

RE-BUILDING CANADA'S INSTITUTIONAL CAPACITY FOR POLICY- MAKING IN THE MODERN ECONOMY

Jim Balsillie

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and Technology**

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Background

The House of Commons Standing Committee on Industry, Science and Technology is currently studying *Competitiveness in Canada*. At the April 20 meeting, witness Jim Balsillie was asked to detail his recommendation to re-establish the Economic Council of Canada. This brief responds to that request.

An Economic Council for a 21st century Canada

The nature of today's global economy requires an unprecedented amount of horizontal integration, analytical depth, and rapid response to deal with the accelerated pace of innovation and the powerful feedbacks and spillovers that emerge in our networked society. This is particularly critical for the data-driven marketplace which features economies of scope and scale alongside information asymmetries that together give rise to monopolies which are reducing the rate of entrepreneurship, innovation, and business dynamism¹, and raising profound new challenges of national security, prosperity, and protection of sovereignty. The regulatory challenges are unprecedented in their breadth and complexity. Our present public sector departmental structure and in-house policy expertise is not aligned to deal with these types of challenges.

Moreover, the role of government post-Covid is likely to expand for these reasons:

- The cost of innovation is rising as it requires more research and development (R&D) to push out the technology frontier,
- Innovation has become more capital-intensive as it shifts increasingly into machine learning space; and,
- Shortened product life cycles raise the hurdle rate for private investment, leaving more socially optimal projects on the table.

The scale requirement and risk/return metrics of R&D today shift more investment into the state's mandate. Canada has not yet stepped up to the challenge. The low share of R&D in Canada's economy and our lagging competitiveness are the results.

Stepping up to the challenge involves committing to an intellectual revival, building institutions and in-house capacity that is firmly grounded in the framework of the contemporary economy. The Federal government has, over the last few decades, demonstrated deep research and policy analysis capacity on the fiscal and monetary front. This was clear by our financial sector's performance in

¹ Schwartz, H. (2021) Global secular stagnation and the rise of intellectual property monopoly, Review of International Political Economy, DOI: 10.1080/09692290.2021.1918745

weathering the great financial crisis of 2008-09, the Bank of Canada's exemplary performance on inflation, and Canada's leading position among peer countries on fiscal indicators such as net debt.

However, as this brief will show, there is a dearth of expertise on the *structural* economic issues raised by the major secular trends of our age, namely the rise of the intangibles economy (which changes the behavioural characteristics of companies), the digital transformation (which affects all sectors of the economy), and the steep rise in the relative importance of public goods and public "bads" (in particular, climate change and the societal spillovers from social media). I submit that a new Economic Council is a necessary first step to build the governance capacity needed to manage the contemporary economy.²

The gaps in our governance capacity are intensely and deeply structural in nature and this new institution should be commensurately structural in its approach to its mandate. Here are just a few concrete examples of gaps that motivate my thinking:

- It is commonly said that data is now the most important economic asset. It is also true that data is everywhere except in our national economic and trade accounts, and our industry statistics. This means Canada had no idea what the value proposition is in major data-intensive procurement decisions like Sidewalk Toronto project or in signing onto the data provisions in trade agreements like the Canada-US-Mexico Agreement (CUSMA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- Supply and value chains are under review globally due to disruptions during the pandemic and security concerns raised by dual-use technologies. Supply and value chains are also at the centre of strategic considerations regarding the critical nodes of the new technologies (Internet of Things, cleantech, pharmaceuticals, etc.).
- The structural evolution of our economy is happening principally at the firm level where innovation occurs and whose spillover effects are key. These spillovers are the engines of the dynamism of successful clusters. Government policy is still geared to capturing the non-strategic low middle ground, aiming for any job creation associated with tech sector and missing out on wealth capture. This too bespeaks a fundamental lack of understanding of the structure of the modern economy.

To address the governance capacity gap, the new Economic Council should be focused on harnessing applied knowledge. It should be data-driven and work hand-in-glove with Statistics Canada to adapt the way we measure and model the modern economy to capture its essential dynamics. It should have a global perspective – in particular, it should understand how innovation abroad is reshaping comparative advantage in our trading partners – and by extension reshaping Canada's. It should be capable of integrating horizontally across areas such as demographics, regional economic trends, environment, labour, education, health and most importantly the digital transformation, which crosscuts all of these issues. And it should be interdisciplinary, with the capability to mobilize the range of expertise required to authoritatively address any issue area within its remit.

For staffing, the new Council will need to draw from expertise that exists in Canadian universities, think tanks, and research centers – experts that can create in-house capacity to assess and evaluate changes in the knowledge-based economy of today. In its ongoing work, the Council should play a

² To keep this submission brief I will not go into the history of the original Economic Council but this overview offers a good summary

https://www.broadbentinstitute.ca/the_rise_and_fall_of_the_economic_council_and_a_new_way_forward

convening role for Canada's think tank community, signalling areas of research interest and serving to mobilize, leverage and integrate the results of this research. The Council should also aim to draw on and give feedback to economic research currently performed within government departments. There should be transparency to the processes to avoid "policy laundering".³

Creating a bespoke entity is time consuming and onerous for the Government of Canada. As recent attempts show, most new federal organizations spend several years building up basic administrative structures rather than bringing substantive value. Most new institutions also require legislative mandates. But today, time and agility are of the essence and I propose building the new Economic Council within an existing entity, specifically Canada School of Public Service. Here's why:

- The School already has broad authorizing legislation,
- It also has an existing legislative provision that explicitly contemplates and authorizes bringing in outside experts for a duration of service,
- The School is already established within the core public service which gives the new Economic Council access but removes it from day-to-day transactions which further protects it from political interference; and,
- It is already tasked with capacity building for Canada's public service

The new Economic Council must be independent, with the roles of the Chair and Directors established through GIC appointments. It should have its own budgetary allocation and permanent staff. Its advice alongside the information and analysis on which it is based should be open and transparent. The Australian Government's Productivity Commission offers helpful guidance on implementing these.

A properly built Economic Council would lead in the necessary intellectual revival of our policy community and help government rebuild critical capacity that favours national interest, including advancing our competitiveness. As the scholars Natasha Tusikov and Blayne Haggart have recently written⁴, developing institutional capacity to support policy formation in the face of a rapidly changing economy is not a luxury but a necessity. An Economic Council that supports Canada's 21st century policymaking and provides the Federal government with the reliable, focused, and relevant research required to establish a sound long-term Canadian digital policy agenda is essential human resource infrastructure.

Rationale for updated institutional capacity

The accelerated pace of innovation and the digital transformation over the last 30 years has created a new kind of economy in which the basis of wealth and power is derived from the ownership of valuable IP and in the last ten years to control of data. At the same time, the new technologies of this era, centered on the nexus of automated decision making (AI), machine learning and big data, are reshaping social and political space, making data governance the most important public policy issue of our time – one that crosscuts all others from industrial organization and competition to environment to social justice and national security.

³ Policy Laundering. (2021, May 18). In *Wikipedia*, https://en.wikipedia.org/wiki/Policy_laundering

⁴ Haggart, B & Tusikov, N. (2021, April 1). Failure to invest in government capacity is a luxury we can't afford. *Hill Times*. <https://www.hilltimes.com/2021/04/01/291183/291183>

IP and data are now the world's most valuable business and national security assets. In 1976, 16% of the value of the S&P500 was based on intangible assets. Today, intangible assets comprise over 91% of the S&P500's \$28 trillion total value.

With the rise of the IP- and data-intensive economy, many of the world's biggest companies became capital equipment and worker-light, yet operate at global scale and are massively profitable, while paying little in taxes. Underscoring the impact of these trends, median capital expenditure as a percentage of revenue declined from 7.4% in 1990 to 4.9% in 2020⁵. The reliance on traditional policy tools for economic management, in particular interest rates and tax rates, must be revisited for this environment, where companies pay minimal taxes and spend relatively little on payroll and capital expenditures.

The tangibles and intangibles economies are foundationally different. The differences are not superficial. They are pivotal for economic strategies for entrepreneurs at the company level and policymakers at nation-state level. In the production-based industrial economy of tangibles, the ability to produce efficiently at scale and sell at lower prices enables the capture of markets, which underpins profitability. Traditional economy trade agreements opened foreign markets so that producers could gain greater access to production economies of scale. Efficiency gains in this industrial economy depend on the optimization of global supply chains, for which these agreements provide the enabling environment. In the traditional economy, foreign direct investment (FDI) is overwhelmingly beneficial as it introduces positive spillovers in management and technology, incentivizes the development of local supply chains, and expands the tax base.

However, the acceleration in the pace of innovation starting some 35 years ago, shifted the basis of prosperity to the ability to generate valuable IP assets and leverage them to extract economic rents and control markets. In the knowledge-based and data-driven economy that has since evolved, wealth accrues to those who amass ownership and control of IP and data – intangible assets whose exploitation depends on a principle of legal restriction – exclusive patent rights, copyrights and trademarks, trade secrets and other forms of IP. The strategic operating principle for companies operating in this economy is to expand and secure their “freedom to operate” (FTO) by gaining control of IP rights and sources of data and by the same token to limit and deny FTO for competitors.

The inherently exclusionary nature of FTO enables the capture of economic rents in today's marketplace. The result is a world where the profit (economic rent) share of GDP is trending up and in which FTO becomes the fulcrum for economic strategy. In today's digital world, products and services based on IP and data have effectively *zero* marginal production costs which results in *winner take most* economics, not only at the national level but at the global level. Market opening in this economy drives concentration, not competition.

The instruments designed to govern the intangibles economy – including the new-age trade agreements such as CUSMA, CPTPP, and the Canada-EU Comprehensive Economic and Trade Agreement (CETA) – entrench and expand protection for owners of IP and data. They also expand the FTO of the firms that already control these strategic assets, while denying FTO to the firms that

⁵ Jimenez, J. & Orlick, T. (2021, April 29). No Workers, No Tax – the Rise of Mega-Firms. Bloomberg Finance.

lack them. This is not a recent phenomena. As scholar Susan Sell has shown in her 2003 book⁶, starting in 1990s trade agreements became the main tool for devising preferential marketplace frameworks that suit the owners of IP. Canada has yet to retool its trade strategies to reflect these economic realities.

The investment provisions of these types of agreements do not erode domestic economic rents by encouraging heightened competition from inward FDI. Instead, they expose the rents to capture and extraction by global superstar firms as was illustrated recently by Google's strategic aims in its Sidewalk Toronto project⁷. And, in contrast to the industrial era where foreign multinationals undertake more R&D in their host countries than local firms, FDI into the modern, innovation-intensive economy typically is of the mergers and acquisition (M&A) variety that targets and expatriates the high-growth firms that are critical to the future dynamism of local economies. In an innovation-intensive economy, trade agreements that provide untrammelled access to inward M&A-type FDI do not stimulate dynamism, but instead expose innovation clusters to desiccation.

But the issues, particularly as the digital transformation deepens, go well beyond economics. Data has pervasive social, political, and geopolitical spillovers. Because of steep economies of scale in assembling data, powerful economies of scope in generating information from combining data, network externalities that govern access to data, and proprietary control of data assets, there is pervasive and irreducible information asymmetry. Nobel laureate Joseph Stiglitz has shown how asymmetries of knowledge translate into asymmetries of power. Consequently, information is power and the asymmetry in the capture of data is manifest in societal power exercised by those who control data.

There are profound consequences:

- Whoever controls data, controls who interacts with it and how. Platform companies now represent a new "estate" that parallels the traditional fourth estate, yet without the traditions and constitutional safeguards that discipline our traditional democratic pillars.
- The exploitation of data generates new feedbacks that modify the behavior of the society and economy that generated the data in the first place.
- Datafication shifts the boundary between the public and the private as what was formerly fleeting, intensely local public information on an individual's comings and goings, appearance, and statements become permanent, cross-referenceable records that can be exploited anonymously and globally.
- Data is fundamentally protean: any data collected can be reprocessed, cross referenced, and analyzed in new ways in the future that are unanticipated at the time of collection.
- When a society's data is controlled from abroad, there are pervasive geopolitical consequences – over and above the dual-us characteristics of the technologies developed in the AI/ML/data nexus.

These technological conditions trigger strategic behaviour at the company level and at the state level and demand strategic responses. The quality of those responses depends on the quality of research, analysis and advice our policymakers get.

⁶ Sell, Susan. (2003). *Private power, public law: The globalization of intellectual property rights* (1st ed.). Cambridge University Press.

⁷ McIntyre, C. (2021, April 6). Sidewalk Labs ramps up patenting of technologies conceived for now-defunct Toronto smart city. *The Logic*. <https://thelogic.co/news/sidewalk-labs-ramps-up-patenting-of-technologies-conceived-for-now-defunct-toronto-smart-city/>

Digital transformation has reshaped the international competitive landscape

Nowhere was the shift from a tangibles to an intangibles economy set in sharper relief than with Canada's largest trading partner the United States. The recognition of the importance of IP was marked by the passage of the Bayh-Dole Act in 1980. The 1980s was marked by a series of measures to expand US IP ownership and to capture international economic rents. These measures included the Special 301 Report⁸ aimed at creating leverage over other countries to increase their protection for US-owned IP. The US also introduced IP protections into trade agreements in 1989. With this new business model, the United States rode a wave of innovation to overwhelm the Japan Inc. "Red Sun Rising" industrial challenge of the 1980s, redefined the modern technologically driven economy as a knowledge-based economy in the 1990s, and secured the pole position in the race to dominate the data-driven economy of the 21st Century as US firms seized first mover advantages in the platform economy. Today, US-based companies own half of the world's most valuable IP⁹ and control vast amounts of data flowing from them.

The lessons were not lost on others: various countries such as South Korea, Germany, Israel, Taiwan, and Japan formulated equally sophisticated strategies to follow the US example.

But no country made as concentrated and comprehensive an effort to raise the level of its game in the IP and data-intensive economy than China, which engaged in a whole-of-society effort to gain traction by: bringing IP education to its schools¹⁰; training legions of IP professionals; establishing specialized IP courts to promote sophisticated litigation capabilities; strategically populating standards-setting bodies¹¹; establishing a NASDAQ-like equity board to encourage the development of a sophisticated venture capital sector; and building expansive and increasingly powerful IP holdings for offensive and defensive purposes. In the last five years, China has filed almost half of all global patents¹².

These strategies have pushed China and its companies to massive valuations and global technology competitiveness and even dominance in critically strategic sectors such as clean tech and 5G/6G. By some measures, China now equals the United States in the number of Fortune 500 companies and unicorns combined – a more relevant statistic than gross domestic product (GDP). It is hardly surprising that control of intangible assets – and, in particular, the technological nexus of AI/ML/big data – is the main bone of contention in the current trade and technology war between the United States and China.

Under the harsh glare of 2021 hindsight, Canada's woefully late recognition of the shift to intangibles and failure to understand its significance for national prosperity and security resulted in its falling

⁸ Office of the United States Trade Representative. (2020, April 29). USTR Releases Annual Special 301 Report on Intellectual Property Protection and Review of Notorious Markets for Counterfeiting and Piracy [Press Release]. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/april/ustr-releases-annual-special-301-report-intellectual-property-protection-and-review-notorious>

⁹ America can't control the global flow of ideas. (2018, September 13). *The Economist*.

<https://www.economist.com/business/2018/09/13/america-cant-control-the-global-flow-of-ideas>

¹⁰ Berman, B. (2020, August). Beijing says that Public awareness of IP Strategy has grown from 3.7% to 86.3%. *IP Close Up*. <https://ipcloseup-com.cdn.ampproject.org/c/s/ipcloseup.com/2020/08/18/beijing-says-that-public-awareness-of-ip-strategy-has-grown-from-3-7-to-86-3/amp/>

¹¹ Kynge, J. & Liu, N. (2020, October 7). From AI to facial recognition: how China is setting the rules in new tech. *Financial Times*. <https://www.ft.com/content/188d86df-6e82-47eb-a134-2e1e45c777b6>

¹² World Intellectual Property Office. (2020, April 7). China Becomes Top Filer of International Patents in 2019 Amid Robust Growth for WIPO's IP Services, Treaties and Finances [Press Release]. https://www.wipo.int/pressroom/en/articles/2020/article_0005.html

behind, walking into strategic errors, and now leaving it poised to enter the post-pandemic world not just in catch up mode but relegated to competing globally on the cost of its tech talent with low-wage jurisdictions. Several observations underscore just how out-of-step Canada has been and continues to be:

- Between 2000 and 2016, even as the share of the capital stock comprised of intangible assets rose globally, the share of intangible assets in Canada declined as documented in a recent report from Statistics Canada.
- Despite a highly educated population and public investments in R&D, Canada has consistently been a large net importer on the vital “innovation trade” balance. Moreover, the deficit on IP payments and receipts is widening at an alarming rate – and this deficit would likely be massively larger if the value of net flows of data were included.
- Canada’s pre-pandemic GDP per capita in 2019 was 3 per cent lower than in 2010. By comparison, the United States, which has aligned its economic policy strategies with contemporary economic realities, experienced a 35 per cent increase over the same period. The gap between Canadian and US performance is much wider – and would be set in sharp relief if the changing wealth effects from privately owned assets were included in this measure.

It is long past time to acknowledge that our economic strategies have not worked. Canada needs to capitulate and to retool.

Navigating with outdated maps

While Canada was heading south, our policy navigators were convinced we were heading north.

In the spring of 2016, the Federal government set up the “Advisory Council on Economic Growth” to help the government with strategies for “sustainable, long-term growth.” The Council’s recommendations were firmly rooted in the 19th and 20th century industrial economy framework. The report it produced was completely silent on the imperative for Canada to assemble strategic IP portfolios and data assets and to develop coordinated strategies to leverage these intangible assets in the cutthroat competition to capture the rents that accrue to them. What’s worse, the report features recommendation for “stronger IP protections”. IP is developed where the talent is and paid for where the protection is. Canada has an IP trade deficit. The Council’s recommendation would have us paying even more rents out to IP owners, who are principally foreign. This bespeaks a singular failure to understand the nature of the intangibles, rent-driven economy.

Second, the Council advocated for a dangerously anachronistic approach to trade agreements. Canada has been on an extended pub crawl of negotiating trade agreements - all proudly listed on the Global Affairs website¹³ - and yet our trade deficit is growing because our economic issue is the *composition* of our exports for the contemporary economy, not the diversity of their destination.

For branch plant industrial goods, agriculture, and commodified services, which do not capture rents and depend on scale production and thus require open global markets, this is a sound strategy. However, the issue in the global economy driven by innovation is not the number of free-trade agreements but whether we generate and control sufficient intangible assets through which we can extract economic rents.

¹³ *Trade and Investment Agreements*. (2021, May 18). Government of Canada. <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/index.aspx?lang=eng>

With tariffs mostly removed through genuine free-trade agreements over the last 30 years, today's trade agreements are no longer principally about tariffs but rather about marketplace frameworks that benefit existing IP and data owners. The CUSMA, for example, does not even contain the words "free trade." But it features IP protections and other remote controls of the Canadian economy that go far above the globally recognized TRIPS agreement, increasing costs for large IP net importers such as Canada.

The CUSMA also features data governance provisions that serve large US platforms, provisions which Europeans have steadfastly refused to agree upon and lock into their trade agreements because they understand the economic and non-economic impact of such provisions. Yet Canada has no in-house research capacity to determine the costs and assess the impacts that this most consequential agreement has on our economy and society.

In February 2020, the INDU Committee hosted a meeting with Canada's trade negotiators to discuss the soon-to-be-ratified CUSMA. The lead trade negotiators were asked by Hon. Member M. Rempel to provide the detail and cost analysis for the IP and data-related aspects of the agreement¹⁴. They confirmed that the government has no study to show the digital provisions benefits and costs, despite the fact they constitute high 90s percent of the economic impact of the agreement. However, the United States International Trade Commission (USITC) published a study which suggested that the digital economy provisions flipped the impact of the agreement on the US economy from -0.12 per cent to a gain of 0.35 per cent.¹⁵ As noted above, in the world of IP and data, Canada is a payee, not a rent-collector, and the negative impact on its economy from the CUSMA¹⁶ is likely to be significantly exacerbated, not mitigated, by the IP and digital economy measures.

Finally, the "Advisory Council on Economic Growth" report also recommended the establishment of a new FDI agency charged with developing an FDI strategy for Canada that: "should emphasize new investment that boosts innovation" including "brownfield investments (involving the acquisition of Canadian firms by foreigners)". This reflects a 20th century industrial age understanding of the role of FDI. The recommendations are oblivious to the reality that, in the 21st century economy, the net benefit to the host economy of inward M&A-type FDI depends on the direction of flow of technology and the rents that accrue to it as well as on the local spillover effects. These net benefits don't accrue to the host economy which loses the wind in its innovation sails when its rising high-growth start-ups are acquired, and their assets and technologies exfiltrated.

The Council's misapprehension as to the nature of today's economy and effects of contemporary FDI is shared by other Canadian policy thinkers. In July 2020, recently retired federal deputy minister of ISED and a former Commissioner of Competition wrote an oped about the ways to update Canada's

¹⁴ Canada. Parliament. House of Commons. Standing Committee on Industry, Science & Technology. (2020). *Minutes of Proceedings*. 43rd Parliament, 1st session, meeting no. 3. Retrieved from the Parliament of Canada.

<https://www.ourcommons.ca/DocumentViewer/en/43-1/INDU/meeting-3/minutes>

¹⁵ USITC. (2019). "U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors," Washington: United States International Trade Commission, Publication Number: 4889, Investigation Number: TPA 105-003.

¹⁶ Ciuriak, D. (2020, June 30). "The Trade and Economic Impact of the USMCA: Making Sense of the Alternative Estimates," C.D. Howe Institute Working Paper. <https://www.cdhowe.org/public-policy-research/trade-and-economic-impact-cusma-making-sense-alternative-estimates>

foreign direct investment rules¹⁷. The advice given is not only firmly rooted in 19th and 20th century of traditional, production economics – the economics we no longer operate in - but it contains counterproductive advice that “the reviews will need to be driven more by economics and less by national security.”

The argument is short on understanding of the central importance of having an analytical framework of spillovers to assess foreign direct investment. To value economics over security lays bare the lack of understanding that today’s IP and data assets have so called “dual use” and it is this very feature of technology that has prompted governments from the US, EU, Germany, France, UK and others to update their rules for foreign direct investment. The oped also suggests “speed and agility” for net benefit review and yet the net benefit to the host economy has nothing to do with fastidiousness and everything to do with the direction of flow of technology and rents that accrue to the host alongside various other economic spillovers.

Such incomplete and outdated reasoning by the most senior policy advisors is how Canada stumbled into strategic errors such as letting foundational AI technology leave our universities for foreign companies; funding the NRC-CanSino vaccine partnership and allowing Huawei university research partnerships to go without review until damaging media reports appeared; allowing strategically important IP from Nortel to leave the country; and failing to use Canada’s procurement programs to develop Canadian capabilities in meeting the governance needs for the digital era (e.g., smart cities, payments, e-governance more generally, including the management of the pandemic). It’s often said that good policy is good politics. But bad policy advice also makes for bad politics.

Who’s holding the policy compass?

One can perhaps discount the significance of the advice of the Advisory Council on Economic Growth because most of its recommendations were not acted upon. But an issue that should concern this Committee is that the Council’s conclusions were supported by full-time policy staff at both ISED and Global Affairs. There is no Minority Report to indicate that any of them disagreed with the recommendations or questioned the lack of a contemporary economic framework. Moreover, since much of the supporting analysis on which the Canadian government appears to rely comes from the large international consulting houses, there is no evidence that they would have disagreed either.

There are many good reports and books that trace the erosion of Canada’s public interest institutions, government agencies and even civil service¹⁸. But the practice of seeking outside consultants to compensate for lack of in-house capacity does, however, warrant urgent attention if we are to retool Canada for the contemporary economy.

Recent media reports indicate that fees paid by the federal government to third-party consultants have ballooned since 2015, with expenditures for engineering, legal and other services expected to rise \$6 billion in eight years. “Costs for professional and special services is expected to increase to \$16.4

¹⁷ Knuble, J. & Hunter, L. (2020, July 30). Recovery requires speedy foreign investment review. *Financial Post*. <https://financialpost.com/opinion/recovery-requires-speedy-foreign-investment-review>

¹⁸ Savoy, D. (2019). *Democracy in Canada: The Disintegration of Our Institutions*. McGill-Queen’s University Press.

billion next year, up from \$10.4 billion when the Liberal government took office — the highest level of spending since at least the 1990s, according to public data.¹⁹”

Last May, according to Maclean’s magazine, ISED was seeking outside analysis for “key strategic industrial sectors,” including modeling the impacts of COVID-19 for Canadian industry and to “spark big ideas.” McKinsey & Co won the \$452,000 contract in early June and then somehow got paid \$3 million. The firm has no expertise in innovation policy or innovation economics but it has in the last few years been accused of undermining public interest by giving governments reports based on “bogus numbers²⁰”, helping authoritarian governments crack down on dissidents²¹, advancing totalitarian interests of China and Russia,²² and creating measures such as “detention savings opportunities” in President Trump’s inhumane crackdown on immigrants. It recently settled a lawsuit for “turbocharging” opioid sales.

Peter Donolo, vice chairman at Hill + Knowlton Strategies and former director of communications to Prime Minister Chrétien was quoted recently as saying: “Consultants give you advice and then walk away. They might give you a plan, but then they walk away. They walk away. They’re not the guys who are there at the end of the day holding the bag or doing the job²³.”

In a nutshell, Canada lacks in-house capacity to analyze and navigate the modern economy and the bottom-line results of Canada’s decline in the intangibles economy suggest that retailored, off-the-shelf, cut-and-paste expertise from consultancies with little skin in Canada’s game is not the answer. There is a dire need for upgraded in-house policy expertise to support Canada’s growth agenda and advance Canada’s interests.

Canada is trailing in the shift to an intangibles economy. This is the gap that in good measure explains our lagging prosperity and defines our challenge in making a course correction. The foundational elements to support this course correction lie in essential elements of a digital policy infrastructure embedded in marketplace frameworks, funding policies, and new or reformed institutions. Developing and implementing this course correction requires a combination of substantially upgraded in-house policy expertise within Canadian government departments and a new Economic Council to integrate across ministries to address existing challenges and prepare for those that are sure to arise. Continuity and skin in Canada’s game are essential. This requires nurturing a policy development structure within the government of Canada that is tailored for the modern age.

¹⁹ Snyder, J. (2021, April 25). Costs for consultants hired by government to rise by \$6 billion under Liberals. *National Post*. <https://nationalpost.com/news/politics/costs-for-consultants-hired-by-government-rise-by-6-billion-under-liberals>

²⁰ McDougall, I. (2019, December 10). New York City Paid McKinsey Millions to Stem Jail Violence. Instead, Violence Soared. *ProPublica*. <https://www.propublica.org/article/new-york-city-paid-mckinsey-millions-to-stem-jail-violence-instead-violence-soared>

²¹ Forsythe, M. et al. (2018, November 4). Consulting Firms Keep Lucrative Saudi Alliance, Shaping Crown Prince’s Vision. *New York Times*. <https://www.nytimes.com/2018/11/04/world/middleeast/mckinsey-bcg-booz-allen-saudi-khashoggi.html>

²² Bogdanich, W. & Forsythe, M. (2018, December 15). How McKinsey Has Helped Raise the Stature of Authoritarian Governments. *New York Times*. <https://www.nytimes.com/2018/12/15/world/asia/mckinsey-china-russia.html>

²³ Proudfoot, S. (2021, April 13). Who’s really got Ottawa’s ear?. *Maclean’s*. <https://www.macleans.ca/politics/ottawa/whos-really-got-ottawas-ear/>