

More harm than good. Is policy that favours small business hurting the Canadian economy? New School of Public Policy report

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CALGARY- Small business has a well-deserved reputation as the driver of job growth and as a key contributor to innovation. In the 12 years ending in 2013, small and medium-sized enterprises (SMEs) accounted for about **90%** of private sector job growth in Canada. However, only a small fraction of SME's are responsible job creation and innovation. So why are governments offering across-the-board support, instead of focusing on high-impact entrepreneurs? This approach is wasteful - firms that do not grow or innovate receive most of the benefits, which can actually harm economic performance by promoting the expansion of smaller, less-efficient firms at the expense of larger ones.

Today, The School of Public Policy and author John Lester released a report that provides a critique of federal measures that support small business and a set of policy recommendations to improve the effectiveness of these policies. According to Lester, current policy is generally harming, not helping, economic performance.

The newish federal government is focussing its new initiatives on high-impact firms and individuals that make an outsized contribution to Canada's innovation and prosperity. While the author applauds the overall change in direction, he points out that almost 85% of the **\$7 billion** yearly funding for small business continues to provide broad-based support. This needs to be re-examined.

According to author John Lester, "Support for small business has gone well past the point of promoting better economic performance. The amount of support provided should be scaled back substantially and focused on high-impact entrepreneurship and innovative firms. Three changes would free up resources for new initiatives and still make a contribution to deficit reduction. First, eliminate the small-business corporate income tax deduction. Second, reduce the enhanced R&D tax credit rate to the same level as the regular credit. Third, undertake a thorough restructuring of the Business Development Bank of Canada, replacing direct loans with loan guarantees."

The report can be found online at www.policyschool.ca/publications/

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