



OPINION

How AI regulation can drive Canada's economic future

Canada has a chance to become a global leader by focusing on regulation that enables, rather than hobbles, good, safe AI.

BY GILLIAN HADFIELD

Prime Minister Mark Carney has pledged to build the economy of the future by using AI to unlock productivity and Canadian competitiveness. Many think this means avoiding AI regulation entirely. But at this transformative moment while we're reimagining the economy, we also need to reimagine regulation if we want to truly secure AI's economic benefits.

Done correctly, regulation not only ensures public safety; it also provides the scaffolding we need to generate the trust that is the lifeblood of a vibrant economy. We regulate to remove potential barriers to market participation. Regulation means diners don't have to inspect the



AI and Digital Innovation Minister Evan Solomon. Achieving Canada's ambitious goals for AI will take more than simply building on the world-leading advances in AI technology that this country helped produce, writes Gillian Hadfield. *The Hill Times photograph by Andrew Meade*

restaurant's kitchen to know their food is safe, investors don't have to worry they're on the wrong side of insider trading, and businesses can deploy safe machinery. Reliable legal infrastructure is the difference between rich economies and poor ones. The trick is to keep the cost of regulation in line with its benefits, and avoid check-the-box regulation that looks good on paper but doesn't achieve our goals.

Global governments cannot afford to overregulate AI. Layering on lots of process and impact assessments risks running up the cost of building and using AI without really making AI safer. That's why, at this moment of rethinking our economy, Canada has a chance to become a global

leader by focusing on regulation that enables, rather than hobbles, good, safe AI.

This means moving beyond conventional strategies to create frameworks to enable AI that are as innovative as the technology itself.

A key opportunity is to recruit the power of markets in the design of regulation, without losing the essential role for governments in deciding how much risk is appropriate. This is the idea behind regulatory markets for AI governance, a novel concept to govern AI that I've proposed with Jack Clark, a co-founder of Anthropic. This approach aims to build a robust new sector of independent technology companies that serve as regulatory service providers

(RSPs)—private organizations licensed and overseen by the government. These RSPs compete to provide cost-effective regulatory services to companies developing and deploying AI systems, ensuring those AI systems are safe and meet the risk levels set by government.

The University of Toronto's Schwartz Reisman Institute for Technology and Society recently released a workshop report exploring the feasibility of regulatory markets. It contains a treasure trove of ideas from participants spanning government, big tech, AI assurance providers, nonprofit and civil society groups, and academic experts. At its core, this report represents the kinds of novel ideas and agile thinking that will



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be necessary for the Canadian government to achieve its ambitious goals.

Canada is already out in front with a groundbreaking company in its AI ecosystem developing innovative approaches to regulatory tools: Armilla AI, a Toronto-based startup offering one of the world's first AI insurance products. Armilla provides insurance in tandem with risk assessments and mitigation measures, creating an innovative product that harnesses the market-driving capabilities of risk quantification. Armilla is my go-to example of what innovative regulatory technology looks like. Canada has the opportunity to build an entire sector of regula-

tory technology companies like this to serve the global market, while ensuring Canadians are the first to benefit from regulatory rethinking.

A regulatory markets approach would drive AI sector growth by bringing in governments to designate regulatory technology companies as approved RSPs, infusing these market offerings with democratic input on acceptable risk levels. Businesses could be encouraged to adopt AI both by the availability of insurance, and by government-designed safe harbours for those who purchase RSP services. By providing technologies to detect and mitigate risk, insurance regimes,

and access to regulatory safe harbors, this approach can help mitigate deployment concerns and increase the pace and scale at which companies are willing to start using AI.

Achieving Canada's ambitious goals for AI will take more than simply building on the world-leading advances in AI technology that this country helped produce. We also need to lead the world in regulatory innovation to meet this extraordinary moment. Reinventing the economy and enabling unprecedented levels of AI productivity requires moving beyond outdated frameworks, asking ourselves how novel methods of regulation can support and enable market

growth, and laying the groundwork necessary for Canada to become a global leader in AI.

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