upheaval and transition. Recognizing this reality, there is increasing cross-partisan support for active industrial policy to shape markets to better support Canadian businesses and industrial capacity in key sectors.¹

- › **Our metrics for measuring our economic health are dated. We need to look beyond GDP and job growth to understand whether the economy is working for everyone.**

There is an emerging consensus that we need to pay better attention to sustainability, wealth inequality, and well-being. Data and tools that measure natural capital, the distribution of the benefits from growth, and community well-being are increasingly being used by governments and civil society to better understand how well we are doing.

As policy leaders across the political spectrum converge around the view that Canada needs more strategic interventions from government to shape market conditions, we need to be clear about what success looks like.¹ We do not want to follow a path of slow decline, nor do we want to create a nation of Canadian San Franciscos, where growth only intensifies deep inequalities, social tension and political instability. Our vision as a nation should be focused on creating wealth and well-being for all Canadians.

One part of the solution is inclusive industrial policy.

¹ See for example the New North Star project. Robert Asselin, Sean Speer, and Royce Mendes, "New North Star II: A Challenge-Driven Industrial Strategy for Canada," April 2020. <https://ppforum.ca/publications/new-north-star-ii/>

We need an industrial policy that generates strong economic growth, but recognizes that not all economic growth is created equal. Economic growth that only results in the further concentration of wealth is a failure. Instead, we need to create broadly-shared growth that contributes to the well-being of all Canadians. A renewed industrial policy agenda for Canada should understand the realities of today and be anchored in a vision of the future we want to create. It should prioritize inclusive growth, healthy communities, and support a transition to a carbon neutral economy.

Prior to the pandemic, governments – particularly the federal government – were increasingly focused on how to support economic growth without exacerbating inequality. For example, a number of federal programs were focused on making capital more accessible to traditionally marginalized groups and some federal business support programs now consider broader social returns in investment decisions. These types of efforts have only accelerated during the response to the pandemic. They are a step in the right direction, but more action from governments is needed.

With massive public investments occurring in economic recovery, it will be a generational failure if we fail to account for what kind of growth we want to see and what kinds of communities we want to build.

Canadian policymakers will need to commit to a more focused industrial policy that targets inclusive and sustainable prosperity. This means we have to stop some of our current counterproductive approaches to economic development, evaluate and improve others, and add new approaches that support strong sustainable growth. Governments will also need to strengthen capacity to measure the results that matter and to effectively deploy policy levers and resources in support of those approaches.

With massive public investments occurring in economic recovery, it will be a generational failure if we fail to account for what kind of growth we want to see and what kinds of communities we want to build. This is particularly true in an economy increasingly driven by digital platforms and intangible assets like data and intellectual

property where software development can drive massive returns that do not generate significant employment or returns that reach more than a handful of people.²

² For more detail on the importance of intangible assets and their implication for policy, society and economic development, see: *The Intangible Shift: Changing Gears to Compete in the New Economy* – Brookfield Institute for Innovation + Entrepreneurship, accessed December 18, 2020, <https://brookfieldinstitute.ca/the-intangible-shift-changing-gears-to-compete-in-the-new-economy/>.

This discussion paper marks the launch of a new project – the *Canadian Inclusive Economy Initiative*. The purpose of this initiative is to identify solutions that generate broadly shared wealth for individuals and communities on a sustainable basis. In this first discussion paper, we lay out a framework for an inclusive industrial policy agenda as well as some promising options to pursue. Future phases of the project will explore these options in more detail and provide policy and program options for governments.

Our proposed framework for an inclusive industrial policy includes three over-arching goals: inclusion, community wealth, and sustainability. These goals are supported by three foundational principles: strong governance, alignment with adjacent economic policies, and sophisticated and varied measurement of impact.

We also outline a toolkit of policies that have been used successfully in Canada and internationally that could comprise an inclusive industrial policy. We organize these tools into three overarching themes: more strategic use of procurement and state spending, democratizing access to capital, and using government investment decisions to advance the goals of inclusion, community wealth and sustainability.

The COVID-19 economic crisis is accelerating societal transitions that were already underway, is prompting new major public investments and is unleashing policy transformation. Now is the time to re-think long-held assumptions about the role of government in shaping markets for the public good.



We need an inclusive industrial policy for Canada

Canada is coming to the end of the policy paradigm shaped by the deficits of the 70s and 80s, the recommendations of the Macdonald Commission, the free trade agreements of the 80s and 90s and the rules-based multilateral trading system of the Washington Consensus. It is over.

What comes now?

On many traditional measures, Canada's economy has not been performing well. Growth has been slow. Productivity is weak. Business investment has lagged our peers. Canada was recently ranked 33rd out of 34 in the OECD on competitiveness. While there are some encouraging signs – Canada now ranks third in the world in venture capital investment per capita behind the US and Israel³ – all realistic forecasts suggest that growth is going to be modest over the medium term, with demographic trends putting additional pressure on these projections.⁴

Much of the growth we have experienced has been concentrated in big cities and in resource sectors that have themselves been suffering more recently. The labour market has been polarizing, Canada's smaller cities are stagnating, and inequality has been rising. Without intentional action, long-term prosperity in Canada is under pressure.

3 Charles Plant, Emma Veletanlic, and Harim Ulfig, "Canadian Venture Capital Sufficiency: Does Canada Have Enough Venture Capital Funding?," 2019, <https://narwhalproject.org/wp-content/uploads/2019/09/Venture-Capital-Sufficiency-v2.pdf>.

4 Office of the Parliamentary Budget Officer, "Fiscal Sustainability Report 2020," February 27, 2020, https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-1920-029-S/RP-1920-029-S_en.pdf.

What is industrial policy?

For the purposes of this discussion, we use a fairly broad definition of industrial policy that includes the ways that governments steer investment to specific sectors or communities.

At its core, industrial policy is about focused government interventions (including direct financial support, tax measures and regulatory instruments) to shape market conditions to support the success of specific industries, segments of the economy, or regions. Industrial policy is based on theories and evidence that policy can overcome market failures like collective action problems and information asymmetries to create stronger domestic industry and overcome challenges of scale in Canada.⁵ It is also often framed in geopolitical terms as a defense against measures by other countries.

But at the same time, **if everything is industrial policy, then nothing is.** Industrial policy is just one part of an overall economic strategy.⁶ Successful industrial policy depends on strong overall economic and social fundamentals that are aligned with the goals of building and growing domestic industrial sectors. These include strong democratic institutions, rule of law, a fair and competitive tax system, strong education and training, public safety, and economic and social infrastructure that includes childcare. Adjacent policies like skills strategies, data governance and university research funding have strong implications for whether industrial policy will be successful. But for our purposes, we are focused on industrial policy focused on specific firms, sectors or regions.⁷

The discussion of industrial policy is one part of a broader re-evaluation of orthodox economic approaches and models. Community capitalism, worker capitalism and inclusive capitalism frameworks are all addressing the same kinds of questions: how to ensure that public policy frameworks, government programs and private investments are aligned with achieving not just economic growth, but healthy, stable and sustainable communities where workers, less populated regions and small businesses see benefits alongside capital, big cities and large firms.

5 Dan Ciruriak and John M. Curtis, "The Resurgence of Industrial Policy and What It Means for Canada," June 2013, <https://irpp.org/wp-content/uploads/2013/06/Ciuriak-Curtis-no2.pdf>.

6 Caleb Watney, "Untangling Innovation from Industrial Policy," Agglomerations, September 2, 2020, <https://www.agglomerations.tech/untangling-innovation-from-industrial-policy/>.

7 The American Compass think tank identified at least five different kinds of industrial policy, which is broader than we intend for this framework: Robert Atkinson, "Industrial Policy May Have Finally Arrived: But For What?," November 16, 2020, <https://americancompass.org/the-commons/industrial-policy-may-have-finally-arrived-but-for-what/>.

An illustration on the left side of the page shows a jagged, multi-colored path (purple, olive green, teal) winding across the page. Several stylized human figures are positioned along the path. At the top, two figures are walking towards the right. In the middle, a figure is walking away from the viewer. At the bottom, a figure is walking towards the viewer carrying a blue briefcase. The background is dark grey.

What is inclusion?

When we talk about inclusion in the context of economic policy or economic growth, we focus on who shapes, participates in, and benefits from growth. The OECD defines inclusive growth as “economic growth that is distributed fairly across society and creates opportunities for all.”⁸ To effectively measure inclusion in the Canadian economy, we need a number of metrics and we need to take into account Canada’s unique geographic context. Inclusive growth should generate meaningful benefits across the income spectrum, offer real employment and wealth generating opportunities for racialized and other marginalized communities, respect Crown commitments to Indigenous peoples and advance reconciliation, and provide equitable access across gender lines.

For economic inclusion in Canada, we also need to consider geographic and sector dimensions. An inclusive industrial policy should be sensitive to the distribution of economic growth across regions, in large and small communities, and across larger firms, small businesses and the community sector. Although governments measure and report on indicators of inclusion in Canada, they are not typically among the top line measures that governments report on when evaluating the performance of economic policies. More fundamentally, the interaction between inclusion and economic performance is rarely examined by governments.

8 OECD, “Inclusive Growth - Economic Growth That Is Distributed Fairly across Society,” accessed December 18, 2020, <https://www.oecd.org/inclusive-growth/#introduction>.

Why industrial policy now?

The global economic context is shifting, whether we like it or not

A new global economic context calls for a shift in approaches. Canada's peer (and competitor) countries are increasingly adopting more proactive approaches, including industrial policy. This is not only relevant in countries like China with formally planned economies and geopolitical strategies to support their own state-owned enterprises. There is also a trend towards bold industrial policy measures in market economies, especially in emerging fields and sectors driven by intangible assets, which feature "winner-take-all" dimensions.⁹ Countries as diverse in governance and ideology as the US, Netherlands, and Norway have used industrial policy to build global leaders and have outpaced Canada in the process. Since 2016, even the Conservative government of the UK has had a Department of Business, Energy, and Industrial Strategy, which is advancing a more interventionist approach through the creation of UK Research & Innovation (UKRI).¹⁰ France's Big Investment Plan and the EU Horizon 2020 also reflect this movement towards enhanced state-led innovation.

The stance towards industrial policy has shifted from whether it should be part of the toolkit at all to how to integrate it successfully.¹¹ Our peers are aggressively pursuing industrial policies. The UK is focusing on large home-grown tech companies.¹² Under Donald Trump, the US has become explicitly more protectionist and President Joe Biden has proposed an "offshoring tax" on companies that move jobs overseas to sell products back to Americans.¹³ Australia has a new \$1.5 billion AUD manufacturing strategy that includes a focus on six key sectors.¹⁴ Mission-oriented innovation, along with purpose-built institutions to support this work, is increasingly common, including the work of D-ARPA and UKRI.

At the same time, the multilateral economic institutions that might have constrained some of the more aggressive economic nationalism of industrial policy are being eroded. Canada of course has an interest in preserving an open, rule-based global trading system but, we need to engage the world as it is. And that means acknowledging the role of industrial policy.

9 Adam Segal, "The Coming Tech Cold War With China," *Foreign Affairs*, September 9, 2020, https://www.foreignaffairs.com/articles/north-america/2020-09-09/coming-tech-cold-war-china?utm_medium=social.

10 See <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy>; <https://www.ukri.org/>.

11 Annalisa Primi, "Industrial Policy: Not a Bad Word," OECD, September 29, 2015, <https://www.oecd.org/dev/development-posts-industrial-policy.htm>.

12 Simon Jack, "Brexit: The Multi-Billion Pound State Aid Gamble," *BBC News*, September 8, 2020, <https://www.bbc.com/news/business-54069959>.

13 Thomas Kaplan, Katie Glueck, and Jim Tankersley, "Biden Pushes a Jobs Plan and Tears Into Trump's Covid Response in Michigan," *New York Times*, September 9, 2020, <https://www.nytimes.com/2020/09/09/us/politics/biden-trump-michigan-jobs-taxes.html>.

14 Science, and Technology Australia Ministry of Industry, "Transforming Australian Manufacturing to Rebuild Our Economy I," October 1, 2020, <https://www.minister.industry.gov.au/ministers/karenandrews/media-releases/transforming-australian-manufacturing-rebuild-our-economy>.

The case for a new wave of industrial policy is coming from across the political spectrum

There are a number of complementary trends that are coalescing around the need for new industrial policy.

Progressive and centrist arguments for industrial strategies, including those emerging from the work of Mariana Mazzucato, Heather Boushey, and Dani Rodrik and others tend to highlight the importance of public sector investments in innovation and wealth creation in the private sector; and the advocates for a Green New Deal would shape the market to accelerate investments in technologies that drive economic transition toward carbon neutrality.¹⁵ Their work highlights the fundamental role that public investment and coordination have played in building key sectors and explicitly focuses on confronting the destabilizing, long-term negative consequences of economic growth that exacerbate inequality¹⁶ or fail to build a “good jobs economy.”¹⁷

This message is increasingly resonating at international economic institutions – the same ones which were among the most vocal in shifting norms against industrial policy in the past. For example, the OECD points to a modern set of industrial policies that leave behind the inward-facing import substitution industrialization of the past and instead focus on sustainability and social inclusion.¹⁸ And a recent IMF paper suggests that the Asian industrial policies that helped spur export-oriented economic growth in the past two decades also resulted in less concentrated benefits and more equitable distribution of income growth.¹⁹

There has also been an increasing support from the centre and conservatives for explicit industrial policy approaches both in the US²⁰ and Canada.²¹ The work takes a more realist approach to international economic competition and grapples with the damage that unrestrained capitalism, market forces and meritocracy as currently practiced have played on communities and families. For example, the Niskanen Center’s Struggling Regions Initiative has reframed the industrial policy agenda

15 Bracken Hendricks, Rhiana Gunn-Wright, and Sam Ricketts, “The Greatest Mobilization Since WWII,” *Democracy Journal*, accessed December 18, 2020, <https://democracyjournal.org/magazine/56/the-greatest-mobilization-since-wwii/>.

16 Hendricks, Gunn-Wright, and Ricketts.

17 Dani Rodrik and Charles Sabel, “Building a Good Jobs Economy,” 2019, https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/building_a_good_jobs_economy_november_2019.pdf.

18 Primi, “Industrial Policy: Not a Bad Word .”

19 Reda Cherif and Fuad Hasanov, “The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy,” March 26, 2019, <https://www.imf.org/en/Publications/WP/Issues/2019/03/26/The-Return-of-the-Policy-That-Shall-Not-Be-Named-Principles-of-Industrial-Policy-46710>.

20 Jeanne Whalen, “Republicans Support Industrial Policy to Challenge China ,” *Washington Post*, August 26, 2020, <https://www.washingtonpost.com/business/2020/08/26/republicans-favor-industrial-policy/>.

21 Sean Speer and Sam Duncan, “Future of Conservatism Series, Part VI: Seeing the World as It Is | C2C Journal,” *C2C Journal*, May 16, 2020, <https://c2cjournal.ca/2020/05/future-of-conservatism-series-part-vi-seeing-the-world-as-it-is/>.

around geographically shared economic growth.²² American conservative public policy commentator Oren Cass has called for an active industrial policy to build and retain essential economic capacity in communities.²³

A number of Canadian experts, including work by Sean Speer, Robert Asselin and Royce Mendes for the Public Policy Forum and Dan Ciuriak for the Centre for International Governance Innovation, have underlined the nature of the digital economy and especially the growing role of intangible assets in creating winner-take-all outcomes.²⁴ The advantages that accrue to the owners of data assets present particular challenges for small open economies like Canada and are part of the reason that framework policies important to industrial strategy, like intellectual property and competition policy, are receiving renewed interest.²⁵ These concerns manifest themselves in the global proliferation of national AI strategies – Canada’s pan-Canadian AI strategy has counterparts in a variety of places, including Germany, China, UK, US, France, Singapore, India, and Finland among others.²⁶

Any remaining political embarrassment over industrial policy seems to have been erased by COVID-19. Governments of all orientations in Canada have actively coordinated with industry on PPE, have explored how to ensure the integrity of domestic supply chains for key products and have grappled publicly with the overt economic nationalism of our closest trading partner.²⁷ The question now is how governments can transition from ad hoc and emergency supports to a more strategic use of government tools and resources in a manner that places inclusion at the heart of recovery.

The question now is how governments can transition from ad hoc and emergency supports to a more strategic use of government tools and resources in a manner that places inclusion at the heart of recovery.

22 Niskanen Center, “Struggling Regions Initiative,” <https://www.strugglingregions.com/>

23 Oren Cass, “America Should Adopt an Industrial Policy,” July 23, 2019, <https://www.manhattan-institute.org/resolved-that-america-should-adopt-an-industrial-policy>.

24 Asselin, Speer, and Mendes, “New North Star II: A Challenge-Driven Industrial Strategy for Canada.” <https://ppforum.ca/wp-content/uploads/2020/04/NewNorthStarII-PPF-APRIL2020-EN.pdf> Dan Ciuriak, “Rethinking Industrial Policy for the Data-Driven Economy,” CIGI Papers, 2018.

25 Ciuriak, “Rethinking Industrial Policy for the Data-Driven Economy.”

26 Tim Dutton, “Building an AI World: Report on National and Regional AI Strategies,” 2018, <https://cifar.ca/cifarnews/2018/12/06/building-an-ai-world-report-on-national-and-regional-ai-strategies/>.

27 Canadian Press, “Trudeau, Ford Announce Deal to Produce N95 Masks at 3M Plant in Brockville, Ont.,” The Globe and Mail, August 21, 2020, <https://www.theglobeandmail.com/canada/article-trudeau-ford-announce-deal-to-produce-n95-masks-at-3m-plant-in/>.

Inclusive industrial policy does not mean more of the same

While the *term* industrial policy fell out of favour throughout most of the last three decades,²⁸ governments never stopped intervening heavily in the economy, in Canada and elsewhere. Whether through regional development agencies, sector strategies, or regional industrial benefits policies, Canadian governments have aimed to build competitive industries while avoiding geographic concentration of wealth and employment.

“When it comes to industrial policy, both Canada and the United States generally claim they don’t do it (but they do engage in an awful lot of things that look like it), Europe acknowledges that it does it but doesn’t inhale (only horizontal measures, please), and in Asia it is as normal as wine on a European dinner table.”

– Dan Ciuriak²⁹

At the federal, provincial and local level, Canada has consistently had overt industrial strategies. Programs like the Industrial Research Assistance Program through the National Research Council have been successful at building partnerships between innovative firms and government and supporting firms take products to market. The Business Development Bank of Canada and Export Development Canada have both used a variety of program and investment tools to help Canadian businesses scale and participate in international markets. Recent investments in innovation-driven industrial policy include Sustainable Development Technology Canada,³⁰ the pan-Canadian AI Strategy,³¹ and the Superclusters initiative, which targets five areas for medium-term growth: AI, next-generation manufacturing, agri-food, ocean tech and digital technology.³² New programs have been launched to support export-driven growth of small- and medium-sized enterprises (SME), a global skills strategy, and intellectual property protection, amongst others. Many of these, including the Superclusters initiative, have embedded social inclusion and sustainability into the considerations used to make funding decisions.

28 Nathaniel Lane, “The New Empirics of Industrial Policy 1,” n.d.http://nathanlane.info/assets/papers/NathanLane_New_Empirics_of_Industrial_Policy_current.pdf

29 Ciuriak and Curtis, “The Resurgence of Industrial Policy and What It Means for Canada.” <https://irpp.org/wp-content/uploads/2013/06/Ciuriack-Curtis-no2.pdf>

30 Sustainable Development Technology Canada, “Impact,” accessed December 22, 2020, <https://www.sdtc.ca/en/impact/>.

31 CIFAR, “Pan-Canadian AI Strategy,” accessed December 22, 2020, <https://cifar.ca/ai/>.

32 Science and Economic Development Canada Innovation, “Innovation Superclusters Initiative,” accessed December 22, 2020, <https://www.ic.gc.ca/eic/site/093.nsf/eng/home>.

On the provincial side, the development of core industries has often been led by public investment and coordination. For example, the commercial technology development that made the Oil Sands viable in Alberta was made possible in large part by a provincially-funded initiative, the Alberta Oil Sands Technology Research Authority (AOSTRA).³³ Provincial and federal supports are generally considered to have been key success factors at building a highly successful industry. Today, the Alberta government is pursuing a new active industrial policy aimed at growing a hydrogen sector, more recently joined by a federal hydrogen strategy.³⁴

It needs to be more strategic

Given all these investments, it is hard to argue there has been too *little* industrial policy in Canada. But traditionally Canadian efforts have been spread thin and have been uncoordinated. These efforts have lacked clarity about policy objectives – sometimes because no one wanted to admit that we were actually pursuing industrial policy in the first place. Although traditional import substitution has largely been abandoned, most programs that could be understood as variants of ‘industrial policy’ have had a mishmash of ill-defined policy goals. The recent horizontal review of innovation and clean technology programs highlighted 90 different programs across 20 federal departments and agencies involved in funding business R&D.³⁵ There has been some streamlining, and seven “economic strategy tables” in high-growth sectors were also established to provide advice to government on how programs could be more coordinated,³⁶ but there is much more to do.

The evidence in support of these investments is mixed at best.³⁷ There are some successful sector examples and some examples of globally-competitive Canadian companies whose success can be attributed in part to support from Canadian industrial policies, but many investments cannot point to any clear results, even on the narrowest economic terms. Even if this is in part due to the difficulty of measurement, the reality is that we don’t have good evidence of whether these policies have worked or not.

33 Sara Hastings-Simon, “Industrial Policy in Alberta: Lessons from AOSTRA and the Oil Sands,” University of Calgary School of Public Policy 12, no. 38 (November 2019), <https://doi.org/10.11575/sppp.v12i0.68092>.

34 Emma Graney, “Alberta to Diversify Economy with Big Bet on Hydrogen,” The Globe and Mail, October 6, 2020, <https://www.theglobeandmail.com/business/article-alberta-to-diversify-economy-with-big-bet-on-hydrogen/>. Natural Resources Canada, “Hydrogen Strategy for Canada: Seizing the Opportunities for Hydrogen A Call to Action,” December 2020, https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/environment/hydrogen/NRCan_Hydrogen-Strategy-Canada-na-en-v3.pdf.

35 Treasury Board of Canada Secretariat, “Inventory of Federal Business Innovation and Clean Technology Programs,” September 2017, <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/inventory-federal-business-innovation-clean-technology-programs.html>.

36 Science and Economic Development Canada Innovation, “Economic Strategy Tables,” accessed December 22, 2020, <https://www.ic.gc.ca/eic/site/098.nsf/eng/home>.

37 David A Wolfe, “Impact and Effectiveness of Public Support for Business Innovation,” 2017, <https://munkschool.utoronto.ca/ipl/files/2017/10/IPL-PAPER-2017-3.pdf>.

It is also the case that programs and investments are generally not well-coordinated across government, much less between different levels of government.³⁸ Sometimes other efforts within the same government are working to undermine the goals of adjacent programs. For example, while the federal government was considering how to offer more robust support for the Canadian news media industry, it was funneling its advertising dollars to Facebook due to its own restrictive communications and procurement policies. While it was investing in a nascent Canadian data security sector, it was also procuring security software for its embassies from Nuctech, a Chinese company known as the Huawei of airport security.³⁹ While Canada does have multiple programs to encourage purchasing from Canadian SMEs, government policies around tendering, RFP requirements, and shifting risks to vendors makes doing business with the government intimidatingly and prohibitively difficult for many of these firms.⁴⁰

A lack of focus or alignment, especially in a relatively small economy like Canada, makes it much harder to succeed. Industrial policy that makes room for every sector that is good at lobbying makes it harder to achieve meaningful scale and impact.

These challenges raise the question of whether Canadian governments have the capacity to be effective at an ambitious inclusive industrial policy. Those are legitimate questions. But the outdated caricature of industrial policy as jumbo cheques delivered to failing firms pushes us to answer the wrong question.

It is not a question of whether Canada embraces industrial policy but whether we do it well.

The case for industrial policy has never been that governments are exceptionally good at “picking winners.” The point is to address market shortcomings – where, because of externalities, increasing returns to scale, time horizons and other factors, economic potential cannot be realized and competitive advantages cannot be exploited.⁴¹ And in a global context where the governments of Canadian companies’ competitors are shaping the market to provide advantages to their firms, there is a *defensive* as well as an *offensive* rationale so that Canadian firms are not placed at a competitive disadvantage.

38 Sunil Johal, Matthew Mendelsohn, and Noah Zon, “Let’s Talk Coordinating Economic Development Spending in Canada,” 2013, https://munkschool.utoronto.ca/mowatcentre/wp-content/uploads/publications/77_lets_talk.pdf.

39 Hannah Jackson, “Tribunal to Review Canada’s Deal with Partially Chinese State-Owned Company for X-Ray Scanners,” Global News, September 9, 2020, <https://globalnews.ca/news/7324921/citt-china-x-ray-scanners/>.

40 John Ivison, “Chinese Government-Owned Firm Wins \$6.8M Contract to Supply Security Equipment to Canada’s Embassies,” National Post, July 17, 2020, <https://nationalpost.com/news/chinese-government-owned-firm-wins-6-8m-contract-to-supply-security-equipment-to-canada-embassies>.

41 Marc Fasteau and Ian Fletcher, “The Economic Foundations of Industrial Policy,” Palladium, June 15, 2020, <https://palladiummag.com/2020/06/15/the-economic-foundations-of-industrial-policy/>.

This is why governments are *already* investing public dollars, shaping markets and making industrial policy decisions in explicit and implicit ways. But Canada can do it more efficiently and aligned with broader policy goals. It is not a question of whether Canada embraces industrial policy but whether we do it well, with a focus on the interests of Canadian businesses, workers and communities, and with inclusion and sustainability top of mind.

It needs to focus on economic growth that actually improves the well-being of people and communities

Industrial policy seeks to overcome collective action problems, address issues of scale and build ecosystems in which positive economic spillovers are more likely to occur. *Inclusive* industrial policy broadens that approach to recognize the additional positive good for society that stems from high quality jobs, broadly-shared economic security, community wealth and sustainable development.⁴² Inclusive industrial policy is therefore a conscious effort to build economic capacity that generates broadly shared wealth for individuals and communities on a sustainable basis.

Throughout most of the past half century, the federal government has focused on macroeconomic policies to target growth, with an expectation that questions of equity and inclusion should be dealt with afterwards. But increasingly we now understand that growth and inclusion are mutually reinforcing. Policies that focus on competitiveness only, and deal with inequality through after-market redistribution alone, will lead to outcomes that have negative impacts on equity, quality of life and sustainability.⁴³

The impact of an uncoordinated agenda can be seen in rising inequality. Canada and other OECD countries have experienced economic growth over 30 years that has become de-linked from improvement in living standards and the earnings of workers.⁴⁴ New research from the Parliamentary Budget Officer suggests that wealth inequality in Canada is even worse than previously thought, with the top one per cent holding more than a quarter of wealth and climbing – double the share in previous estimates.⁴⁵ We have now seen worrying trends with respect to intergenerational income mobility.⁴⁶ These trends pre-date COVID-19, which we know has exacerbated existing inequalities.

42 Rodrik and Sabel, "Building a Good Jobs Economy."

43 Atkinson, "Industrial Policy May Have Finally Arrived: But For What? ."

44 France St-Hilaire, "What Shape Will an Inclusive Growth Agenda Take in Canada?," Policy Options, October 24, 2017, <https://policyoptions.irpp.org/magazines/october-2017/what-shape-will-an-inclusive-growth-agenda-take-in-canada/>

45 Nigel Wodrich and Aidan Worswick, "Estimating the Top Tail of Family Wealth Distribution in Canada," June 17, 2020, <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-007-S--estimating-top-tail-family-wealth-distribution-in-canada--estimation-queue-superieure-distribution-patrimoine-familial-au-canada>; Livio Di Matteo, "Wealth Inequality: A Long-Term View," Finances of the Nation, 2020, <https://financesofthenation.ca/2020/07/28/wealth-inequality-long-term-view/>

46 Miles Corak, "Public Policies for Equality and Social Mobility in Canada," February 2013, <https://canada2020.ca/wp-content/uploads/2013/02/Canada-2020-Background-paper-Public-policies-for-equality-and-mobility-in-Canada1.pdf>.

There is growing evidence that more inclusive growth isn't just more equitable, it's also *stronger growth*. A systematic review by Stanford and University of Chicago economists estimated that between 20 and 40 per cent of economic growth in the past 50 years in the US can be attributed to reduced discrimination, as women and racialized people were no longer fully barred from participating in professions and roles that had been effectively closed to them before.⁴⁷ An IMF study suggested that closing the labour force participation gap between men and women with high levels of education in Canada would drive a four per cent increase in real GDP.⁴⁸ It is increasingly clear that policies can strive for economic growth without achieving inclusion, but a focus on economic inclusion is likely to support economic growth as well.

The renewed focus on economic and social inclusion has led to more serious consideration of how to measure economic success. We know that how we measure growth and economic activity are perverse. We know that externalities are not accounted for in most of our public accounting. We know that a dollar of economic activity in the payday loan industry is not as valuable as a dollar of economic activity in early childhood education. Yet most of our official and mainstream policy and fiscal discussions continue to focus on measures like growth, employment and debt with no consideration for the quality of the growth or whether the debt is likely to produce positive returns.

We know that a dollar of economic activity in the payday loan industry is not as valuable as a dollar of economic activity in early childhood education.

Governments, organizations and institutions are considering how to better measure economic activity. This work focuses on broader macro-level reporting, like community well-being and natural capital. But it can also assess the value of specific programs, using tools like GBA+ to measure the longer-term social return on investment and the distributional impacts of programs.

As Canada carves a path in the new world of economic competition and industrial policies, how we measure and understand the impact on workers, communities and the environment must be part of the agenda.

47 Chang-Tai Hsieh et al., "The Allocation of Talent and U.S. Economic Growth," *Econometrica* 87, no. 5 (2019): 1439–74, <https://doi.org/10.3982/ECTA11427>.

48 Bengt Petersson, Rodrigo Mariscal, and Kotaro Ishi, "Women Are Key for Future Growth: Evidence from Canada," IMF Working Papers 17, no. 166 (2017): 1, <https://doi.org/10.5089/9781484309247.001>.

Rethinking industrial policy

Inclusive industrial policy should support innovation and private sector growth that also delivers widely-shared economic, social and environmental benefits.

Traditional industrial policy has typically been silent on what kind of jobs and companies we want to support. As industrial policy becomes more important globally, Canada and other countries grapple with inclusion and sustainability – and the social instability and democratic crises that follow if we fail to address these issues – this shortcoming will be even more problematic.

Pursuing mutually supportive policies to simultaneously advance economic, social and environmental goals isn't radical. Businesses and investors are increasingly driven by ESG principles as a matter of fiduciary duty.⁴⁹ And social impact is increasingly being embedded into the decisions of many businesses. As Andy Grove, founder of Intel (a US industrial policy success story) put it “you could say, as many do, that shipping jobs overseas is no big deal because the high-value work—and much of the profits—remain in the US That may well be so. But what kind of a society are we going to have if it consists of highly paid people doing high-value-added work and masses of unemployed?”⁵⁰ Even the US Business Roundtable, hardly known for progressive activism, shifted its position to move from shareholder-first capitalism to embrace the view that companies should operate for the benefit of customers, employees, suppliers, communities and shareholders.⁵¹

The challenges that private firms face in moving toward multiple bottom lines are well-known but the challenges that governments face in moving toward a whole-of-government approach are sometimes underestimated, particularly for Westminster-style governments. Canadian federal and provincial governments are organized vertically around departments that have legislated mandates and authorities. The goals that each department is legislatively required to pursue may be in direct contradiction to mandates of other departments.

49 “Greater Adoption of ESG Linked to Acceptance as Fiduciary Duty,” Pensions & Investments, August 10, 2020, <https://www.pionline.com/special-report-esg-investing/greater-adoption-esg-linked-acceptance-fiduciary-duty>.

50 Andy Grove, “How America Can Create Jobs,” Bloomberg Businessweek, July 1, 2010, <https://www.bloomberg.com/news/articles/2010-07-01/andy-grove-how-america-can-create-jobs>.

51 Business Roundtable, “Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans’,” August 19, 2019, <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>.

Achieving whole-of-government outcomes, like the Sustainable Development Goals, and using horizontal processes, like place-based approaches, is hard. That's why governments develop work-arounds like results tables, priority accelerators, problem-focused secretariats, inter-departmental teams, delivery units and transformation offices to drive horizontal work. These are all imperfect mechanisms designed to overcome structural barriers to horizontal alignment. As Canada thinks about how to design an industrial policy to support Canadian business, create good jobs and support a transition to carbon neutrality *all at the same time*, we should not underestimate the challenges.

A credible argument can be made that Canada has enough trouble simply creating innovative, high-growth companies and we should first focus on building advantages and advancing key societal ecosystems in sectors where supportive policy can help Canadian industry achieve scale. That is certainly a credible path. But our concern remains that even if we are successful in that project, the risks to inequality, sustainability, and social stability need to be solved for. And redistribution through the tax and transfer system is not a substitute for shared, inclusive, sustainable growth.

Canadian policy is changing – and that change needs to accelerate

Business support programs have in general been criticized because they socialize risk and provide public subsidies to business innovation, but then keep benefits like financial returns largely private. Most business support programs in Canada offer grants or loans for various activities, but the government and citizens rarely receive any direct financial returns if the business succeeds. In fact, one of the main public criticisms of business support programs is that there are insufficient public benefit conditions attached to government funding.

When the Liberal party formed government in 2015, their election platform included commitments to a more robust and inclusive microeconomic agenda. Many of the investments and programs that followed have included a focus on inclusion. For example, the decision-making process on investments supported by the Strategic Innovation Fund considers social impact and many programs have been focused on supporting entrepreneurship amongst under-represented groups. These efforts build on well-established requirements that businesses securing defense procurement contracts return industrial, regional and technological benefits to Canada.

In the course of the response to the COVID-19 pandemic, the federal government has gone further. The launch of the Large Employer Emergency Financing Facility in the spring of 2020 indicated that the federal government was open to taking

an equity stake in firms and that financial support through this program would be tied to obligations for climate reporting, guarantees around pension obligations, limits on executive compensation and respect for collective agreements. The major investments that the federal government has been making during the pandemic have also been tied to sectors crucial to a carbon neutral economy, like electric vehicles and energy transition.⁵²

Pretending that any and all economic activity is created equal makes it difficult to have a sensible public discussion about how to encourage economic activities that deliver more public value.

We can also see these types of measures increasingly at the provincial level. For example, the Government of Quebec's *Plan pour une économie verte 2030* includes initiatives aimed at supporting innovation that will help the province achieve its climate targets while also targeting specific sub-sectors (such as electric school buses) where leading firms and clusters can both supply local need and build a competitive advantage in export markets.⁵³

So governments are already making choices about which kinds of economic activity to encourage and will continue to do so. These choices will become more important in the coming months and years. Our economic policies generally and industrial policies specifically should not be neutral with respect to what kind of activity we want. Pretending that any and all economic activity is created equal makes it difficult to have a sensible public discussion about how to encourage economic activities that deliver more public value.

Since 2015, the federal government has been bringing additional considerations, like inclusion and sustainability, into its decision-making on economic investments. During the current pandemic, this approach has become even more prominent. But the strategic framework to guide these decisions is still under-developed, which limits its impact. In the next section we propose a set of principles and an initial toolkit to guide those choices and shape a made-in-Canada inclusive industrial policy.

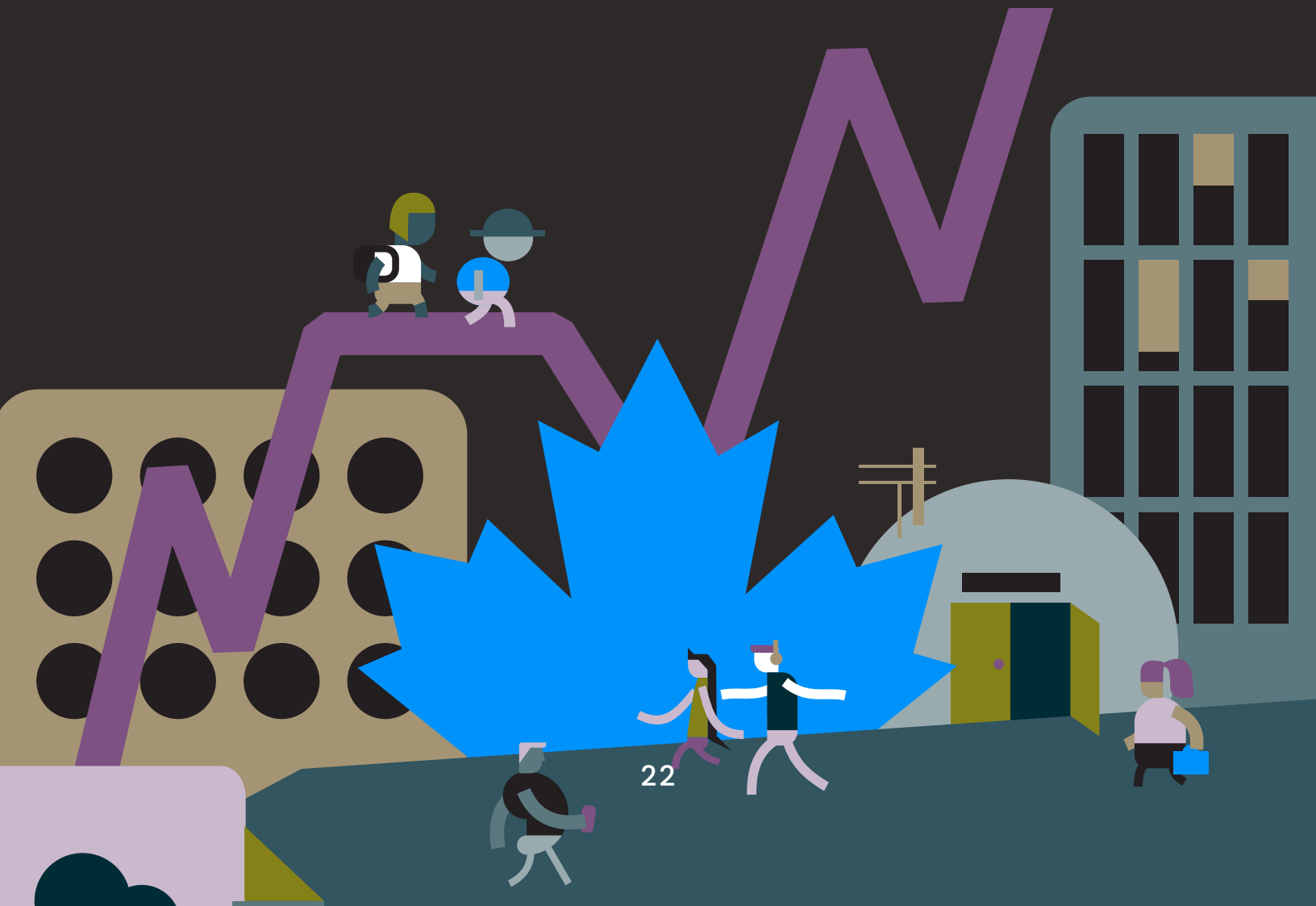
52 Catherine McIntyre and Murad Hemmadi, "Canada's Electric Dream: Are Government Incentives and Smart R&D Enough to Build a Domestic EV Industry?," The Logic, October 16, 2020, <https://thelogic.co/news/the-big-read/canadas-electric-dream-are-government-incentives-and-smart-rd-enough-to-build-a-domestic-ev-industry/>; Murad Hemmadi, "Directions for Ottawa: Policy Prescriptions for Canada's Electric-Vehicle Industry," The Logic, October 19, 2020, <https://thelogic.co/news/directions-for-ottawa-policy-prescriptions-for-canadas-electric-vehicle-industry/>.

53 Gouvernement du Québec, Politique-Cadre d'électrification et de Changements Climatiques, Le Plan Pour Une Économie Verte 2030, 2020, <https://www.quebec.ca/gouv/politiques-orientations/plan-economie-verte/>. Martin Patrinquin, "Quebec's 'Plan Vert' Is Both an Ambitious Environmental Agenda and an Exercise in Economic Nationalism," The Logic, November 18, 2020, https://thelogic.co/news/analysis/quebecs-plan-vert-is-both-an-ambitious-environmental-agenda-and-an-exercise-in-economic-nationalism/?utm_source=The+Logic+Master+List&utm_campaign=db15d9aeb8-Analysis%3A+Quebec's+'Plan+vert'+is+both+an+am&utm_medium=email&utm_term=0_325d5d3b52-db15d9aeb8-275635133.

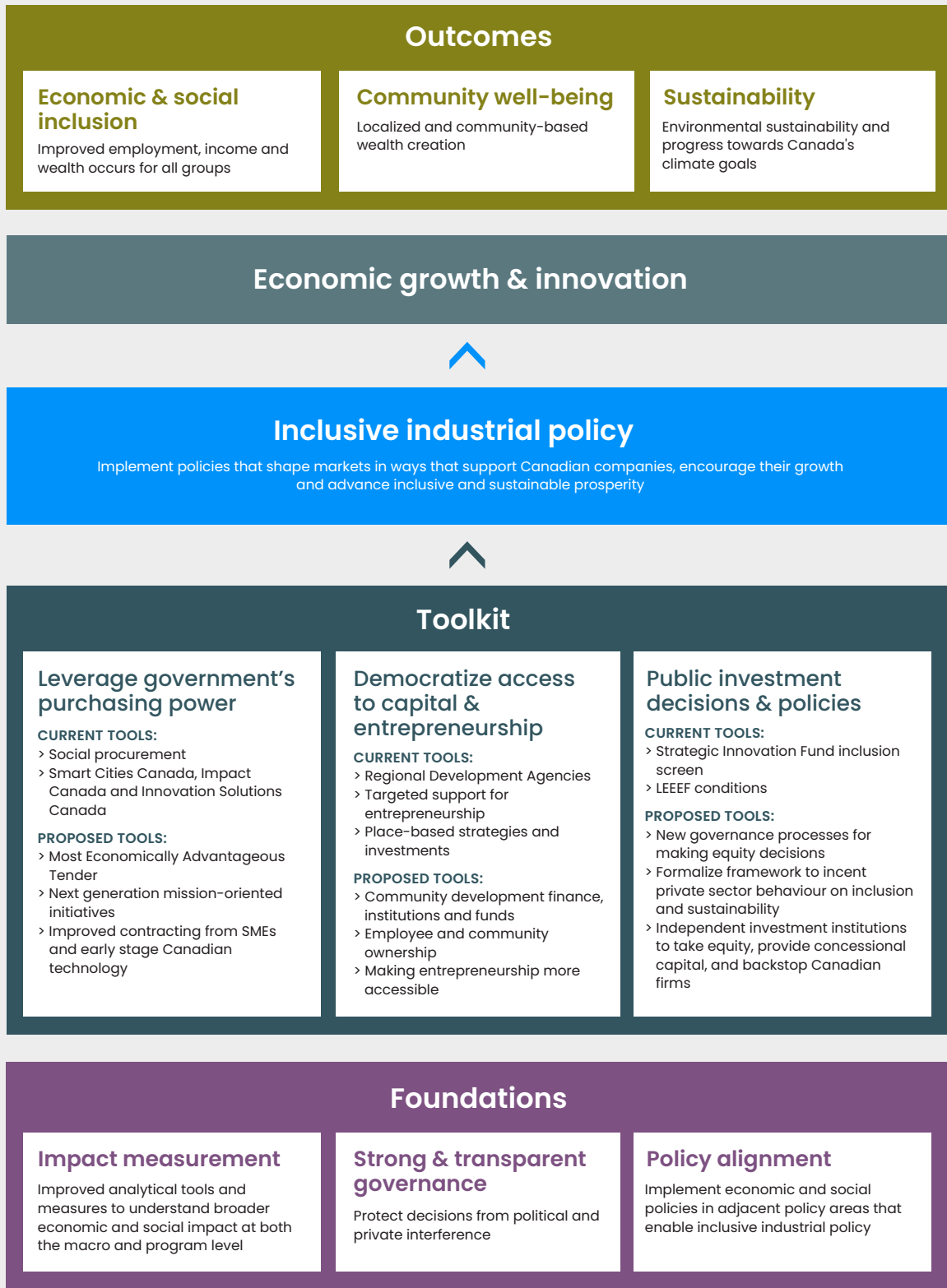
Building an inclusive industrial policy for Canada

There is always a real risk that industrial policies and business support programs can be co-opted by politically powerful interests, rent-seeking and the particular policy preferences of the government of the day. These risks must be considered and mitigated through a strong policy framework. But the risks of doing nothing are even bigger.

It needs to be stated clearly that any effective industrial policy should focus on economic growth, wealth creation, sector-building and support for firms where Canada has scalable assets and strategic advantage and where growth is likely to occur in the future. To be clear, an inclusive industrial policy does not abandon these goals but embeds inclusion in the framework. We propose that an inclusive industrial policy for Canada focus on three core goals: **social and economic inclusion; community well-being; and sustainability.**



Framework for Inclusive Industrial Policy



Broadening the toolkit

An inclusive industrial policy agenda that is responsive to our current economic environment requires a richer policy toolkit, including tools commonly used elsewhere but not in Canada, as well as those that we have used in Canada but must use more ambitiously. This paper outlines three main approaches:

- › Leveraging government’s purchasing power;
- › Democratizing access to capital and entrepreneurship; and
- › Public investment decisions and policies

These categories are not mutually exclusive. Several of the tools involved, such as Community Benefit Agreements, fit in multiple categories. Likewise, many of the tools listed below work best in tandem, reinforcing one another. The list below is not exhaustive but intended to demonstrate the range of policy tools that are barely used in Canada but could be deployed in a way that promotes growth while advancing inclusion and sustainability.

Leveraging government’s purchasing power

Governments can spur inclusive innovation by focusing on the demand-side tools of industrial policy, including mission-oriented industrial policy. Demand-side innovation policies can include direct creation of demand such as public procurement, innovation-oriented rebates to encourage private demand, and the design of regulatory approaches, standards and certifications.⁵⁴ The Impact Canada initiative, Innovative Solutions Canada and the Smart Cities Challenge have all started to build capacity within the federal government to drive demand-side and mission-oriented economic development. This mirrors the way that ARPA-E in the US is spurring a demand-driven burst in clean energy innovation,⁵⁵ and in the way that pre-market purchase commitments are spurring creative retooling and research across industries in response to COVID-19 ranging from vaccine development to manufacturing PPE.

54 Ana Gama Dias et al., “Improving Demand-Driven Innovation Policies in Canada,” 2020, https://www.mcgill.ca/maxbellschool/files/maxbellschool/policy_lab_2020_-_improving_demand-driven_innovation_policies_in_canada.pdf.

55 Robert Asselin, “Canada Needs to Rethink Its Innovation Policy to Meet Grand Challenges,” LinkedIn, September 14, 2020, <https://www.linkedin.com/pulse/canada-needs-rethink-its-innovation-policy-meet-grand-robert-asselin/>.

More recently, Canadian governments have been undertaking more social procurement, in which the social, environmental and full scope of economic impacts are considered in procurement decisions. The BC Government, for example, has targets for hospitals on local food purchases, supporting sustainability and the local food sector.⁵⁶ Many social procurement efforts have focused on workforce development and diversity within supply chains, including procuring from Indigenous-owned businesses. But there is still more to do and it is probably the case that the private sector, for example resource companies like Suncor working with Canadian Council of Aboriginal Business, have done a better job buying from Indigenous-led business than governments.

Canada is also taking steps to use its purchasing power to create markets for Canadian firms. Historically, procurement processes have focused narrowly on risk avoidance and lowest price, which have tended to shut out new innovations and small and medium-sized firms more generally that are not in a position to navigate the risks, unpredictability and burdens of public procurement processes.⁵⁷ Public procurement rules in Canada have tended to favour large international incumbents.⁵⁸ The federal government has tried to address this issue, experimenting with a demand-driven program, Innovative Solutions Canada, modeled on the American program.⁵⁹

Governments sometimes use their powers to shape markets in related ways. The role of standard setting, for example around environmental standards, has been one of the most important tools governments have used to shape the market in which sectors like automobile manufacturing or

56 Government of British Columbia, "Feed BC," accessed December 23, 2020, <https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/growbc-feedbc-buybc/feed-bc>.

57 Daria Crisan, "Buying with Intent: Public Procurement for Innovation by Provincial and Municipal Governments," 2020, <https://doi.org/10.11575/sppp.v13i0.69277>.

58 Dean Beeby, "Ottawa Turns to U.S. Tech Giants Too Often: Internal Memo," CBC News, November 24, 2017, <https://www.cbc.ca/news/politics/information-technology-alex-benay-balsillie-procurement-open-government-us-firms-phoenix-1.4414786>.

59 Science and Economic Development Canada Innovation, "Innovative Solutions Canada," 2020, <https://www.ic.gc.ca/eic/site/101.nsf/eng/home>.

the building sector operate to achieve policy outcomes. Likewise, governments can advance community wealth in smaller communities through their decisions about where to locate government offices and where to deploy the public sector workforce.

An inclusive industrial policy would add to this purchasing power toolkit with initiatives like Most Economically Advantageous Tender and a Next Generation Innovative Solutions Canada and a Next Generation Impact Canada program, possibly in close collaboration with the National Research Council.

PROPOSED TOOLS

Most Economically Advantageous Tender

The Most Economically Advantageous Tender approach was introduced in the European Union in 2014 to overcome the narrow focus on price and risk management. The approach allows and encourages member states to consider other factors in awarding contracts, including quality, environmental features, fair living wages, innovation, and support for SMEs.⁶⁰ Using this alternative tendering approach is optional, and the European Commission estimates that about 45 per cent of procurement procedures use criteria beyond lowest price.⁶¹ This goes beyond the social procurement model we have used in thus far in Canada in using the enormous purchasing power of the state to build wealth and companies in distressed communities and regions and amongst historically marginalized people.

One challenge in expanding the use of alternative considerations in procurement is the ability to reliably measure and compare. One response piloted by the Aspen Institute and other partners is Working Metrics. This platform provides a set of measures focused on job quality to support governments and companies with reliable and consistent information to make purchasing decisions on a variety of metrics that include social and economic inclusion.⁶²

More sophisticated and strategic use of procurement should not be left to governments alone. Heavily regulated sectors, like banking, energy, telecommunications, and our large public institutions, like hospitals and universities, should adopt more inclusive procurement approaches. As well, they should be more proactive in procuring early-stage Canadian innovations.

60 Chunling Yu, Toru Morotomi, and Haiping Yu, "What Influences Adoption of Green Award Criteria in a Public Contract? An Empirical Analysis of 2018 European Public Procurement Contract Award Notices," *Sustainability (Switzerland)* 12, no. 3 (February 1, 2020), <https://doi.org/10.3390/su12031261>.

61 European Commission, "Public Procurement: Internal Market, Industry, Entrepreneurship and SMEs," accessed December 23, 2020, https://ec.europa.eu/growth/single-market/public-procurement_en.

62 Mark G. Popovich and Maureen Conway, "Working Metrics — Toward a More Equitable, Stable Economic System," Aspen Institute, October 26, 2018, <https://www.aspeninstitute.org/blog-posts/working-metrics-toward-a-more-equitable-stable-economic-system/>.

Next Generation Mission-Oriented Initiatives

Many of the most successful global companies relied heavily on early and later stage guarantees and contracts from their own national governments. To provide just one recent example, SpaceX has relied on significant public investments during early stages and significant government contracts as it grew. This is not accidental and is part of American strategic industrial policy led by both private sector firms and government agencies. In Canada, when we do support our firms it is too frequently focused on grants or loans rather than large contracts to undertake important pieces of foundational and applied research work, either on their own or in partnership with government research labs.

Although it remains in its early phases, Innovative Solutions Canada could be a model to build on. In 2020, twenty federal departments had targets within their procurement budgets for procuring early-stage Canadian technology solutions and working with Canadian companies to deploy solutions to real problems the government is trying to solve. The program has had some success and has recently been deployed to find sustainable PPE solutions in response to COVID-19.⁶³

While we await a full evaluation of the program, a number of changes should be considered to make it a key element of an inclusive industrial policy. These changes should include: that winners of competitions will have stronger guarantees that their product will be procured (not just developed), more co-creation of problems and potential solutions with Canadian SMEs, a larger budget so that the work becomes mainstreamed within departments, embedding social procurement into some projects to incent working with remote communities and under-represented groups, and more explicitly expanding the mandate to work with social enterprises so that the Canadian community sector can also benefit from innovations it might identify through the program.

Likewise, the Impact Canada initiative should be formalized. It has built expertise within the federal public service to undertake mission-oriented Challenge Prizes. The National Research Council could be a partner to both programs.

The strategic focus on contracting so that Canadian firms have revenues, develop IP, improve their balance sheet and build a client base needs to be centred as a part of Canada's inclusive microeconomic policy agenda.

⁶³ Innovation, Science, and Economic Development Canada, "Innovative Solutions Canada."

Democratizing access to capital and entrepreneurship

Another set of approaches where Canada can borrow proven interventions from elsewhere is measures to improve equity in access to capital and pathways to entrepreneurship more broadly. Creating more dynamic marketplaces, for example, will only be successful in generating innovation and inclusive outcomes if people from all parts of Canada and a variety of backgrounds have a realistic opportunity to participate in those markets.

Canada has a long tradition of co-ops in the financial sector and financial institutions like Vancity are being driven by multiple bottom lines. But can government do more to support and enable wider access to capital?

Governments in Canada deploy many tools to make capital available and drive investment into communities that are under-served. A variety of regional and industrial development policies are part of this. The federal government has made concerted efforts to improve access to capital for women, Black Canadians and Indigenous people in recent years. But much more can be done.

PROPOSED TOOLS

Community development finance, institutions and funds

While Canada has a highly-developed financial sector that is often highlighted as a competitive advantage for our economy, that sector has blind spots. For example, First Nations communities and Black Canadians have often faced barriers in access to capital, inhibited by the service priorities of financial institutions and systemic institutional biases.⁶⁴ The blind spots are also place-based, as lower-income and more remote communities are less likely to be served by banks even while regulations require in-person visits for some transactions and services.⁶⁵ Even across cities, access to capital is different in Vancouver, Calgary and Toronto, and local gaps can push innovators to leave Canada in search of financing. Canadian banks are also famously risk-averse, which makes it harder for innovators and emerging industries to get financing.⁶⁶

64 Julie Cafley and James McLean, "Improving Access to Capital for Canada's First Nation Communities," February 2016, https://ppforum.ca/wp-content/uploads/2018/03/First-Nation_March-8.pdf; Caroline Shenaz Hossein, "Banking While Black: The Business of Exclusion," *The Conversation*, May 7, 2018, <https://theconversation.com/banking-while-black-the-business-of-exclusion-94892>.

65 Heng Chen and Matthew Strathearn, "A Spatial Model of Bank Branches in Canada," February 6, 2020, bankofcanada.ca/wp-content/uploads/2020/02/swp2020-4.pdf.

66 Kevin Carmichael, "Innovation Nation: How Canada's Banks Are Holding Back the Knowledge Economy," *Financial Post*, March 27, 2019, <https://financialpost.com/technology/innovation-nation-how-canadas-banks-are-holding-back-the-knowledge-economy>.

As a result of these blind spots, our financial sector fails to invest in a full spectrum of opportunities that would be good for our society and economy. Alternative financial institutions, such as Community Development Financial Institutions (CDFIs) can help to bridge some of that gap. In the United States, as a product of the US Community Reinvestment Act (itself a response to the historic explicit discrimination of the US banking industry), CDFIs are specialized private financial institutions that focus on underserved markets.⁶⁷ With clear mandates and links to local community, CDFIs can build technical capacity, and link capital to investment-worthy ventures that are often-overlooked by traditional financial institutions. They can also align with other goals of inclusive growth, such as encouraging or requiring their borrowers to focus on job quality.⁶⁸

Our financial sector fails to invest in a full spectrum of opportunities that would be good for our society and economy.

There is increasing interest and experimentation with a variety of models that can be labelled community wealth funds, public wealth funds and purpose-built regionally-focused investment institutions.⁶⁹ These are designed to develop local expertise that can then drive investments that build community wealth in under-served communities. In some instances they can act as intermediaries with local knowledge that can help connect capital to community-based investment opportunities or support structural adjustments and transitions. Some alternative financial institutions focus

on filling gaps in particular sectors. For example, the KfW in Germany is a public investment bank that has a focused mandate to develop specialist expertise in key sectors and make investments that also crowd-in private finance.⁷⁰

To advance this agenda, improved transparency and reporting by Canadian financial institutions about where they lend and invest would help identify gaps and solutions. We currently do not know to what extent Canadian banks and pension funds invest in local communities and businesses.

67 The Federal Reserve Bank of Richmond, "A Unique Partnership for Banks Community Development Financial Institutions," accessed December 22, 2020, https://www.richmondfed.org/-/media/richmondfedorg/community_development/resource_centers/cdfi/pdf/cdfi-special-2011.pdf.

68 Daniel Brett and Tom Woelfel, "Moving Beyond Job Creation: Defining and Measuring the Creation of Quality Jobs," April 2016, https://www.pacificcommunityventures.org/wp-content/uploads/sites/6/2016/04/Quality-Jobs_Moving-Beyond-Job-Creation.pdf.

69 Dag Detter, Stefan Folster, and Josh Ryan-Collins, "Public Wealth Funds: Supporting Economic Recovery and Sustainable Growth | UCL Institute for Innovation and Public Purpose," November 15, 2020, <https://www.ucl.ac.uk/bartlett/public-purpose/publications/2020/nov/public-wealth-funds-supporting-economic-recovery-and-sustainable-growth-0>.

70 IPPR Commission on Economic Justice, "Prosperity and Justice: A Plan for the New Economy," 2018, https://www.ippr.org/files/2018-08/1535639099_prosperity-and-justice-ippr-2018.pdf.



Employee and community ownership

Ownership models are key to determining who benefits from growth. Public policy levers can be used to promote greater employee and community ownership to ensure that growth benefits a broad cross-section of the community. Employee, labour and community ownership in particular are ways to democratize access to capital for under-served groups without necessarily increasing levels of debt on those who might not be able to afford it.

Employee ownership trusts are a model supported by policy in the US and more recently in the UK to encourage broad-based employee ownership of businesses. Employee-owned companies are more resilient, offer better labour standards, are more committed to local communities and have been a powerful tool to develop wealth for lower- and middle-income workers.⁷¹ In Canada today it is practically impossible to set up an employee ownership trust, which is why that despite 14 million workers in the US benefitting from employee ownership trusts, this form of ownership is effectively absent in Canada.⁷²

Now used in the United Kingdom, Community Asset Transfers are a mechanism to transfer publicly-held government assets to communities to be owned and managed for local purposes. In Canada, the federal government has recently experimented with this model, by turning over some unused federal lands for the purposes of building affordable housing.

*In Canada today
it is practically
impossible to set
up an employee
ownership trust.*

⁷¹ Social Capital Partners, "Building an Employee Ownership Economy," October 2020, https://static1.squarespace.com/static/5f6a6b8c96aa5713717e1cd0/t/5fb585a2e8107455752f10be/1605732803903/2020-11-11-Building_an_employee_ownership_economy-Report.pdf.

⁷² Social Capital Partners.

Geographic inclusion, regional benefits and place-based approaches to economic activity

Economic activity in Canada has been historically geographically concentrated and Canada has developed a variety of policy instruments to address this dynamic, including Equalization and Regional Development Agencies. Governments have a long-standing tradition of evaluating where to make significant public investments at least in part through the lens of regional economic development, for example in investing public resources to build government institutions outside of urban centres. Regional Industrial Benefits tests have long been a part of defense procurement processes.

Increasingly governments use Community Benefits Agreements, social procurement and investments in anchor institutions as tools of wealth creation for smaller communities.⁷³ Outside of Canada, governments have used regulations or rural investment tax credits to create innovation or business development zones (such as Opportunity Zones, Special Economic Zones and Innovation Districts) to incent the flow of capital into under-served communities.⁷⁴ Part of the goal of these programs can be to direct capital to smaller and medium-sized businesses.

Other place-based approaches rely on building cross-sector partnerships. One model is Local Enterprise Partnerships. There are 38 local enterprise partnerships in England, each covering a specific region of England (e.g., London, Dorset, Oxfordshire). These partnerships are between local authorities and local private businesses, working to determine local economic priorities and improve infrastructure and raise workforce skills. An important part of these initiatives is to incent the investment of public and private capital into communities that would not otherwise attract sufficient capital. Similar models can be found in the United States. The Fresno DRIVE multi-sector approach⁷⁵ and the New Economy Initiative led by the Community Foundation for South-East Michigan⁷⁶ are two such models.

Another partnership model is the Community Futures approach, which has focused on building public, private and not-for-profit partnerships in communities for regional economic development. Likewise, the regional collaborations to drive growth, like the Atlantic Growth Strategy, have also been an important feature of recent attempts to ensure more equitable access to capital and economic opportunity. These could be seeded with additional concessional capital that can be used to kickstart local growth funds.

73 Andrew Galley, "Community Benefits Agreements," August 2015, <http://communitybenefitsagreements.ca/>; Nevena Dragicevic, "Anchor Institutions," August 2015, https://munkschool.utoronto.ca/mowatcentre/wp-content/uploads/publications/109_anchor_institutions.pdf.

74 Harry Farmer and Madeleine Gabriel, "Innovation after Lockdown: Using Innovation to Build a More Balanced, Resilient Economy," June 2020, https://media.nesta.org.uk/documents/Innovation_after_Lockdown_v5_2.pdf.

75 "About the Fresno D.R.I.V.E. Initiative," accessed December 22, 2020, <https://www.fresnodrive.org/about>.

76 "Our Mission," New Economy Initiative, accessed December 22, 2020, <https://neweconomyinitiative.org/about/>.

Making entrepreneurship accessible

An inclusive industrial policy should make it easier for a wider range of Canadians to take risks and build wealth. There are policy levers that can make this happen. Using these levers properly will allow our industrial policy to more effectively confront issues of economic power and its concentration, although to be effective it must be undertaken in concert with improved competition policy and other economic framework policies.

One barrier to pursuing entrepreneurship is being able to access services and insurance traditionally associated with employment. These barriers have a disproportionate effect on discouraging women, people with disabilities, and people with care responsibilities from pursuing entrepreneurship – leading to a loss of innovation and more inequitable outcomes.

The barriers here relate to both public and private forms of insurance. On the public side, Employment Insurance, which also includes parental, sickness and caregiving insurance, is designed for people with traditional employment, with very poor access and design for self-employed people. The COVID-19 emergency income supports from the federal government improved access for self-employed people but this type of insurance is essential and out-of-reach for entrepreneurs ordinarily.

There are also serious gaps in the private marketplace. Health and disability insurance and retirement savings programs that are provided for larger employers are very difficult to replace at a comparable quality and price for entrepreneurs or new small businesses. The ability to choose to buy into pooled options or into public systems could reduce the time and financial costs to starting new businesses and to those businesses providing decent benefits to their employees.

Access to caregiving support is another significant barrier for many to pursue entrepreneurship. Including funding/support for childcare or other caregiving needs as part of the package for government-funded accelerator programs and other venture programs, could improve access to potential entrepreneurs who can't otherwise pursue their ideas because of their caregiving responsibilities.

Another approach to improving access to entrepreneurship is to remove the barriers to “second chance” entrepreneurship. Start-up culture, especially in technology, promotes the value of learning from failures in the process of new ventures, but many Canadians cannot take multiple risks. An inclusion industrial policy should make it easier to try again. For example, Germany has introduced a START award with a

specific category (called RESTART) to provide support for entrepreneurs setting up a second business.⁷⁷ Another pathway can be to restructure insolvency rules, for example working to reduce the time cost of insolvency⁷⁸ and other measures like caps on debt settlement periods, and greater out of court options.⁷⁹ The stigma associated with insolvency and bankruptcy in practice needs to be addressed — the narrative of failing as an integral part of innovation does not align with the reality of our policy frameworks or the financial realities of many people’s lives and experiences.⁸⁰

Public investment decisions and policies

An inclusive industrial policy framework is about ensuring that policy approaches on public procurement and access to capital align with the broader public interest. But this principle also applies at the level of individual investments. Government support for individual firms should look beyond measures of firm profitability and management to ensure the broader goals of inclusion, community wealth building and sustainability are also being achieved.

Since 2015, the federal government has been undertaking this kind of approach. For example, the Venture Capital Catalyst initiative has used a variety of criteria beyond financial returns to make investment choices, including a focus on gender balance strategies, investments in underserved regions and sectors, and prioritizing clean technology firms.⁸¹ The Strategic Investment Fund uses an inclusion screen that includes social and environmental considerations in its investment decisions. As part of its update to the Industrial and Technological Benefits framework in 2018, the Government of Canada added considerations around skills training for Indigenous Canadians and how firms promote gender equality and inclusion into its understanding of ‘total value return on investment.’⁸²

77 European Commission, “Overcoming the Stigma of Business Failure – for a Second Chance Policy – Implementing the Lisbon Partnership for Growth and Jobs,” October 5, 2007, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52007DC0584>.

78 European Commission.

79 European Commission, “A Second Chance for Entrepreneurs – Final Report of the Expert Group,” January 2011, <https://ec.europa.eu/docsroom/documents/10451/attachments/1/translations>.

80 European Commission.

81 “Venture Capital Catalyst Initiative,” June 15, 2020, https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03052.html.

82 “Industrial and Technological Benefits Policy: Value Proposition Guide,” May 31, 2018, <https://www.ic.gc.ca/eic/site/086.nsf/eng/00006.html>.

Export Development Canada and the Business Development Bank of Canada both have mandates to help Canadian firms grow. But they have also become more aggressive in launching programs that invest in firms and funds that support other public policy goals, such as gender equity and climate transition. This pursuit of multiple bottom lines must deepen and be monitored.

These initiatives are important steps towards an inclusive industrial policy. But they are not well-known and their effectiveness is not yet understood. Many remain influenced by traditional political decision-making processes, rather than governed by more independent investment arms, which could include existing institutions like the BDC or new purpose-built institutions that could be spun out of the regional development agencies. The inclusion screens used by these successful programs could be subject to more rigorous evaluation and on-going recalibration.

PROPOSED TOOLS

Clarify the Inclusive Investment Framework

As governments more aggressively pursue an inclusive and sustainable microeconomic agenda, they need to more explicitly articulate the policy goals and criteria used for success. Some of the approaches being used in Canada and elsewhere include:

- > Equity and diversity targets on boards and senior management
- > Climate reporting and/or commitments, which should be explicit and, for example, could be quarterly public reporting on carbon emissions and a commitment to a critical path for achieving net zero emissions or a reduction commensurate with Canada's 2030 and 2050 climate targets, as many Canadian companies have already committed to doing
- > Investment in the Canadian supply chain and Canadian content
- > Decent work standards and/or minimum levels of benefits and wage levels
- > Worker representation on employee boards

Government support should look beyond measures of firm profitability and management to ensure the broader goals of inclusion, community wealth building and sustainability are also being achieved.

- > Investment in employee training and up-skilling
- > Commitments to collective bargaining
- > Employee equity stakes in the firm so that upside is more equitably shared
- > Community reinvestment targets
- > Local procurement targets

To be effective, governments should set out these types of expectations clearly in advance as part of an investment policy framework. Articulating an explicit framework ahead of time would improve the chances of success by providing policymakers with a ready set of options to include in program design and providing clear expectations to the market to allow firms to take steps to qualify ahead of time. By articulating a framework, government will set expectations that some of these policy goals should be part of an investment pitch, which is likely to have an impact on firm behaviour without impacting returns or performance.

It needs to be re-emphasized that these criteria are in addition to not instead of traditional economic considerations. There is always a risk with public investments in private firms that government continues to invest even when it has become clear that the firm's likelihood for success is small. That is why rigorous criteria, like success in export markets and vigorous competition for investment dollars,⁸³ must be applied as part of independent investment decisions. Such an approach, governed by real accountability, provides the rigor of independent market feedback to the government's investment decisions.⁸⁴

⁸³ This IMF paper outlined the economic criteria that should be used to drive industrial policy investment decisions. Cherif and Hasanov, "The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy."

⁸⁴ We are grateful to Ash Milton of Palladium Magazine for drawing our attention to this point.



Independent investment institutions to take equity, provide concessional capital, and backstop Canadian firms

The federal government has taken high profile equity stakes in firms in the recent past. These include investments that rescued the Canadian auto sector during the global financial crisis and an investment in the TMX pipeline to secure federal policy objectives. But because these investments are typically reactive, they have not reflected this same alignment with policy objectives around inclusive and sustainable growth. With the announcement of the Large Employer Emergency Financing Facility (LEEEF) as part of the COVID-19 response, the government has begun to lay out a potential structure and strategy that could be used to leverage future potential equity investments.

Through the LEEEF program, the federal government has brought an inclusive growth lens to federal investments to make access to support contingent on practices that align with other policy objectives including wealth/income equality, collective bargaining rights, and climate disclosures.⁸⁵ While the LEEEF program was developed to respond to a specific context, and has yet to see much uptake, it points to a broader opportunity to take more equity in firms and to do so in a manner that advances other policy objectives.

When Canadian firms seeks to raise private capital, here and abroad, investments from Canadian governments can be a sign of confidence in the company. Sovereign wealth funds have often asked Canadian companies seeking capital why their own government does not invest in them. It is a good question. The federal government has the fiscal capacity to make investments in Canadian firms, protect their IP, make it worthwhile to remain in Canada and take on more risk — all while advancing an inclusive economic agenda.

Sovereign wealth funds have often asked Canadian companies seeking capital why their own government does not invest in them. It is a good question.

⁸⁵ Office of the Prime Minister of Canada, "Prime Minister Announces Additional Support for Businesses to Help Save Canadian Jobs," May 11, 2020, <https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save>.

Building a strong foundation

To succeed, the inclusive industrial policy toolkit needs strong foundational support. This includes:

- > Impact measurement
- > Policy alignment
- > Strong and transparent governance

Impact measurement

There are growing calls to go “beyond GDP” in measuring prosperity and well-being for economies. The OECD has advocated for a broader set of metrics that include measures like economic security, environmental outcomes and the distribution of wealth and income to capture “real growth.”⁸⁶ Similar calls for broader sets of metrics that capture economic inclusion and social and environmental outcomes have come from the G7⁸⁷ and the World Bank⁸⁸ and can be seen in the government of France’s New Wealth indicators.⁸⁹

For Canada, one option for broadening perspectives recommended by Mike Moffatt and John McNally is to track domestic progress using the Sustainable Development Goals indicators which are already being tracked in the context of our international commitments.⁹⁰ The Federal Minister of Middle Class Prosperity has been explicitly tasked with establishing these measures and The Brookfield Institute for Innovation & Entrepreneurship and the Munk Innovation Policy Lab have developed a new Inclusive Innovation Monitor to help track this progress⁹¹

86 OECD, “Beyond GDP Measuring What Counts for Economic and Social Performance and For Good Measure Advancing Research on Well-Being Metrics Beyond GDP High-Level Expert Group on the Measurement of Economic Performance and Social Progress (HLEG),” 2018, <https://doi.org/10.1787/9789264307292-en>

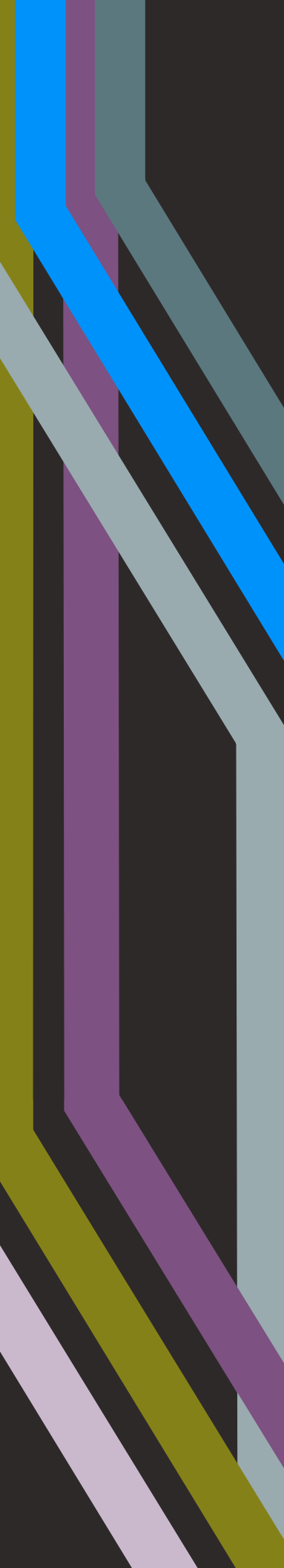
87 G7, “Charlevoix Commitment on Equality and Economic Growth,” June 9, 2018, https://www.international.gc.ca/world-monde/international_relations-relations_internationales/g7/documents/2018-06-09-economic_growth-croissance_economique.aspx?lang=eng.

88 Glenn-Marie Lange, Quentin Wodon, and Kevin Carey, eds., Building a Sustainable Future The Changing Wealth of Nations 2018, 2018, <https://openknowledge.worldbank.org/bitstream/handle/10986/29001/9781464810466.pdf>.

89 Carrie Exton and Michal Shinwell, “Policy Use of Well-Being Metrics: Describing Countries’ Experiences,” OECD Statistics Working Papers, 2018, <https://doi.org/10.1787/d98eb8ed-en>.

90 Mike Moffatt and John McNally, “Making a Green Recovery Inclusive for All Canadians,” accessed December 22, 2020, <https://institute.smartprosperity.ca/InclusiveGreenRecovery>; Global Affairs Canada, “Canadian Indicator Framework: Towards Canada’s 2030 Agenda National Strategy,” accessed December 22, 2020, <https://canada2030agenda.ca/canadian-indicator-framework>.

91 Dan Munro, “An Inclusive Innovation Monitor for Canada: A Discussion Paper –,” March 31, 2020, <http://brookfieldinstitute.ca/report/an-inclusive-innovation-monitor-for-canada-a-discussion-paper/>.



These more comprehensive approaches only address one part of the impact measurement gap. While they are being used increasingly at a macro level to understand where we have been, these types of frameworks are rarely factored into policy and program decisions in an explicit or rigorous manner beforehand. Governments' program and policy decisions tend to rely on very general goals about "creating good jobs" or "reducing emissions" with little rigor or monitoring.

Industrial policy decisions should include explicit assessments about the anticipated broader economic, social and environmental impact of investments – what could be understood as a total cost, total return or total value approach. These decision screens may take cues from environmental, social and governance screening approaches used for responsible investment funds (which focus on excluding investments with harms) or from Social Return on Investment approaches (which focus on maximizing benefits).⁹²

One of these screens is the use of GBA+, which helps to surface the differential impacts of a policy or investment (especially on gender) to inform better decision-making. While the government of Canada and others have increased their use of GBA+ analysis to better understand the differentiated impact of programs and policies, the capacity and sophistication of the public service to execute remains in its infancy.

Canada should be more aggressive in both respects: using a broader set of macro measures to assess economic performance, as well as undertaking more rigorous impact assessments of whether specific programs and policies are effective at delivering positive, broadly shared returns.

⁹² Mette Lindgaard, Peter Thorgaard, and Morten Wiene, "Is It Worth It? How to Measure Social Return on Investment," n.d.

Policy alignment

Successful industrial policies must be supported by enabling, aligned economic policies. Competition policy, trade policy, intellectual property regimes, digital infrastructure, and data and privacy policies are all important. Adjacent policies, including investments in skills and post-secondary education, are important. Even small choices in administrative design, like simplifying procurement processes to make it easier for small businesses to navigate the public procurement process, are important foundational choices for an inclusive industrial policy to succeed.

Governments can still have broad scope to set overall policy direction, but day-to-day investment choices can be made through protected independent processes with strong governance and public reporting.

Competition policy is one prime area where upstream policy has a strong impact on the potential of downstream industrial policy efforts. Concentration is bad for consumers, and bad for innovation and growth, but anti-trust efforts have been a very small part of the policy toolkit in recent years.⁹³ In our discussion of possible policy tools later, it is important to think about democratizing access to capital in the context of competition.

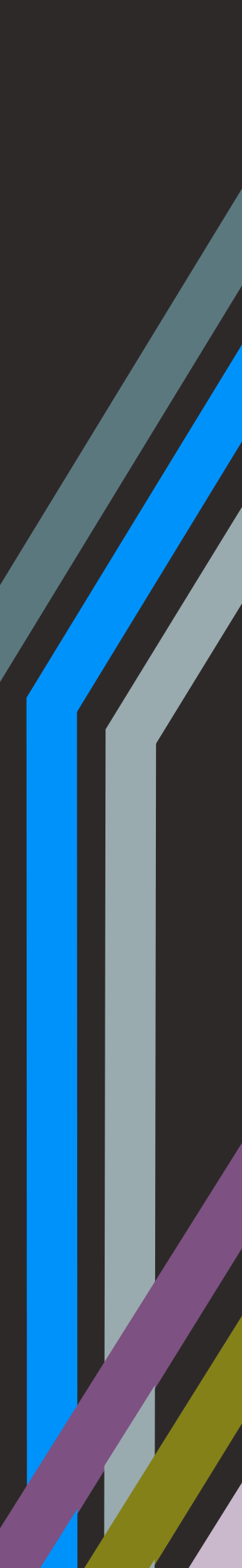
Tax policy and financial regulation are also essential for the incentive structure of the economy. The fact that it is often more profitable to purchase an existing firm and sell it for parts than invest in innovation and retention of IP is a major barrier to long-term growth.⁹⁴

The federal government is also trying to drive progress on inclusion and climate goals by using disclosure requirements. As of January 2020, the

Canada Business Corporations Act now requires public disclosure of the diversity of boards and senior management, including reporting on numbers of women, Indigenous people, visible minorities and people with disabilities. As well, public companies are required to disclose information material to investors' decision-making, including environmental risks. As issues related to climate finance become more central in public debate, government policy will need to be clearer about how it intends to drive change within the private sector.

⁹³ Matt Stoller, "National Champs or National Chumps: US Big Business vs China," BIG, February 21, 2020, <https://mattstoller.substack.com/p/national-champs-or-national-chumps>.

⁹⁴ Oren Cass, "Private Equity Captures Rather Than Creates Value," Newsweek, July 22, 2020, <https://www.newsweek.com/private-equity-captures-rather-creates-value-opinion-1519748>.



The purpose of this framework paper is not to review all of the various ways that economic policy intersects with industrial policy. But achieving the goals of inclusive industrial strategy will require alignment across a wide variety of policy domains, including addressing gaps such as childcare, housing affordability, and employment standards.

Strong and transparent governance

Any industrial policy risks capture from politically powerful interests or the idiosyncratic preferences of the governing party. Transparency and strong governance are crucial for effectiveness and public trust. In some instances, this should include independent institutions and processes to drive investment choices and deliver on the mandate of inclusive industrial policy. More focused work will be required to identify appropriate governance structures to insulate decisions from political interference.

Canadian governments already insulate some kinds of decisions from political interference. Strong legislation protects investment decisions of the Canada Pension Plan Investment Board, while independence is also protected for investment decisions at the Business Development Bank of Canada and methodological decisions at Statistics Canada, for example. Whether it is decisions through the Venture Capital Catalyst Initiative, research grants through the tri-agency granting agencies or the winners of the Smart Cities Challenge and other recent federal Challenge Prizes, the federal government has a variety of tools in legislation and policy to protect the independence of processes and transparently report on outcomes. In all of these instances, governments still have broad scope to set overall policy direction, but day-to-day investment choices are made through protected independent processes, strong governance and public reporting.

The decision-making criteria for many government programs designed to help Canadian businesses are extremely risk averse. It is often too slow. Equity investments require risk and timely decision-making. In order to make such behaviour politically possible, independent governance and decision-making is necessary.

Conclusion

Over the past decade, the conventional wisdom that governments undermine innovation rather than support it has been repeatedly shown to be wrong. As Canadian governments increasingly acknowledge and embrace industrial policy, we believe that inclusion must be front and centre in considerations of policy and program design. We know that the growing intangibles economy tends toward winner-take-all outcomes, which concentrate rather than distribute wealth. There can be a tension between creating global winners and forcing them to be more inclusive. But without intentionality around inclusion, it seems likely that the best case scenario for a strategic industrial policy will be to help build successful Canadian companies without enhancing community wealth or social and economic inclusion and without effectively accelerating the transition to a carbon neutral economy. This is not a recipe for a healthy, stable, democratic society where wealth and power are broadly distributed. Re-producing the pathologies of contemporary San Francisco cannot be our goal.

The current federal government has outlined a vision of an economic policy agenda that would support and grow firms and sectors in a way that advances other policy goals, like sustainability, gender equality and reconciliation. Changes to procurement policies, screens for major investment decisions, commitments around regional benefits and easier access to capital have advanced that agenda over the past five years. This focus has only sharpened during the pandemic.

But these steps need to be better understood, enhanced, coordinated and complemented. They need to be centred as a part of our economic policy toolkit. They need to be properly assessed and governed with more independence from politics. They need to be better coordinated across governments and post-secondary institutions. And, in addition to economic growth, they need to be even more explicit in terms of the goals we are trying to achieve through our business support and related programs: economic inclusion, community wealth and net zero.

There are many tools that Canadian governments are using that can be better and more aggressively deployed. And there are many tools being used globally that Canadian governments should adopt. These tools should be moved to the core rather than the periphery of a microeconomic policy agenda. We have proposed a framework that is intended to set a foundation for more policy work on inclusive industrial policy and identified the most promising tools within each of the key three pillars.

In this report, we have described a number of examples of promising policy tools that could help steer an industrial policy that could be used to support firms and help grow innovative global companies in a way that delivers inclusive benefits and accelerates progress toward a carbon-neutral economy. Over the coming months, the *Canadian Inclusive Economy Initiative* intends to build on this framework to identify tangible steps to help Canadian governments build an inclusive industrial policy that delivers broadly-shared sustainable growth for Canadians.



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