



Let's Talk

Coordinating Economic
Development Spending in Canada



BY SUNIL JOHAL, MATTHEW MENDELSON & NOAH ZON

About the Mowat Centre

The Mowat Centre is an independent public policy research centre located at the School of Public Policy & Governance at the University of Toronto.

The Mowat Centre is Ontario's non-partisan, evidence-based voice on public policy. It undertakes collaborative applied policy research, proposes innovative research-driven recommendations, and engages in public dialogue on Canada's most important national issues.

Contact

720 Spadina Avenue, Suite 218
Toronto, ON M5S 2T9

416.978.7858

mowatcentre.ca

info@mowatcentre.ca

[@MowatCentre](https://twitter.com/MowatCentre)

Acknowledgements

The authors wish to thank Bill Forward, Tony Dean, Mel Cappe, Alex Himelfarb and several public servants for their thoughtful and insightful comments on this paper. Their advice strengthened the paper significantly. Any remaining errors are solely the authors' responsibility. The authors also wish to thank Elaine Stam and Nevena Dragicevic at the Mowat Centre for their design and research assistance.

About the Authors

Sunil Johal

Sunil Johal is Policy Director at the Mowat Centre. Previously, he was a Director with the Ontario Ministry of Economic Development and Innovation and has also held senior management and policy roles with the Cabinet Office, Ministries of Finance and Intergovernmental Affairs and federal Treasury Board Secretariat. Sunil has been a lecturer with Ryerson University's Department of Politics and Public Administration since 2009 and holds degrees from the London School of Economics, Osgoode Hall Law School and the University of Western Ontario.

SUNIL@MOWATCENTRE.CA

Matthew Mendelsohn

Matthew Mendelsohn is the Director of the Mowat Centre and an associate professor in the School of Public Policy & Governance at the University of Toronto. He has served as a Deputy Minister in the Ontario Government and a senior policy advisor in the Privy Council Office in the federal government. He was a member of the Department of Political Studies at Queen's University from 1994-2004.

MATTHEW@MOWATCENTRE.CA

Noah Zon

Noah Zon is a Senior Policy Associate at the Mowat Centre. His research focuses on intergovernmental relations and fiscal federalism. Prior to joining the Mowat Centre, Noah worked on a range of policy files at the Ontario Ministry of Intergovernmental Affairs, and the Ontario Climate Change Secretariat. He holds degrees from the London School of Economics and Political Science and from McGill University.

NOAH@MOWATCENTRE.CA

Contents

1	Introduction	2
2	A Closer Look at Economic Development Programs in Canada	6
3	Federal-Provincial Spending: An Overview	10
	SEPARATE JURISDICTIONS—CLEAR ACCOUNTABILITIES	10
	SHARED JURISDICTIONS—MIXED SUCCESS	11
4	A Path Forward: Intergovernmental Agreements and the Economic Union	14
	FEATURES IN PRACTICE: INFRASTRUCTURE	15
	A CREDIBLE PATH FORWARD	15
5	Conclusion	18

With sporadic exceptions, governments design and target their economic development programs in isolation from each other. No coherent or functional process exists for governments to coordinate their efforts to maximize impact and return on investment.

1

Introduction

Governments in Canada spend roughly \$20B a year on a variety of economic development, R&D, and innovation programs.¹ The spending is designed to spur economic growth, increase productivity and foster private sector innovation. This is an enormous public expenditure, larger than the oft-debated Equalization program and higher than the annual expenditures of the governments of Manitoba and New Brunswick combined.

Government efforts to promote economic development are diverse, ranging from direct supports like cash grants and preferential tax treatment, to indirect supports like export promotion and research centres (see Table 1). What they have in common, however, is that with occasional exceptions (such as the auto sector, energy development or centres of excellence) these programs are almost always designed and delivered in isolation from one another, with little to no effort to align the priorities or design of federal, provincial and municipal initiatives.²

This lack of formal coordination of roles and spending stands in stark contrast to most other policy areas where both orders of government are engaged.³ In health care, for example, it is now well-established that the federal government is responsible for setting system principles through the *Canada Health Act*, and for contributing modestly to the cost of provincially-delivered services through the CHT. The provinces, in turn, are clearly responsible for delivering health care services and setting their own policy direction within this broad framework.

In many other areas—infrastructure, skills training and affordable housing, for example—there are formal intergovernmental agreements (whether bilateral or multilateral) on priorities and funding that are subject to periodic renewal and renegotiation. Although many of these processes represent less than ideal examples of federal-provincial cooperation, they all demonstrate some minimum attempt to align spending that is currently absent from the economic development space.

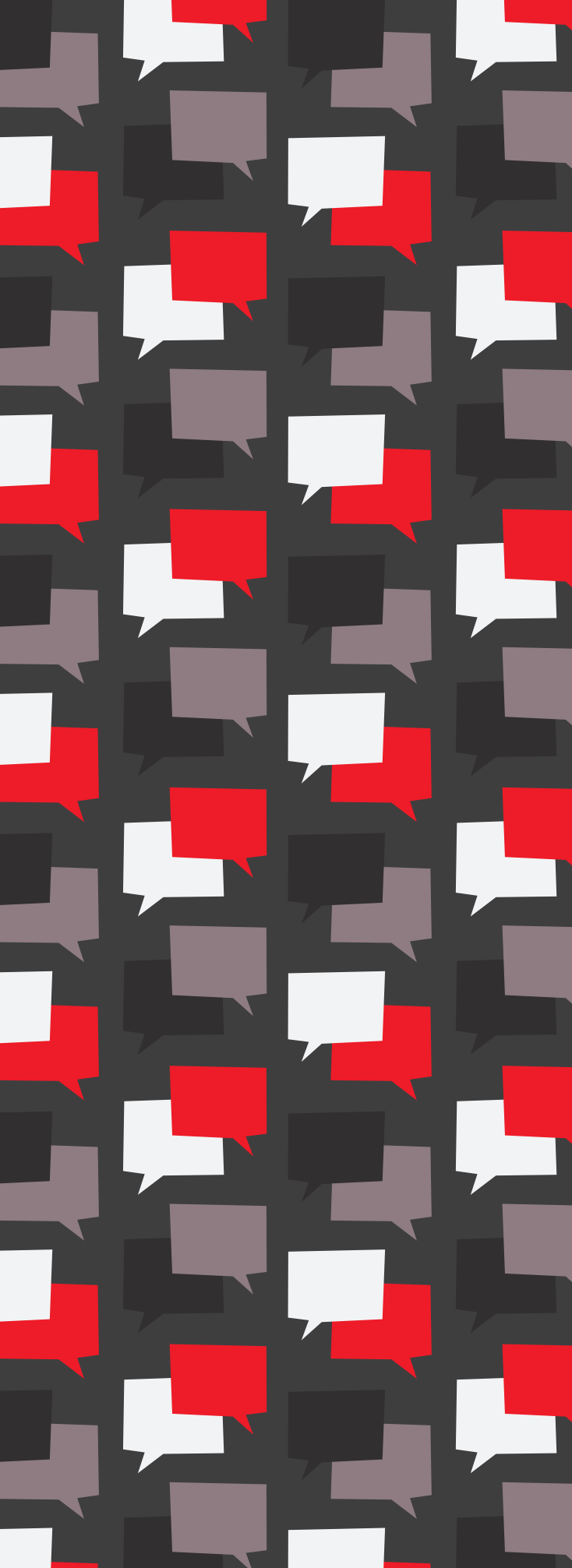
These agreements compel governments to sit down and discuss their policy priorities and the objectives of their program spending. These intergovernmental negotiations are not always pretty but they almost always result in some measure of agreement on shared priorities and a good deal of coordination and alignment within the areas they cover.

Both of these existing approaches—federal transfers to provinces through fiscal arrangements like the CHT or negotiated intergovernmental agreements on issues such as infrastructure and housing—contain flaws. Lengthy negotiations with governments jostling in each other's policy space can be sub-optimal. It is often better for governments to decide

1 Given that these expenditures are divided between federal, provincial, and local governments and accounted for in different ways, this is a rough estimate to illustrate the scope of the issue. While we have sought to avoid double-counting of contributions at different levels of government, our estimate can only be approximate given current accounting and reporting practices.

2 The one exception to this rule is efforts to break down barriers within internal markets and to access external markets, which have benefitted from strong cooperation. While these efforts have produced bursts of progress (such as the Agreement on Internal Trade) they have also seen their share of delays and disputes.

3 Some areas of spending, like primary and secondary education or defense, benefit from clear jurisdictional accountability and intergovernmental conflict does not occur and coordination is not necessary.



what each does best and get out of each other's way. There are significant opportunities to clarify roles and responsibilities in many of these policy areas.⁴ But these messy processes at least represent an effort to coordinate priorities and spending.

But Canada's economic development and productivity efforts are even more dysfunctional, with uncoordinated and independent approaches from the federal and provincial governments. With sporadic exceptions, governments design and target their economic development programs in isolation from each other. No coherent or functional process exists for governments to coordinate their efforts to maximize impact and return on investment.

In fact, these programs are not even well-coordinated and clearly prioritized within governments. Clear objectives and rationale for investment decisions are rare and meaningful performance measures are rarer still. This is only amplified by the lack of clarity and coordination between federal and provincial governments, with the result that the roughly \$20B that Canadians contribute annually to programs to support economic development essentially goes into a black box.

The need for greater coordination in these programs—both within governments and between governments—has been highlighted before. The federal government recently completed a review of its spending on business support and R&D,⁵ while provincial governments are also re-examining their expenditures in this space (e.g., the work of the Drummond Commission in Ontario), and independent research groups have called for better clarification and coordination.⁶ To date, these calls have largely gone unheeded.

4 Mendelsohn et al., 2010.

5 Independent Panel on Federal Support to Research and Development, 2011.

6 See Wolfe, 2010; Bradford and Wolfe, 2010; Creutzberg, 2011; Mendelsohn et al., 2010.

Despite their shortcomings, the shared approaches used to coordinate federal and provincial investments in areas like health, infrastructure and training have valuable lessons for economic development. An intergovernmental process is needed to agree on shared priorities, invest in programs that work, measure impact and return on investment, and coordinate spending to achieve agreed upon strategic objectives.

Given the on-going weakness in most sectors and regions of the Canadian economy, along with the global economic transformation underway, governments must ensure that economic policies and programs are delivering the greatest public value possible. Program dollars should go to those initiatives that are most successful at generating increased prosperity, innovation, productivity and good employment opportunities.

To achieve these goals, we need intergovernmental coordination and negotiations. Right now that coordination is not happening—and there is no good reason that it shouldn't be. A bilateral process—with the federal government sitting down with individual provincial governments to inventory their spending, understand their programming and discuss opportunities to align their priorities—is the best place to start.

Given the magnitude of funding involved, the absence of a coherent strategic approach and the urgent imperative to promote long-term economic growth, the time for vague calls for better coordination both within and between governments has passed. This paper proposes a specific path forward—a “one economy” approach that sets out practical steps for governments.

2

A Closer Look at Economic Development Programs in Canada

A major motivation for economic development initiatives in Canada has been the country's lagging innovation and productivity performance. A number of recent studies peg Canada generally towards the middle of the pack amongst industrialized economies on both innovation and productivity. For example:

- The 2013 Global Innovation Index ranks Canada 11th overall, or in the middle of the table amongst industrialized countries on a range of measures such as patents, scientific research and university education, with lower rankings in areas such as international patents filed (19th) and cluster development (17th).⁷
- The 2013 World Economic Forum's Global Competitiveness Report has seen Canada fall to 14th in global rankings, from 9th position in 2009. Canada has a ranking of 21st for the sub-category of 'innovation and sophistication factors' (e.g., capacity for innovation, patent applications).⁸
- A recent report by Deloitte underlines that Canada's productivity is lagging by a number of measures. For example, output per worker was 78% of the US in 2011, annualized labour productivity growth between 2001-2009 was in the bottom quartile of OECD countries and the average US and Norwegian workers generate \$13/hr and \$29/hr more, respectively, than the average Canadian worker.⁹

Canada's governments have not ignored these challenges. In fact, they invest heavily in efforts to bolster productivity and innovation, as well as business performance. In 2011, the federal government released a report developed by a blue-ribbon panel entitled "Innovation Canada: A Call to Action", more commonly referred to as the Jenkins report, which reviewed programs that support business innovation.

The review found that in 2010-11, the federal government spent nearly \$6.5B on business research and development, through approximately 100 programs and institutes, such as the Industrial Research Assistance Program (\$237M) and Strategic Aerospace and Defense Initiative (\$113M), including approximately \$3.5B in indirect expenditures through the Scientific Research and Experimental Development (SR&ED) tax incentive program.¹⁰

The federal government also has crown corporations actively engaged in economic development work, including the Business Development Bank of Canada, which has an \$18B loan portfolio, \$530M venture capital investment

7 The Global Innovation Index, 2013.

8 Schwab, 2012.

9 Currie and Scott, 2013.

10 Independent Panel on Federal Support to Research and Development, 2011.

portfolio,¹¹ and Export Development Canada, which provides export credit and holds a \$36B portfolio.¹² These crown corporations come in addition to another major feature of the federal approach – the over \$1B spent in 2012 on regional economic development through its six agencies (Canada Economic Development for Quebec Regions, FedNor in Northern Ontario, Canadian Northern Economic Development Agency, Federal Economic Development Agency for Southern Ontario, Atlantic Canada Opportunities Agency and Western Economic Diversification Canada).

Beyond direct spending, there are also a multitude of tax measures at the federal level aimed at supporting business and economic growth. Table 1 outlines some of those measures, which go well beyond the research and innovation programs examined in the Jenkins report.

TABLE 1: Projected Value of Selected Federal Corporate Tax Expenditures With Economic Development Rationale, 2012

Lower tax rate for small businesses	\$2.93 billion
Partial deduction of meals and entertainment expenses	\$190 million
Partial inclusion of capital gains	\$4.64 billion
Exemptions from non-resident withholding tax-dividends	\$1.9 billion
Apprenticeship Job Creation Tax Credit	\$76 million

Source: Finance Canada, Tax Expenditures and evaluations 2012

The story is similar at the provincial and local levels—significant amounts spent in a relatively scattershot manner on a broad range of programs and tax measures. The disjointed nature of this spending makes it very difficult to get a clear accounting of provincial and local spending. However, broad outlines of spending can be gleaned from independent reports and government budget documents.

¹¹ BDC, 2013.

¹² Export Development Canada, 2012.

For example, the Commission on the Reform of Ontario’s Public Services (the Drummond Commission) found that Ontario spent \$1.3B on direct business support in 2011 through 44 programs across nine ministries, as well as an additional \$2.3B in tax expenditures.¹³ Quebec’s proposed Banque de développement économique du Québec would receive an initial endowment of \$750M.

While this paper focuses on the federal-provincial dynamic, it is important to note that municipal governments also engage in this space. The City of Toronto’s efforts include business supports ranging from the highly local (City Business Improvement Area Office) to international markets (Export Development team), paired with direct incentives (typically related to the cost of property taxes and/or municipal services for new investments). Vancouver’s budget for economic development was \$2.7M in 2012,¹⁴ which includes efforts to market the city internationally as a place to do business and developing a technology incubation centre.¹⁵

This spending is highly uneven across the country. For example, Montreal’s economic development spending was over 40 times Vancouver’s.¹⁶ Spending varies significantly by region, by type, and by year.

The fact that both provinces and the federal government are actively involved in the same spheres has not gone unnoticed. The Jenkins report, noting that R&D and innovation are areas of shared jurisdiction, observed that:

there is a need for an ongoing national dialogue about innovation” and recommended that the federal government “engage provincial and business leaders in an ongoing national dialogue to promote better business innovation outcomes through more effective collaboration and coordination in respect of program delivery, talent deployment, sectoral initiatives, public sector

¹³ Commission on the Reform of Ontario’s Public Service, 2012.

¹⁴ City of Vancouver, 2013.

¹⁵ Vancouver Economic Commission, 2011.

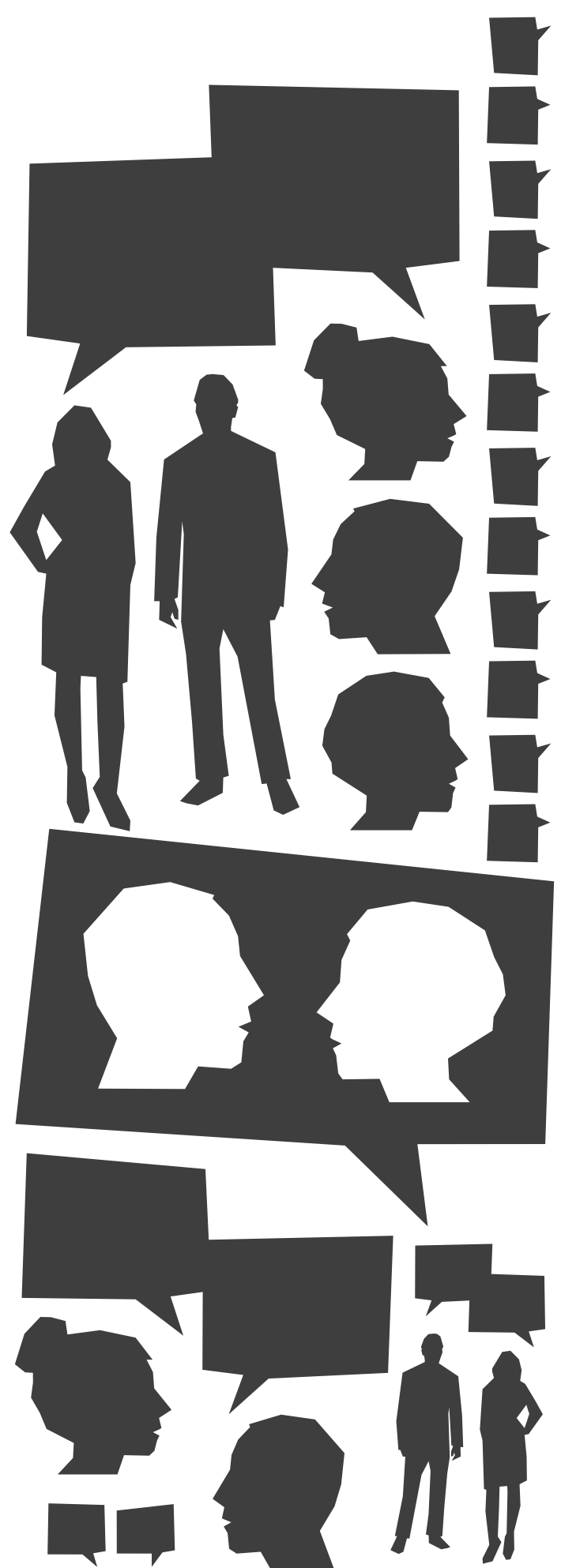
¹⁶ City of Montreal, 2012.

procurement, appropriate tax credit levels and the availability of risk capital.¹⁷

There have also been calls for vertical program review—that is, joint federal-provincial reviews—to coordinate and align spending, avoid duplication and maximize impact. In 2010, The Mowat Centre’s Shifting Gears report pointed to the potential for fiscal savings.¹⁸ Similarly, in a 2010 paper for the Mowat Centre looking at economic development, David Wolfe argued that it is “incumbent on all levels of government—from the federal to the local—to align economic development policy more effectively in order to minimize the negative consequences that can flow from entanglement.”¹⁹

However, there has been no discernible progress on establishing that national dialogue. The risks of the two senior levels of government engaging in economic growth policy while not coordinating their efforts are clear: a morass of ‘entanglement’, with duplicative programs, spillovers and fragmentation.²⁰ Given the magnitude of funding involved, the absence of a coherent strategic approach and the urgent imperative to promote long term economic growth, the time for vague calls for better coordination both within and between governments has passed. This paper proposes a specific path forward—a “one economy” approach that sets out practical steps for governments.

17 Independent Panel on Federal Support to Research and Development, 2011.
18 Mowat Centre and School of Public Policy and Governance, pg. 32.
19 See Wolfe, 2010. Note that many programs at federal and provincial levels include rules against “stacking” by using federal and provincial support for the same initiative.
20 Ibid.



Unlike fields such as health or housing, there is no imperative for dialogue on economic issues. Each government can spend, announce and deliver programs that may duplicate or compete with programs offered by another government.

3

Federal-Provincial Spending: An Overview

Federal-provincial spending on economic development sits within a broader context of intergovernmental spending and coordination in Canada. Figure 1 provides a simple typology of federal-provincial funding and policy relationships in Canada. Broadly speaking, they can be grouped into four quadrants, based on whether they have separate or shared jurisdiction between federal and provincial governments, and whether they have separate or shared funding and policy approaches.

FIGURE 1: A Typology of Federal-Provincial Policy Domains in Canada

	SEPARATE JURISDICTION	SHARED JURISDICTION
Separate funding/ policy approaches	1. Primary and secondary education, defence	3. Economic development, productivity, innovation
Coordinated funding/ policy approaches	2. Health, social services	4. Infrastructure, skills training, housing

Policy-making in a federation is a messy business and these categories reflect general approaches. For example, even in education and defence there are some small roles for the other order of government, while the coordination in categories 2 and 4 has often left much to be desired. Coordination across governments is also no guarantee for effective coordination within governments, but a well-designed process can and should bring about greater clarity.

Separate Jurisdictions—Clear Accountabilities

Those policy areas which fall into Box 1 are quite simple. Defence and primary education operate in a world in which there is a clear understanding that one level of government is responsible for the policy area and for designing, delivering and funding programs with essentially no involvement (funding or otherwise) from the other order of government.

Within Box 2 are the areas of health and social services, characterized by joint funding but sole jurisdiction. This area features well-established and understood intergovernmental arrangements. Typically, this clear division of roles and responsibilities involves the federal government providing some fiscal transfers to the provinces to complement provinces' own spending to deliver key public services.

Although the federal government may use its spending power to ensure that it can play some role in establishing frameworks, targets or principles—such as those in the Canada Health Act—it is understood that provincial governments have unambiguous authority to determine their own priorities and make policy and program decisions.²¹ In the

21 Though even here, the federal jurisdiction to provide health care for First Nations, armed services and federal inmates, as well as federal authority over drug approvals means that the jurisdiction is not divided into watertight compartments.

area of social services, this arrangement is even more straightforward. The funding provided to provinces through the Canada Social Transfer is in practice unfettered and provinces are able to make their own spending decisions.

In the case of both the CHT and the CST, the delineation of responsibilities is clear—both levels of government have put money on the table, and the provinces are responsible for delivering services and making virtually all policy decisions. There is also a role for constructive dialogue (e.g., the negotiation of the Canada Health Accord in 2004), which compels the federal government and provinces to raise issues, either publically or at least with each other, about policy objectives, funding responsibilities and effectiveness of programs and services. The periodic renewal of these arrangements likewise forces some dialogue.

More importantly, because provinces have the clear lead on policy and program delivery, they frequently get together amongst themselves to share knowledge, best practices and identify opportunities for closer collaboration. This work happens at sector intergovernmental tables, but also amongst premiers through the Council of the Federation.

Shared Jurisdictions— Mixed Success

Many other policy fields are characterized by shared jurisdiction. In these areas, there are numerous examples of governments working together in a coordinated fashion, typically through established intergovernmental agreements (Box 4). These areas include housing, infrastructure and labour market training and feature a negotiated approach to issues.

For example, the two orders of government have worked over the past decade to clarify and coordinate their approaches to affordable housing programs, resulting in shared cost programs, delivered through provinces and

territories, in accordance with jointly agreed objectives. The existence of intergovernmental negotiating tables and agreements provided a forum for dialogue and enabled some degree of strategic alignment.

On the other hand, although economic development and business support programs are an area of shared jurisdiction, the two orders of government generally operate as if the other did not exist, independently designing and administering policies and programs (Box 3).

There are rare examples of cooperation, such as the federal administration of corporate tax collection for most provinces or joint funding of some regional economic development initiatives, where one government convinces another to provide matching funds to a new initiative.²² But even these instances tend to be one-off, ad hoc initiatives that are not coordinated with other policies, nor part of a coherent, strategic intergovernmental approach to economic development, which would include agreement on shared priorities and goals.²³

Unlike fields such as health or housing, there is no imperative for dialogue on economic issues. Each government can spend, announce and deliver programs that may duplicate or compete with programs offered by another government.

A recent, though not obvious, example of the benefits of dialogue can be seen with the federal government's announcement of the proposed Canada Job Grant. This new proposal to have job training for workers jointly subsidized by the two orders of governments and employers has upended the existing approach spelled out in the Labour Market Agreements.²⁴ However, the debate over whether the federal approach is credible,

22 See for example: New Brunswick Ministry of Economic Development, 2013; Ontario Office of the Premier, 2013.

23 In some cases, such as environmental policy, governments take a different approach even within the policy space. Canada's climate change approach can today charitably be described as disjointed between the orders of government (Box 3), while in areas such as environmental assessment or air and water monitoring, there have been efforts to eliminate duplication and establish shared objectives (Box 4).

24 Mendelson and Zon, 2013.

and whether provincially delivered programs are effective, has taken place publicly and with some vigor. If the provinces do not agree, they can withhold their participation, and funding, from the proposed Job Grant and a compromise alternative will likely be found. The expiry of these agreements in 2014 forces some measure of discussion into the public domain. Even this would represent an improvement over the current isolated approach in economic development.

Debates such as the one over the Canada Job Grant can be contentious and messy, but when they take place within the framework of shared jurisdiction and shared funding approaches, they serve to put policy issues on the agenda and compel the federal and provincial governments to discuss their best proposals. By contrast, federal and provincial spending to support economic growth and transformation benefit from no such coordination or dialogue with other levels of government.



Canadians should be able to get much more out of their \$20B investment—more competitive firms, better jobs and higher levels of productivity. Greater intergovernmental dialogue and coordination on goals, priorities and outcomes should increase the impact of this spending.

4

A Path Forward: Intergovernmental Agreements and the Economic Union

Canadians should be able to get much more out of their \$20B investment—more competitive firms, better jobs and higher levels of productivity. Greater intergovernmental dialogue and coordination on goals, priorities and outcomes should increase the impact of this spending. Achieving these goals doesn't require inventing anything fanciful—it merely requires adapting existing intergovernmental processes in the area of economic development. A new process will not guarantee that every dollar spent will produce improved economic outcomes—in fact, some of the funds currently spent in the economic development area likely have no positive impact at all. But a new process should improve the public value we get for this spending.

Examining existing areas of shared federal-provincial jurisdiction and coordinated funding/policy approaches, three notable features emerge as fundamental for real coordination:

DIALOGUE

Dialogue should be embedded into the function and execution of any economic development funding and planning process. For example, the federal Building Canada Plan process has provinces and municipalities identify potential projects for investment through discussions with the federal government, which then approves eligible projects. Dialogue is necessary to reach a shared understanding of where to invest, and helps to ensure outcomes that are in each government's interest.

KEY PRIORITIES

Key priorities should be articulated and refined by each government—both separately and together—to frame their investment decisions and incentive structures. Given that the incentive structure (e.g., tax credits, available programs) is jointly created by governments, economic development spending should be driven by a clear set of priorities, and those priorities should be aligned within and across governments to ensure that incentive signals are aligned. Each of the major priority areas can contain more granular funding categories, such as promoting investment in productivity-enhancing technology or investing in training.

COST-SHARING

Cost-sharing, is built into the fabric of most areas with shared jurisdiction and coordinated funding. This can take a number of forms. In the infrastructure program, the federal contribution to a project is capped at 50 per cent, for federal-provincial projects, and 1/3rd of federal-provincial-municipal projects. In other cases cost-sharing is calculated to include in-kind contributions. By requiring all parties to have skin in the game, there are incentives to minimize cost-

overruns and maximize collaboration and information-sharing to avoid project delays. Cost-sharing approaches also shed light on potential opportunities for one order of government or another to pull out of a spending area, leaving only one order of government with responsibility for the area. Such “disentangling” should be an additional goal and benefit of bilateral federal-provincial dialogue. For tax expenditures, cost-sharing means coordination on shared tax bases.

Features in Practice: Infrastructure

The federal-provincial infrastructure arrangements reflect in large part these key features. Since 2007, the Building Canada Plan has been the framework for \$33B in federal investment covering 12,000 infrastructure projects in partnership with provincial, territorial and municipal governments.²⁵ It will be renewed with \$47B over ten years starting in 2014-15.²⁶ The 2013 federal Budget noted that “close collaboration between the federal government and provincial, territorial and municipal partners allowed stimulus infrastructure funding to be delivered quickly and efficiently.”²⁷ The most important work was done bilaterally, between the federal and individual provincial governments, although municipal governments also played a role in some processes in some provinces.

Arguably, infrastructure is better suited to this model when compared to economic development or innovation policy. The public would not stand for competing federal and provincial bridges or waste-water systems being built beside each other, whereas economic investments are less visible to the public and it is more difficult to notice a lack of coordination or duplication.

Competing economic development programs are almost as absurd as competing bridges. The fact that the

absurdity is less visible to the public doesn’t make it any less so. A process is necessary to end the absurdity. Intergovernmental processes are not perfect, but they would represent a significant improvement over the dysfunctional status quo. The fact that federal and provincial governments have demonstrated this type of coordination in a range of relatively ‘messier’ and less tangible policy fields than infrastructure, such as health or skills training, shows that it is possible to forge consensus.

FIGURE 2: Features of coordinated policy approaches

	DIALOGUE	AGREEMENT ON PRIORITIES	COST-SHARING
Health	√	√	√
Infrastructure	√	√	√
Skills Training	√	√	√
Economic Development	X	X	X

In the case of health care, governments agreed to establish key priorities such as wait-times and human capital,²⁸ cost-sharing is formalized through the CHT and dialogue is, usually, invited through revisiting priorities and funding. In areas such as skills training and infrastructure, the same three characteristics—agreement on key priorities, cost-sharing and dialogue—emerge, albeit in varying forms and with varying degrees of success.

A Credible Path Forward

There is a clear and established path to establishing an intergovernmental process to rationalize the \$20B spent each year on strengthening Canada’s economic performance. The following steps represent a straightforward process by which the federal and provincial governments could move towards a modern, integrated and outcomes-based policy approach to economic development.

25 Government of Canada, 2013

26 Ibid.

27 Ibid.

28 Health Canada, 2004.

As a first step, Canadian governments should **establish bilateral federal-provincial tables on productivity, innovation and economic development**, led by Finance and Industry/Economic Development Ministers. Although existing multilateral fora focussed on the national economy and the economic union should be maintained, only bilateral processes will produce effective alignment and coordination of economic development programs.

These bilateral tables should be built on a commitment to conduct an inventory of existing programs and incentives managed by each order of government and their costs. The foundations of this process have been put into place federally through the Jenkins report and in Ontario in response to the Drummond Commission report. Governments should complete these efforts. This internal clarity and assessment for each jurisdiction would, in itself, be a significant step towards rationalizing approaches to economic policy, but they should not stop there. These efforts should be undertaken with a view toward potential alignment of efforts within and across governments, as well as identifying program areas where one government should vacate the space so as not to interfere with another government's efforts.

A clear assessment of which **programs are working well**, and which could be **better delivered** in concert with or by another level of government is also essential. In some instances, it may make sense, as the Ontario government is currently doing, to roll up many smaller programs into a larger fund to drive administrative efficiencies and better focus on key priorities.

Governments would then be able to sit with each other at a federal-provincial table to **assess the best ways of delivering existing, or new, programs** (e.g., which level of government should deliver and in what form, with what types of funding arrangement). A crucial step would also be the **discussion of shared priorities** at the intergovernmental table, with the goal of establishing clear, credible agreement on those priorities for strategic investments.

Once there was agreement on the best means of delivering programs and a framework of shared priorities, governments could effectively **design policies and programs** that drive towards achieving those priorities. Establishing a robust means of **evaluating and assessing** the programs would also be necessary to ensure their ongoing effectiveness and enable future discussions about additional investments, refinements to programs or termination of weak performers.

Finally, there would be a need to **discuss appropriate cost-sharing arrangements** between the orders of government to ensure all parties have a stake in their success. It may be that, given the federal government's current expenditure envelope in contrast to the provinces', the federal government might pick up 2/3 of the costs, while provinces' might pick up 1/3 of the costs, for example. Once those issues were determined, bi-lateral agreements **between the federal and individual provincial governments** could be struck.

There are obstacles to this approach. Establishing core priorities will be challenging, given the broad nature of economic development and the programming which currently supports it. Measuring results and the impact of programming will be difficult. And there is often a political interest in the area of economic development because programs and investments to support businesses and communities are attractive political announcements.

But none of these objections is insurmountable. In fact, the challenges themselves—the difficulties in terms of establishing priorities, measuring results and keeping partisan considerations out of these long-term economic decisions—highlight very forcefully the need to establish key strategic priorities and measure joint efforts to achieve those priorities if we are going to maximize the impact of our public investment.

Governments should come together, put their money on the table, agree on priorities, identify which programs are working, invest in them in a coordinated manner and then measure the results.

5

Conclusion

Many observers moan about Canada's under-performance on productivity and innovation. These complaints are usually accompanied by an admission that the complainant has no idea why our performance is poor or what to do about it.

By any objective measure, the roughly \$20B spent by Canadian governments to spur economic growth and development is divided between a patchwork of priorities, governments, and departments and agencies. It is almost impossible to understand what all of these various efforts are aimed at achieving, much less assessing their effectiveness. While bureaucratic and political incentives can explain the sheer number of different programs, those explanations do not serve Canadians well in terms of transparency, accountability, or effectiveness. At the same time, federal, provincial, and independent reports have lamented the uncoordinated nature of economic development and innovation programs and spending.²⁹ But concrete proposals have not been forthcoming.

This *Mowat Note* has put forward a simple, realistic proposal. Credible and functional intergovernmental models and processes exist to improve our outcomes on economic development spending. Canada should approach this \$20B annual spend as an area of shared jurisdiction with coordinated approaches, in much the same way we approach health care, infrastructure, training or housing. Governments should come together, put their money on the table, agree on priorities, identify which programs are working, invest in them in a coordinated manner and then measure the results.

It seems obvious. Canada spends a lot of money to support economic development and innovation, much of which is misaligned or duplicative. While better alignment between governments is no guarantee for effective programs, it is a good place to start. There is no reason why governments shouldn't begin this process tomorrow.

²⁹ See, for example, Independent Panel on Federal Support to Research and Development; Drummond Commission; Mendelsohn, Hjartarson and Pearce, 2010.

Bibliography

- Alberta Treasury Board and Finance. 2012. *2012-2013 Government Estimates*. Government of Alberta. Accessed at <http://www.finance.alberta.ca/publications/budget/estimates/est2012/government-estimates-complete.pdf>
- BC Innovation Council. 2013. *Annual Report 2012-2013*. Accessed at http://www.bcic.ca/content/2325/BCIC-Annual-Report-2013_p7.pdf
- BC Office of the Comptroller General. 2013. *Public Accounts 2012/2013*. BC Ministry of Finance. Accessed at http://www.fin.gov.bc.ca/ocg/pa/12_13/Public%20Accounts%2012-13.pdf
- BDC. 2013. *Annual Report*. Accessed at http://www.bdc.ca/EN/Documents/annualreport/BDC_AnnualReport_2013.pdf
- Bradford, N. and D. Wolfe. 2010. *Toward a Transformative Agenda for FedDev Ontario*. Mowat Centre. Accessed at <http://www.mowatcentre.ca/research-topic-mowat.php?mowatResearchID=16>
- City of Calgary. 2011. *Approved Business Plans and Budgets 2012-2014*. Calgary. Accessed at <http://www.calgary.ca/CA/fs/Documents/Plans-Budgets-and-Financial-Reports/Business-Plans-and-Budgets-2012-2014/Approved/Business-Plans-Budgets-2012-2014-Approved-Complete.pdf>
- City of Vancouver. 2013. *Capital and Operating Budget*. Vancouver. Accessed at <http://vancouver.ca/files/cov/2013-capital-and-operating-budget.pdf>
- City of Montreal. 2012. *Budget 2013*. Montreal. Accessed at http://ville.montreal.qc.ca/pls/portal/docs/page/service_fin_fr/media/documents/budget-2013.pdf
- Commission on the Reform of Ontario Public Services. 2012. "Section 11: Business Supports" *Commission Report*. Ontario Ministry of Finance. Accessed at <http://www.fin.gov.on.ca/en/reformcommission/chapters/ch11.html>
- Creutzberg, T. 2011. *Canada's Innovation Underperformance: Whose Policy Problem is it?* Mowat Centre. Accessed at <http://www.mowatcentre.ca/research-topic-mowat.php?mowatResearchID=36>
- Currie, B. and L. Scott. 2013. *The Future of Productivity*. Deloitte. Accessed at http://www.deloitte.com/assets/Dcom-Canada/Local%20Assets/Documents/Insights/ca_en_Future_of%20Productivity_092812.pdf
- Department of Finance Canada. 2012. "Tax Expenditures and Evaluations 2012." Accessed at <http://www.fin.gc.ca/taxexp-depfisc/2012/taxexp1201-eng.asp>
- Export Development Canada. 2013. "Statement of Financial Position Summary." *Annual Report 2013*. Accessed at <http://www19.edc.ca/publications/2013/2012ar/english/11-1-3-1.shtml>
- Global Innovation Index. 2013. "Country Ranking." *2013 Country Rankings*. Accessed at <http://www.globalinnovationindex.org/content.aspx?page=GII-Home>
- Government of Canada. 2013. "Section 3.3: The New Building Canada Plan" *Budget 2013*. Accessed at <http://www.budget.gc.ca/2013/doc/plan/chap3-3-eng.html>
- Government of Quebec 2012. *Budget Speech*. Quebec. Accessed at <http://www.budget.finances.gouv.qc.ca/Budget/2013-2014/en/documents/Speech.pdf>
- Health Canada. 2004. "A 10-year plan to strengthen health care." First Minister's Meeting on the Future of Health Care. Accessed at <http://www.hc-sc.gc.ca/hcs-sss/delivery-prestation/fptcollab/2004-fmm-rpm/index-eng.php>

- Independent Panel on Federal Support to Research and Development. 2011. *Innovation Canada: A Call to Action*. Industry Canada. Accessed at [http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/\\$FILE/R-D_InnovationCanada_Final-eng.pdf](http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/$FILE/R-D_InnovationCanada_Final-eng.pdf)
- Mendelsohn, M., J. Hjartarson, and J. Pearce. 2010. *Saving Dollars and Making Sense: An Agenda for a More Efficient, Effective and Accountable Federation*. Mowat Centre. Accessed at <http://www.mowatcentre.ca/research-topic-mowat.php?mowatResearchID=56>
- Mendelson, M. and N. Zon. 2013. *The Training Wheels are Off: A Closer Look at the Canada Job Grant*. Mowat Centre. Accessed at <http://mowatcentre.ca/research-topic-mowat.php?mowatResearchID=84>
- Mowat Centre and School of Public Policy and Governance. 2010. *Shifting Gears: Paths to Fiscal Sustainability in Canada*. <http://www.mowatcentre.ca/pdfs/mowatResearch/58.pdf>
- New Brunswick Department of Finance. 2013. *2013-2014 Main Estimates*. Government of New Brunswick. <http://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2013-2014/ME2013-14.pdf>
- New Brunswick Ministry of Economic Development. 2013. "Provincial, federal governments support Atlantic Canada International Air Show". Government of New Brunswick. Accessed at http://www2.gnb.ca/content/gnb/en/departments/economic_development/news/news_release.2013.08.0802.html
- Nova Scotia Ministry of Economic and Rural Development and Tourism. 2013. *Annual Accountability Report for the Fiscal Year 2012-2013*. Government of Nova Scotia. Accessed at <http://gov.ns.ca/econ/docs/ERDT%20Accountability%20Report%202012-2013.pdf>
- Ontario Office of the Premier. 2013. "New fund to help innovative companies grow". Government of Ontario. Accessed at <http://news.ontario.ca/opo/en/2013/03/new-fund-to-help-innovative-companies-grow.html>
- Saskatchewan Ministry of the Economy. 2013. *Plan for 2013-14*. Government of Saskatchewan. Accessed at <http://www.finance.gov.sk.ca/PlanningandReporting/2013-14/EconomyPlan1314.pdf>
- Schwab, K. 2012. *The Global Competitiveness Report 2012-2013*. World Economic Forum. 2012. Accessed at <http://reports.weforum.org/global-competitiveness-report-2012-2013/>
- Vancouver Economic Commission. 2011. "Economic Plan Lays out Strategies to Boos Economic Performance". Accessed at <http://www.vancouvereconomic.com/vedcnews/economic-plan-lays-out-strategies-to-boost-economic-performance>
- Wolfe, D. 2010. *From Entanglement to Alignment: A Review of International Practice in Regional Economic Development*. Mowat Centre. Accessed at <http://www.mowatcentre.ca/research-topic-mowat.php?mowatResearchID=14>



ONTARIO'S VOICE ON
PUBLIC POLICY

MOWAT PAPER #78
NOVEMBER 2013 | MOWATCENTRE.CA



School of Public Policy & Governance
UNIVERSITY OF TORONTO