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THE PATH TO PROSPERITY

EXECUTIVE SUMMARY

ADVISORY COUNCIL ON ECONOMIC GROWTH
February 6, 2017

The Council's second wave of recommendations

The Advisory Council on Economic Growth has been operational for ten months, with a mandate to recommend bold ideas that will significantly improve Canada's economic growth trajectory. The Council is focused on actionable ideas that will drive inclusive growth for all Canadians, with the goal of generating an additional C \$15,000 in real, pretax median household income over the current baseline trajectory by the year 2030.

The Council released its initial wave of three specific recommendations in October 2016. As described in more detail in the introductory paper that accompanied those recommendations, Canada faces significant economic headwinds, including a rapidly aging population and a stubbornly low level of productivity. In the years ahead, unprecedented technological change, which presents a large set of opportunities but also the potential for significant workforce dislocation, combined with an uncertain global political, economic, and trade environment, will make the task of meeting the inclusive growth target that we have set out even more urgent and complex.

With this context in mind, the Council decided to focus on bringing forward fewer than a dozen recommendations, which together have the potential to jolt the Canadian economy onto a higher and more inclusive growth path. These recommendations came out of working groups organized around the core foundations of our national economy—skills and workforce participation, innovation, infrastructure and capital investment, and the competitive market environment. In making our selection for recommendations, the Council took into account the Government's own assessment of its existing capabilities and where it felt it could use additional support. Our strong bias was to advance ideas that could be readily implemented, versus delivering a lengthy review of every possibility.

Taken as a whole, our recommendations share common properties: they re-imagine the role of government (specifically, as a convener/catalyst and as an investor), and they push for the flexibility needed to keep pace with a fast-changing world. While some of our initiatives may be more controversial than others, we believe the sum of our recommendations is greater than each of the parts taken alone, as they are mutually reinforcing. Much like "tools in a toolkit," these recommendations can be used in concert and with strategic intent to dramatically accelerate growth, as we have illustrated in a case example of Canada's agriculture and food sector.

In addition, rather than issue a single large report, we have chosen to release a set of short memos each focused on a recommendation. We wanted to get our proposals out when ready, being practical, rather than looking for a "big bang." Our first wave of recommendations from October 2016 included: a proposal for laying the foundations for inclusive growth and improved productivity through a national infrastructure bank and strategy, another on significantly boosting global direct and indirect investment in Canada through a foreign direct investment agency, and a third on immigration—increasing immigration, especially economic immigrants and streamlining immigration to ease entry for top talent.

Today, the Council is releasing its second wave of recommendations, which build upon our first wave and help move us closer to the inclusive growth objective we established. Together, these recommendations have the potential to significantly accelerate the pace and scalability of our innovation ecosystem, to re-engage

more Canadians into the labour force and better prepare them for the jobs of tomorrow, to enhance our ability to compete and win in a few global economic sectors where Canada is naturally advantaged, and to strengthen and diversify our trading partnerships.

More specifically, today's release includes three detailed recommendations . . .

- Unlocking innovation to drive productivity and help new companies scale up more rapidly, including five sub-recommendations to improve the innovation ecosystem
- Accelerating the building of a highly skilled and resilient Canadian workforce by establishing a “FutureSkills Lab”
- Unleashing the growth potential of key sectors such as the agfood sector

. . . and two broader recommendations where the Council has identified specific opportunities, but felt the Government was better positioned to develop the detailed implementation plan:

- Positioning Canada more effectively as a central global trading hub
- Tapping into our economic potential through broader workforce participation

The Council will continue to provide advice to the Government on these and other issues in 2017.

Driving towards inclusive growth

The Council's mandate and objective is to develop a suite of policy recommendations that will drive inclusive growth in ways that benefit all Canadians. We evaluated our portfolio of ideas on three dimensions:

- Will it “move the needle” on income growth as well as increase overall output, and bring us toward our objective of an additional \$15,000 in real, pretax median annual household income above the baseline currently expected by 2030?
- Will it drive economic growth consistently and over time—in the short, medium and long term?
- Will it drive inclusive growth (i.e., not just for the most advantaged)?

The third criterion is especially important. The Council believes that delivering more inclusive growth is not just in line with Canadian values; it is imperative for any strategy to prove sustainable. Only through shared prosperity can we increase our economy's capacity to consume, ensure greater social and political stability, and lessen the need for government intervention.

To test for inclusiveness, we asked whether our portfolio met two objectives. In the short term, ideas should improve financial well-being and upward mobility for low-income Canadians, help vulnerable Canadians to participate more fully in the economy, build greater resilience among Canadian workers, maintain or expand

public infrastructure, and create the conditions needed for entrepreneurship to take root. In the long term, ideas should create a more productive, job-creating environment that unlocks economic opportunities for all Canadians.

Engaging with Canadians

Throughout this process, the Council made it a priority to consult with a wide range of stakeholders, and received input from the public, private, and academic sectors and many industries. The Council held meetings and interviews with stakeholders from more than 130 organizations, including educational institutions, large corporations, small and medium-sized businesses, government agencies, think tanks, and international policy and research centers. The Council also held nine roundtables across Canada, on topics including First Nations economic development, skills training, innovation, and sector growth. This engagement process has continued since the first wave of recommendations.

OUR SECOND WAVE OF RECOMMENDATIONS

Detailed recommendations

1. Unlocking innovation to drive scale and growth

Canada needs to significantly strengthen its innovative capacity, specifically by providing stronger support for the commercialization of new ideas and facilitating the “scale-up” required to fully capitalize on them. In today’s and tomorrow’s knowledge-driven economy it is not enough to have a great idea; that idea must also be brought quickly to the broader global marketplace. While entrepreneurs and globally competitive companies are the best sources of these job-generating innovations, their prospects can be enhanced by a stronger, more supportive innovation “ecosystem.” To achieve this we make five specific sub-recommendations:

- Streamline immigration to ease entry for top talent.
- Catalyze the formation of business-led “innovation marketplaces” where researchers and start-ups work with corporate and government customers to solve growth challenges.
- Increase the pool of growth capital to ensure promising companies have sufficient capital to scale up, and access to investors who can provide advice and other value-added services.
- Modify our government procurement policy, to shift from a requirements focus to a value-based strategic procurement system, where the government and other public-sector players become important first customers, to test and validate Canadian innovative solutions.
- Review and rationalize today’s existing business-facing innovation programs, scaling up those with proven impact and ensuring that the overall suite of programs effectively supports a modern innovation strategy.

2. Building a skilled and resilient workforce with a FutureSkills Lab

An essential part of our inclusive growth objective is to prepare workers for major structural changes on the horizon, such as the automation of jobs and the growth of the “gig” economy. Canada needs new methods to prepare workers. We recommend the formation of a FutureSkills Lab—a non-profit, non-political body designed to promote and enable next-generation skills development. The FutureSkills Lab would support and co-fund innovative approaches to skill development; identify and disseminate new sources of information about required sector and industry skills, as well as the broader labour market; help define clear national objectives for skill-building; and promote the exchange of knowledge with government agencies and private-sector institutions active in this field. The goal of this new entity would not be to replace existing institutions but to better enable them to perform by bridging information gaps in the marketplace and providing a neutral clearing house for critical insights and best practices.

3. Unleashing the growth potential of key sectors

Canada has core strengths in critical sectors, such as agriculture and food, energy and renewables, mining and metals, health care and life sciences, advanced manufacturing, financial services, tourism, and education. But much of our potential is untapped, held back due to policies (e.g., excessive regulations) and other barriers to growth (e.g., shortages in skilled labour, inadequate physical infrastructure). The Council recommends the government, in concert with the private sector, take a targeted approach to removing growth obstacles – thereby unleashing the significant potential of key sectors. This would include setting bold and ambitious sector aspirations, and tapping into the new toolkit of policy vehicles the Council has recommended (e.g., the Infrastructure Bank and innovation marketplaces).

We have highlighted the agriculture and food sector as one example where Canada has the potential for substantial growth and export improvement and the opportunity to become the trusted global leader in safe, nutritious, and sustainable food for the 21st century. The Council recommends piloting this new approach to sectoral development in agfood, and then replicating it in five to seven other high-potential sectors.

Broader recommendations

In addition, as noted, the Advisory Council has identified two broader recommendations where the government is better positioned to specify policy interventions and next steps. Both of these recommendations have the potential for significant impact on inclusive growth.

- **Positioning Canada as a preferred global trading partner** by nurturing and improving our North American trading relationships; strengthening links with three key large and/or fast-growing economies (China, Japan, and India); investing more heavily to upgrade our trade infrastructure (e.g., ports, airports, and highways); and positioning Canada to maximize benefits from multilateral trade flows and to manage potential disruptions to trade.
- **Tapping economic potential through broader workforce participation** through initiatives tailored to underrepresented groups. We focused on four of a number of such groups: women with children under 16; older Canadians; lower-income and lower-skilled Canadians; and Indigenous Canadians. Potential ideas include “reskilling” programs and a legal framework that is responsive to the “gig” economy. We also see an opportunity to unlock talent by increasing the number of women in leadership positions, such as through a corporate gender diversity challenge.

In conclusion

This Council took as its key metric for success the goal of delivering an additional \$15,000 in median household income above current projections by 2030. Realizing such an ambitious aspiration, amid rapid economic and societal change, will require focused, persistent, and concerted action. It will also require continued progress monitoring so that ineffective programs can be stopped. This Council believes that bold and mutually reinforcing initiatives like the ones released today and last October can help reset our country's economic trajectory and help us achieve the inclusive growth that will provide the strongest foundation for our nation's future prosperity. ■