

# Why Canada is ripe for a new industrial policy

By Christyn Cianfarani

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For more than three decades, the phrase “industrial policy” was not to be uttered in polite company in federal government circles.

By the late 1980s, Ottawa was a devout follower of “free market” orthodoxy. Adherence to this doctrine implied many things. Chief among them was that government intervention in markets, generally, and in industrial sectors, specifically, was heresy. Successive federal governments have therefore tended to refrain from policy or talk that resembled industrial policy.

Many of the world’s biggest and most successful economies never bought into this anti-industrial-policy mindset. Yet now we see a change in world view even among those that had been stalwart adherents to the free-market framework.

British Prime Minister Theresa May’s government – the heirs to Margaret Thatcher’s free-market legacy – now talk openly and proudly about the virtues of industrial policy.

The May government has just released a consultation paper: *Building our Industrial Strategy*. While this document disavows the industrial policies of 1970s Britain, which protected incumbent firms, the paper sees a vital role for the British government in bolstering flagging productivity growth and industrial competitiveness through a variety of active policy instruments.

According to the paper: “Industrial strategy has been used to describe successful interventions in countries as diverse as South Korea, the United States, Germany and in some aspects, the U.K. Targeted interventions – ranging from tax breaks and deregulation to strategic procurement decisions and specific investment in particular skills – have been combined with free market economic policies

to nurture growth in particular sectors and places.”

Health care and defence are singled out as offering the biggest opportunities here, primarily because governments are the main customer as well as the regulator of those industries, and thus have more leverage over them. Britain has been pursuing an aggressive industrial policy focused on their defence sector for several years now. At the core of this agenda is the Defence Growth Partnership (DGP), which commits that a third of British defence procurement will be spent with small businesses – whether directly or indirectly through supply chains – by 2020. The DGP also pledges that the government will train at least 50,000 apprentices in defence-related trades by that same date.

Moreover, last year, the British government announced a Defence Innovation Initiative, a 10-year, £800-million (\$1.3-billion) innovation-procurement fund. A new innovation and research unit is also being set up to investigate the implications of emerging technology and innovation related to defence and homeland security, the results of which will inform the future science and technology program of the British Ministry of Defence (MoD). And supporting defence exports is now a core task of the MoD. This includes ensuring export potential is considered when making decisions on future equipment for the British military. To cap it off, the 2015 British Defence Review put in place a new national-security objective of “promoting our prosperity.”

Canada’s impending Defence Policy Review should do likewise.

This is innovative industrial policy in action. It is based on a recognition that defence is an area

where government has real leverage which can produce significant commercial spill-over effects that reverberate throughout the broader economy.

The recently released report of the Minister of Finance's Council on Economic Growth reflects some of this thinking and argues that, "The need for a focused, sector approach to economic development is particularly acute in Canada." The Council identifies four "high-potential sectors" for Canada, one of which is advanced manufacturing, within which defence is identified as one of three industries offering real potential to drive innovation.

The government's Inclusive Innovation Agenda, the outlines of which are expected in Budget 2017, provides an important opportunity to coalesce such thinking from Canada and abroad and embrace a bold new industrial policy for Canada. This should be re-enforced in the Defence Review to capitalize on the government's unique leverage over the economic outcomes of defence-equipment purchases. Doing so would bring big paybacks to innovation, competitiveness and growth across the Canadian economy.

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