



October 15, 2025

**From:** Colin Busby  
**To:** Canada's Economic Policymakers  
**Re:** PETER HOWITT'S ECONOMIC POLICY CONTRIBUTIONS AT  
THE C.D. HOWE INSTITUTE

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As both a Fellow-in-Residence and International Fellow at the C.D. Howe Institute, Peter Howitt's thoughtful expression of economic theory for a policymaking audience influenced the thinking of Institute economists long before he won his Nobel prize this week.

His clarity and precision in linking economic ideas to policies in controversial areas of economic growth remain relevant for current debates regarding the role of international trade and competition as drivers of economic growth, as well as the risks in picking winners with domestic procurement decisions.

Notably, his Institute research emphasizes the importance of innovation and the unpredictable nature of technological change. At this intersect, he highlights the need for policies that facilitate rather than direct economic transformation.

In his 2007 and 2015 C.D. Howe Institute publications, Prof. Howitt focused on the role of competition and innovation as core features behind economic growth. His Commentary, *Innovation, Competition and Growth: A Schumpeterian Perspective on Canada's Economy*, urged a focus on policies to sustain economic growth. Canada must engage in a never-ending process of economic development and transformation, which requires welcoming technological change.

He writes that:

*"... More recently, however, a second wave of endogenous growth theory has broken on the economics shore, which Philippe Aghion and I call Schumpeterian theory (elaborated in Aghion and Howitt 1998a). This new theory emphasizes the distinction between technological knowledge and capital, and analyzes the process of technological innovation as a separate activity from saving. The new wave is explicit about who gains from technological progress, who loses, how the gains and losses depend on social arrangements, and how such arrangements affect society's willingness and ability to create and cope with technological change.*

*The distinguishing feature of Schumpeterian theory is what Schumpeter called "creative destruction" – the process whereby each innovation creates some new technological knowledge that advances our material possibilities, while rendering obsolete some of the technological knowledge that was created by previous innovations.*

*Creative destruction offers a new view of how competitive markets work, one that is more in line with the observations of such writers as Porter (1990), who see innovation, rather than price, as the main instrument through which firms compete. It sees economic growth as a social process bound up with policies, institutions, social customs, and many other phenomena that affect not only the incentive to save but also the incentive to create new knowledge and the willingness to adapt to change. Schumpeterian theory offers a new perspective on a number of important economic issues that interact with economic growth."*

In *Mushrooms and Yeast: The Implications of Technological Progress for Canada's Economic Growth*, a 2015 Commentary, he expands on the critical role of technological innovation as a driver of economic growth, and how this can emerge in unpredictable locations, creating both winners and losers. Prof. Howitt's key recommendation is that governments should focus on encouraging economic growth through "creative destruction" rather than supporting specific industries. The mushrooms and yeast metaphor captures how technological progress spreads unevenly across the economy – some innovations spring up rapidly like mushrooms in certain sectors, while others diffuse more gradually like yeast throughout the broader economy.

He noted:

*"Moreover, when a conflict between winners and losers arises from the process of creative destruction, there is generally a bias in favour of the status quo – of established producers using the technologies under threat, who have had the time and resources to influence public opinion, and the political process more generally. Regulatory agencies, which often act as barriers to the entry of firms with new technologies, are notoriously subject to capture by the incumbent producers they regulate and on whom they often rely for expert opinion and information. And even if regulators are immune to such influences, their political masters frequently are not.*

*A prime example is the way several Canadian cities have sought to protect incumbent taxi companies against Uber. In a dynamic economy, there is always a conflict between protecting people's jobs and investments and promoting technological change and economic growth. Policies that promote the former tend to favour incumbents over upstart rivals, thus discouraging innovation by outsiders. But rapid technological change requires that a large number of independent entrepreneurs be allowed to contest markets with their new ideas.*

*... the wise policymaker should always keep the status quo bias against outside innovators firmly in mind when deciding how much weight to give to the objective of protecting jobs and investments.*

*Instead of keeping an incumbent firm alive even after it has been rendered obsolete, it might be better to allow it to fail while offering compensation to those most directly harmed, on the grounds that this would allow the benefits of the new technology to be shared more equitably.*



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*A general policy of compensating losers can also be carried too far.*

*Although it can reduce anxiety among people whose livelihoods are under threat from new technologies, it can also dull the innovative spirit. Indeed, Phelps (2013) argues that the post-1960 industrialized world has lost much of its dynamism because of an overemphasis on income security. For Phelps, keeping the innovative spirit alive is the key to enjoying the benefits of modernism, which, he argues, lie not so much in the proliferation of material goods as in the opportunities for intellectual challenge, self-expression, job satisfaction and personal growth. Whether or not one agrees with Phelps on this last point, there is clearly a tradeoff between making people content with what they have and encouraging them to engage in the uncertain and often stressful activity of seeking betterment through innovation.”*

The lessons from Prof. Howitt’s ideas are numerous, yet for today’s context, it is particularly relevant for how federal and provincial governments go about balancing the political pressure to protect jobs from changes to our trade relationships, versus investments in new technologies that can kickstart further economic growth.

The rollout of “Buy Canadian” policies will inevitably create enormous political pressure to target those investments towards incumbent firms, rather than encourage a more competitive environment for multiple firms. Also, with a defence industrial strategy in development, the federal government will also need to balance the desire to move quickly and ramp up spending and capacities in areas of need against the selection of a few winning contracts in domestic defence industries, which could limit the longer-term growth in those areas.

Finally, we ought to reconsider how Canada goes about compensating the industries, employees, and regions who face disruption from technological change. We have to guard against disproportionately providing more security to some workers and regions than others, rather than support the benefits of meaningful labour market engagement by a broader group of Canadians.

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