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Regulatory Reforms, Education Initiatives and More Support for Growth-Oriented Businesses are Keys to Enhancing Inclusive Innovation in Canada

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In June 2016, Innovation, Science and Economic Development Canada embarked upon the development of an inclusive innovation agenda for Canada. The Centre for the Study of Living Standards was asked to prepare a report on developing such an agenda by analyzing evidence-based innovation policies.

An inclusive innovation system is one which opportunities to participate in innovation are broadly available to all and the dividends of innovation are broadly shared by all. The report provides indicators of inclusive innovation and growth which can be used to benchmark Canada's performance against peer countries and to measure progress over time. The policy discussion aims to demonstrate how policies for innovation can be analyzed through the lens of economic inclusiveness without sacrificing the goal of promoting innovation.

On the basis of our analysis, we draw the following conclusions:

- Government should stop giving preferential tax and subsidy treatment to small firms *per se* and should instead seek to identify and support the small firms that are growth-oriented. This may be a policy area in which the goals of innovation and inclusiveness are aligned because it is the growth-oriented firms that create jobs as they grow large.

- The widespread adoption of clean energy technology is unlikely to occur until clean energy is cost-competitive with fossil fuel energy, so a top priority for now should be innovation in clean energy technology. We suggest a policy mix that combines carbon taxation and robust government funding for clean energy research.
- Government should ensure equal access to digital networks and digital skills for all Canadians. Everyone should have access to high-quality broadband internet. The market may deliver this for most people, though there may be a role for government in ensuring connectivity for certain hard-to-reach populations. Moreover, schools should provide students with the opportunity to receive high-quality training in digital technology skills through computer science curricula.
- Education and training policy is fundamental to an inclusive innovation agenda, since equal opportunity for participation is one half of our notion of inclusive innovation. Advanced skills in STEM fields (valuable though they may be) are not the only skills required in a successful innovation system. This is reassuring from the perspective of inclusive innovation.
- The cultivation of global science excellence is an area that is fundamental to innovation performance but in which there are trade-offs in terms of inclusiveness. An inclusive innovation system must include measures to address the trade-offs. First, social policy can ensure that the benefits of excellence are shared by everyone in the society. Second, schools and other institutions must take concrete steps to ensure that opportunities for the cultivation of excellence are available to everybody, not just to the privileged.
- There is limited evidence that government policy can create innovative clusters or that it would necessarily be desirable to do so if it were possible. A better approach is to create a general policy environment that is conducive to innovation and productivity growth.
- The report suggests a number of regulatory policy improvements: a speedier and more accessible legal system; greater competition in network sectors; simpler import-export regulation; and market-based environmental policies such as carbon taxes. All of these might yield some benefits in terms of innovation and productivity growth, and we argued that some of them (especially the legal and environmental reforms) would enhance economic inclusiveness.

The report is posted at <http://www.csls.ca/reports/csls2016-18.pdf>

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The Centre for the Study of Living Standards (CSLS) is a national, independent, Ottawa-based not-for-profit research organization. Its primary objective is to contribute to a better understanding of trends and determinants of productivity, living standards, and economic well-being in Canada through research.