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Canada faces an innovation imperative. Our lackluster innovation record stands in the way of all Canadians realizing their full prosperity potential

As new governments take the helms federally and in several provinces this year, the Institute for Competitiveness & Prosperity urges all Canadians to step up our innovation capabilities to achieve our long-term Prosperity Agenda

Toronto – As the economy slowly recovers from the recession, we need to do what is necessary to achieve a strong recovery in the short term and to begin repairing our fiscal situation federally and provincially. But our long-term challenge remains – raising our productivity, which is synonymous with improving our innovation capabilities and performance. Robust innovation results can be achieved through more key business investments and by the right government policies and strategies for innovation. This is the major conclusion of the 2011 Report on Canada, *Canada's innovation imperative*, released today by the Institute for Competitiveness & Prosperity.

In its Report, the Institute reaffirms that Canada's economy is one of the world's most successful among countries with populations greater than 10 million. But against the United States, Canada's GDP per capita continues to trail significantly. This gap represents lost prosperity potential, which negatively affects Canadians at all income levels.

The Institute reports that Canada's GDP per capita – a measure of the value created by workers and firms in Canada from the human, physical, and natural resources in the country – trailed the US by \$9,500 or 17 percent in 2010, essentially unchanged from the 2009 gap of \$9,200 in constant (2010) dollars. "What's really troubling," observed Roger Martin, Chairman of the Institute, "is that the prosperity gap has more than tripled since 1981 when it was only \$2,700. That has to be a call to action for all Canadians."

The Report identifies Canada's lower productivity as the key challenge in closing this prosperity gap. "Canadians are among the leaders in developed economies in work effort, hours worked per person, but we are laggards in creating economic value per hour worked," said Martin. "This comes from a poor innovation record. For a variety of reasons, we are not leading the world in creating innovative products, services, and processes in our businesses and workplaces."

The Report concludes that businesses need to step up their investments in technology – from R&D to patents to adapting existing technology to their businesses. Equally important is the ongoing need to develop stronger management capabilities in our businesses. Although the research shows that Canada's management capabilities are among the world's best, there is still room for improvement.

The Institute recommends that governments improve their innovation policies by shifting their efforts from new-to-the-world inventions to relevant-to-the-market innovations. As Martin observed, "Our public policies are skewed toward creating science-driven inventions which are very important to our society, but we shouldn't assume that much of this will lead to products and services that will respond to consumer needs and improve Canada's innovation capabilities." The Report shows how important business-led innovations in product design, service improvements, processes, and mergers & acquisitions have propelled our most successful companies to global leadership.

The Institute applauds recent provincial tax policy changes, including the introduction of the HST, as important initiatives that will stimulate business investment. In particular, it encourages British Columbia voters to affirm the adoption of the HST as it will benefit them and all Canadians. According to Martin, "Canada is moving to become one of the better tax jurisdictions in the world, but we're simply adopting best practices from others. It's time Canada became a world leader in innovative tax policies and we have some suggestions for further exploration."

The Institute also suggests innovations in how government helps workers adjust to the ongoing disruptions to our economy from globalization and how it decides on foreign direct investments in Canada through bilateral reciprocity agreements with other countries.

The 2020 Prosperity Agenda

Attitudes: Encourage innovation for Canada to win in an ever more competitive world

- Remain determined to close the prosperity gap through aggressive attitudes toward making innovation happen

Investments: Invest in the human capital and technology critical for innovation

- Continue investing in people for Canada's competitiveness
- Increase business investment in R&D and in information and communications technology
- Review provincial policies and programs on incentives to attract businesses to Canada

Motivations: Ensure tax changes remain in place and make Canada a tax innovator

- Maintain recent changes in Ontario's and British Columbia's sales and corporate tax structures; encourage governments in Saskatchewan, Manitoba, and Prince Edward Island to follow their lead
- Lower marginal effective tax rates for low income Canadians
- Consider a carbon tax
- Pursue tax policy innovations

Structures: Drive innovation through smarter public policies and more international trade

- Balance our public innovation strategies between science and business
- Continue to encourage federal efforts to expand international free trade agreements
- Step up efforts to increase trade with China and other developing economies
- Replace the net benefit test for foreign direct investment with bilateral reciprocity treaties
- Explore policy options to improve venture capital structures
- Keep the friendly pressure on our US neighbours to resist protectionist impulses

The complete report can be downloaded directly from:

http://www.competeprosper.ca/images/uploads/Report_on_Canada_2011_FINAL.pdf

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About the Institute for Competitiveness & Prosperity

The Institute is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario's Task Force on Competitiveness, Productivity and Economic Progress. The Institute and the Task Force are supported through the Ministry of Economic Development and Trade.