

Canada's Faltering Business Dynamism and Lagging Innovation

by Philip Cross

Canada displays many of the same symptoms of business malaise evident in European nations. Real GDP growth over the past decade was the slowest since the 1930s, productivity has stalled, and reduced competitiveness has hampered our ability to capitalize on trade deals, all of which have combined to lower our share of global GDP.

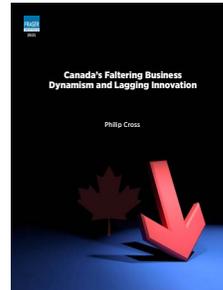
Canada's sluggish economic growth in the years before the pandemic reflects a lack of innovation and weak productivity growth that has persisted for decades. The prolonged slump cannot be fully addressed with the current approach of policies targeting specific sectors such as high technology or green energy, or spurring research and development in the hope of boosting one or more of these variables. Worse would be acceding to the endless requests from specific groups, industries, or firms for favours in the name of job creation or higher incomes.

Instead, Canada needs a root-and-branch re-examination of its public policy mix and its commitment to markets, competition, and capitalism, with the goal of creating an environment more conducive to greater business formation and investment. Compared with the United States, Canada possesses fewer of the societal values linked to the innovation and dynamism that drive economic growth over the long term. The lack of values that support innovation and business dynamism also is evident in the reliance of firms on governments to protect them from competition

in the marketplace. The resulting weak growth encourages policies targeting the distribution over the creation of incomes, which aggravates the shortfall of growth.

Too many business models in Canada are based on governments using a thicket of regulations, patents, tariffs, occupational licensing rules, restrictions on foreign investment, and price-fixing to shelter firms from competition. These tools to obstruct competition are too easily supplied by governments in Canada's decentralized federation. The outcome has been a significant loss of business dynamism in Canada, resulting in our leading corporations being shunted from the global stage while lower rates of firm entry and exit signal a slowdown in the creation and destruction that is fundamental to an innovative, dynamic economy. An economic development model where governments cater to the interests of individual firms and specific industries ultimately is the opposite of one that promotes entrepreneurship and business growth, not least because it undermines the public's faith that incomes are earned and not granted and that capitalism can generate innovations that benefit Canada as a whole.

The success of the United States in maintaining a high rate of innovation demonstrates Canada's lagging performance is not the inevitable result of structural forces that are hard to control. They are more the product of government policies and societal attitudes that are within our control. However, Canada's innovation policy continues to mistakenly focus on inputs of knowledge in the erroneous belief that education, science, research and development, and government subsidies fuel innovation, despite ample evidence that they do not have a significant impact.



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