

Looking beyond innovation to boost Canada's productivity

PAPER IN BRIEF

Presented at the Financial Management Institute Public Sector Management Workshop

May 24-26, 2015

Over the past decade, policy-makers have tried to find ways to revive Canada's sluggish productivity growth, but have had little success. For the most part, they have looked to improve the country's innovation performance as a way to boost productivity. Since 2006, government has invested more than \$11 billion in new resources to support research, knowledge and skills development, research infrastructure and innovative activities in the private sector.

Unfortunately, generous public incentives for innovation and research and development have had little effect on Canada's productivity performance. Canada's productivity growth has not matched past successes and is weak compared to that of many other OECD countries.

Canada might be wise to consider looking beyond innovation to the many other factors that are known to impact productivity. These factors include the size and export orientation of firms; their investment in intangible capital; their sectors and regional affiliations; and forms of ownership.

Based on research by Canadian and international scholars, our analysis reveals the following:

- Larger firms are much more likely to have higher productivity rates. However, the share of small and medium-sized enterprises (SMEs) in Canada's economy has held steady during the past decade. Stalled growth in the prevalence of larger firms is a foregone opportunity to improve productivity.
- Firms that compete in foreign markets or become engaged in the global value chain spur improvements in their productivity. However, such productivity gains are not widespread in Canada's economy, as only a small portion of all Canadian businesses engage in export activities.
- Intangible capital contributes greatly to labour productivity growth. Although Canada's business investments in intangible capital are quite large, their growth has dropped markedly since the bursting of the tech bubble of the early 2000s.
- Canada's productivity growth is not equally distributed across all industries and sectors of the economy. The approach to addressing Canada's productivity challenge may need to be tailored, paying particular attention to sectors with the weakest productivity rates.

Canada's ability to improve productivity is crucial for its competitiveness, economic prosperity and long-term growth. Governments have taken many steps to encourage improvements in Canada's productivity, including core framework measures and more targeted, innovation-oriented measures. However, governments could supplement the core measures known to foster productivity with additional incentives aimed at helping firms grow, adopt more efficient economies of scale, compete in foreign markets and invest in intangible capital.

