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Budget 2017



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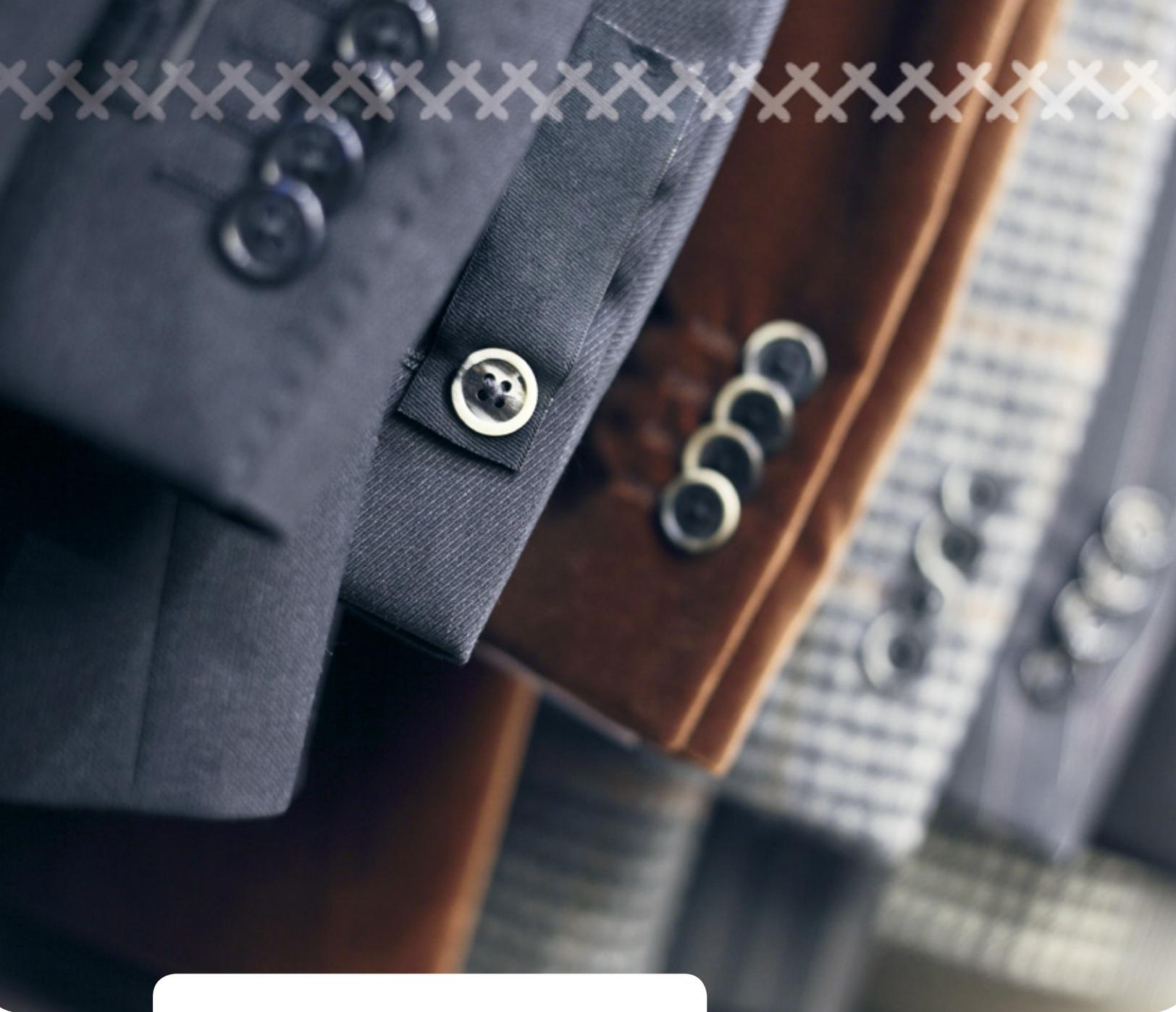
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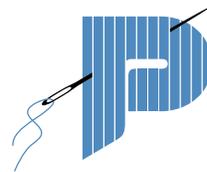
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Canadian Politics and Public Policy

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From the Editor / L. Ian MacDonald

Budget 2017

Welcome to our annual issue on the federal budget. On March 22, Finance Minister Bill Morneau rose in the House at the close of markets to deliver the Liberal government's second budget, *Building a Strong Middle Class*, following 2016's *Growing the Middle Class*. Innovation was supposed to be the theme of the budget, but in funding terms, it remains a work in progress.

Morneau's margin of manoeuvre was limited by two evident constraints, the deficit with no path to budgetary balance, and the imperative of Canada not being competitively misaligned with the Trump administration on personal and corporate income taxes. Infrastructure and defence spending increases were also themes of Trump's February 27 address to a joint session of Congress. But in his March 16 budget, President Trump did not propose tax cuts, alleviating any concerns Morneau might have had about Canada being uncompetitive. Indeed, Canada enjoys a significant comparative advantage on large corporate taxes at 15 per cent compared to 35 per cent in the U.S., while Canada's top marginal rate of 33 per cent on personal taxes is very competitive with the U.S.

But Morneau has plenty of challenging issues in managing the fiscal framework, beginning with Finance's own projection, two days before Christmas, that the budget wouldn't be balanced until 2055, and that along the way Canada would accumulate another \$1 trillion in new debt.

For a breakdown and detailed analysis of the budget, we're delighted that BMO Financial Group Chief Economist Douglas Porter and his colleague Robert Kavcic have again shared their insights with us.

Jack Mintz, one of Canada's leading economic authorities, shares his take on innovation and other budget themes. And Conservative Finance critic Gérard Deltell offers an opposition critique on a budget that projects no path to balance.

Contributing Writer Geoff Norquay, a veteran of many Ottawa and Ontario budgets, takes us on a journey through the budgetary process, from departmental and parliamentary consultations in the middle of the previous calendar year, to the writing and delivery of the speech, usually before the end of the fiscal year the following March 31. It's not a sprint but a marathon, and the single most important governance event of the year. Finally, columnist Don Newman, a close observer of budgetary mood swings over more than four decades, offers his take on the second Liberal budget.

In *Canada and the World*, Contributing Writer Anthony Wilson-Smith looks at Russia, where he served as Moscow correspondent for *Maclean's* in the years leading to the dissolution of the former Soviet Union under Mikhail Gorbachev, later resulting in the remarkable 18-year tenure of former KGB operative Vladimir Putin as the Russian strongman. Wilson-Smith considers Putin's potent recipe for longevity. From *Russia with Love?* Not exactly.

Our lead foreign affairs writer, Jeremy Kinsman, looks at the train wrecks of Brexit and Trump, and wonders what else lies ahead this year with important elections still to come in France and Germany, where populist right-wing movements are on the rise, with Putin's Russia as a nosy neighbour. A former Canadian ambassador to the UK, Russia and the EU, Kinsman of-

fers uniquely informed insights into Europe's year of living dangerously.

Contributing Writer Robin Sears shares his sense of the mood of America under Donald Trump, from the cocktail crowd of New York to the beaches of the Florida Panhandle. He writes that America has seldom been a nation so divided, and wonders where it is going, especially "as the drip by drip revelation of Trump's relations with the Russians continues to unfold." Sears asks a pertinent question: "If we are heading into another Watergate moment, can Mike Pence successfully play Jerry Ford?"

BMO Vice Chair Kevin Lynch, a former clerk of the Privy Council, brings us his annual reflections on the World Economic Forum's gathering of global thought leaders in Davos.

Michael Bourque, president of the Railway Association of Canada, writes that rail is a sustainable solution to transporting Canadian commodities to global markets, a key driver of exports that account for one Canadian job in five.

Like so many other industries, public opinion polling has been overtaken by technology. Erin Kelly, CEO of Advanced Symbolics in Ottawa, describes how social media sampling enabled by artificial intelligence may be the solution. Brexit and Trump are case studies.

In a *Verbatim*, former Prime Minister Brian Mulroney looks at trade and Trump's demand for a renegotiation of NAFTA and says it's time for a generous phasing out of Canada's supply management system in dairy and poultry.

Finally, we offer a column with a millennial perspective from Morgane Richer La Flèche. **P**



Finance Minister Bill Morneau delivers his second budget on March 22, one with “deficits as far as the eye can see”. Adam Scotti photo

The Second Morneau Budget: Doubling Down on Cautious Optimism

Douglas Porter and Robert Kavcic

Very few economic analysts in Canada—or elsewhere, for that matter—possess the prescience and breadth of BMO Chief Economist Douglas Porter. Here at Policy Magazine, as in many domains in the capital and beyond, Budget Day isn’t Budget Day without Porter’s summary of the key deliverables. Here is Porter’s analysis of Bill Morneau’s second budget, co-authored with his colleague, BMO Senior Economist Robert Kavcic.

Compared with the fanfare surrounding last year’s effort, the second budget of the current federal government arrived amid much lower expectations. And it delivered. Finance Minister Bill Morneau is still projecting a string of budget deficits as far as the eye can see, widening somewhat in the coming fiscal year, while the now-key debt-to-GDP ratio is set to hold steady.

Table 1: Fiscal Outlook

(C\$ blns, except where noted)				
	Estimate		— Forecast —	
	16/17	17/18	18/19	19/20
Revenues	292.1	304.7	315.6	327.7
Expenditures	315.1	330.2	340.0	348.1
Program Spending	290.9	305.4	313.7	319.8
Public Debt Charges	24.3	24.7	26.3	28.3
Adjustment for Risk	—	(3.0)	(3.0)	(3.0)
Budget Balance	(23.0)	(28.5)	(27.4)	(23.4)
Federal Debt	637.1	665.5	692.9	716.3
As a percent of GDP:				
Budget Balance	(1.1)	(1.4)	(1.2)	(1.0)
Federal Debt	31.5	31.6	31.6	31.5

Source: Federal Budget () = deficit

This outlook comes as little surprise, as a stable, and subsequently fading, debt ratio was well-advertised as a goal ahead of today's budget, especially in light of a somewhat firmer-than-expected economic backdrop, loaded on top of Finance's apparent aim to keep deficits below \$30 billion. Two major areas of uncertainty heading into the budget were: 1) Would there be any major new spending initiatives planned for the coming fiscal year; and, 2) Would there be any significant tax changes? And all of this, of course, is set against the profound uncertainty of what the Trump administration will ultimately bring on the tax and trade fronts in the coming year.

On each of these questions, the answer is not shocking. As expected, Ottawa will stick to last year's broad stimulus plan, with minimal net new fiscal stimulus in this document. Rather, this budget's purpose is to fill in many of the spending details behind previously-budgeted dollars, with their sights set on housing, skills training, and innovation. On the tax side, Ottawa decided to forego any major moves this year, although their review of so-called tax expenditures remains ongoing, with this budget

making a handful of smaller-ticket moves on this front.

“ After doing away with the contingency reserve in last fall's update, Finance has added back a \$3 billion per year cushion through the forecast horizon. ”

As a result of these measures, deficits in excess of \$20 billion will persist for four more years, and a \$19 billion shortfall still remains by fiscal year 2021-22—in other words, no plan to balance the books.

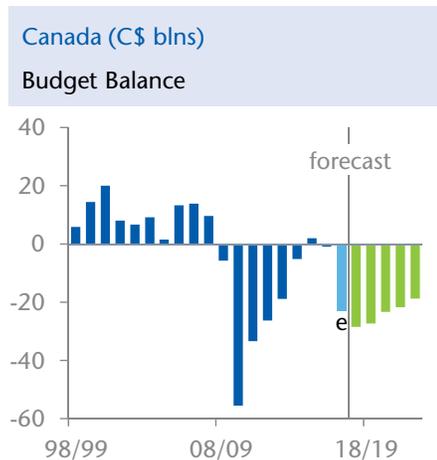
This scenario would see the closely-watched debt-to-GDP ratio edge up a tick this coming fiscal year, to 31.6 per cent, before grinding down through FY 2020-21. After doing away with the contingency reserve in last fall's update, Finance has added back a \$3 billion per year cushion through

the forecast horizon. Given that the budget is built on a relatively cautious economic forecast, it's quite likely this cushion will not be needed; indeed, if our forecast proves correct, Ottawa will have extra room in the coming year (more below). Notably, not one penny of last year's fat \$6 billion contingency reserve was needed for FY 2016-17, as the deficit is on track to come in at \$23 billion.

Beyond the headline \$28 billion deficits over the next two years, arguably the big story in the budget plan is the ongoing lack of a serious reversal of stimulus in the ensuing years. Recall that this government was elected on a pledge to run deficits for two years (at that time, just under \$10 billion), and then bring finances back to balance over the subsequent two years.

That plan has long since gone out the window, and not just because the economy has proven more challenging in the past two years. The straightforward reasoning in Ottawa is that deficits don't matter, so long as debt is stable as a share of GDP. The issue for us is that the Canadian economy now appears to be growing above trend rates again, and is late

Chart 1: Deficits Persist



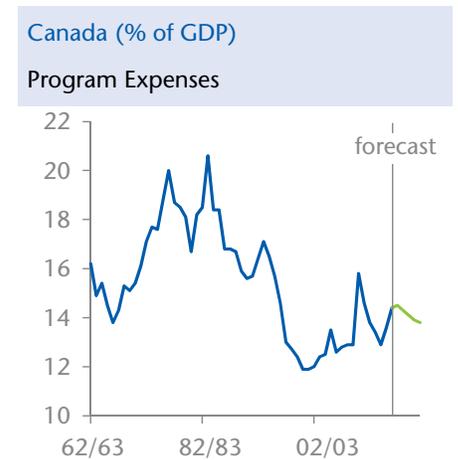
Source: Federal Budget e = estimate

Chart 2: Revenues Grow With GDP



Source: Federal Budget

Chart 3: Spending Still Rising



Source: Federal Budget

in the business cycle—the recovery is now almost eight years old—and that’s exactly when building fiscal capacity is a wise strategy. Or, as your grandparent may have said: “*Make hay when the sun shines.*”

The net fiscal impact of new measures detailed in this year’s budget is minimal. Rather, this document is largely about filling in the details behind the dollar amounts baked into the fiscal plan a year ago. Here is a quick recap of the largest of the many new initiatives:

Infrastructure spending: This budget fills in the details of the infrastructure spending program, while shuffling the timing slightly. In a nutshell, the infrastructure plan has been a bit slow to get pushed out the door, with some spending pushed into the 2018-19 period. However, new details on the proposed infrastructure bank were scant, even as Ottawa claims it will be up and running by the end of this year.

Program spending: To rise a hefty 5.0 per cent in FY 2017-18 after the 7.4 per cent surge in FY 2016-17, the strongest clip since 2010 (post-recession stimulus). As a share of GDP, program spending will rise from just under 13 per cent in FY 2015-16 to 15 per cent by FY 2017-18. That is back above the 30-year average of 14.2 per-

cent. Notably, program spending will begin to level off in real per-capita terms by FY 2018-19, in order to reduce the size of the deficit further out in the forecast horizon.

“The Canadian economy now appears to be growing above trend rates again, and is late in the business cycle—the recovery is now almost eight years old—and that’s exactly when building fiscal capacity is a wise strategy.”

EI program modifications: There are two noteworthy modifications in this budget. Parental leave will become more flexible, allowed to be spread over a longer period of time, but at the same benefit amount. EI benefits will also be extended to caregivers. Note also that EI premium rates are set to rise in 2018.

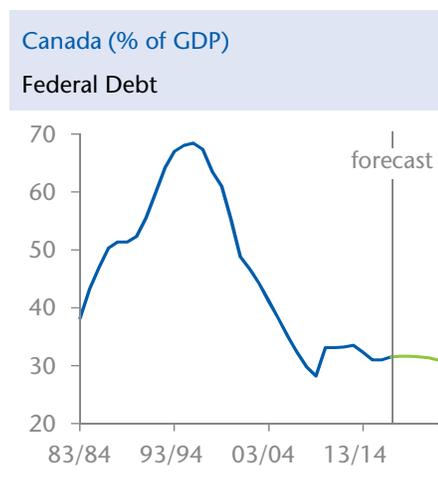
The highly-touted **skills, innovation and middle-class jobs agenda** will deploy \$1.2 billion in spending over a range of programs, or a net fiscal

cost of just under \$500 million after accounting for dollars already allocated. The biggest item is funding to support the growth of tech-business “superclusters”(think Silicon Valley).

Housing: StatsCan will get a budget increase (a more meaningful \$40 million over five years) to collect more detailed housing data, in collaboration with provincial land registries. The inclusion of data on foreign ownership and financing characteristics is promising. Expected first release date: Fall, 2017. Ottawa is also dedicating funds, through the National Housing Fund, to increase the supply of purpose-built rental units, a small nod to supply concerns.

Various measures to improve “**tax fairness**”, aiming to raise \$400 million this coming fiscal year, and just over \$1 billion by FY 2019-20. This includes clamping down on tax avoidance; limiting the ability of some billing professions (e.g., doctors) to shift their tax burden; and limiting the planning ability of private corporations. **Public-transit passes:** This tax credit is a goner as of mid-2017. **Uber targeted:** Ride-sharing services will be more broadly subject to the same GST/HST rules as taxi companies. Modifying the tax treatment of **oil & gas exploratory drilling**, expenses will now be deducted gradually over time. **Canada**

Chart 4: Debt to Level Off



Source: Federal Budget

Savings Bonds sales will be discontinued this year; the CSB program started 70 years ago. **What didn't change:** The **capital gains inclusion rate** (which was widely speculated); the **treatment of stock options**; and no major **asset sales**.

With a string of deficits still looming, government borrowing requirements will remain considerable. Gross marketable bond issuance will total \$142 billion in FY 2017-18, up from \$135 billion in FY 2016-17. After accounting for maturities, buybacks and other adjustments, the net increase in bonds will be \$39 billion in FY 2017-18, versus \$33 billion this year. The government will consider issuing bonds with a maturity of 50 years “*subject to favourable market conditions*”. The stock of treasury bills is projected to inch up from \$130 billion to \$131 billion, while the average term to maturity of domestic market debt is expected to remain stable around 5.5- to-6.5 years. If there was a surprise in the debt management strategy, it is that Ottawa continues to focus more of its issuance in the 2-, 3- and 5-year sectors, not at the longer end.

Reflecting the above, Ottawa is projecting net new domestic borrowing requirements of \$39 billion in the coming fiscal year, with cash balances unchanged. In turn, total federal

Table 2: Economic Assumptions

	(percent)			BMO Capital Markets	
	2016	— Ottawa — 2017	2018	2017	2018
GDP Growth					
Real	1.3	1.9	2.0	2.3	1.9
Nominal	2.0	4.1	4.0	4.9	3.9
Yields					
3-month T-Bill	0.5	0.6	0.9	0.5	0.6
10-year GoC	1.3	1.8	2.3	1.8	2.1

debt-to-GDP will rise a tick, to 31.6 per cent in FY 2017-18. The debt ratio is projected to eventually reverse course again, falling slightly to 30.9 per cent by FY 2021-22—effectively where it was in FY 2014-15. The return to that sub-31 per cent reading was delayed by a year in this budget.

“**Total federal debt-to-GDP will rise a tick, to 31.6 per cent in FY 2017-18. The debt ratio is projected to eventually reverse course again, falling slightly to 30.9 per cent by FY 2021-22—effectively where it was in FY 2014-15.**”

Ottawa's economic assumptions are based on a somewhat outdated private-sector forecast, taken before the economy began to flash real signs of improvement. Canadian real GDP growth is expected to pick up to 1.9 per cent this year, up from the budget assumption of 1.3 per cent in 2016. To show how stale the forecast is, even that 2016 figure is now out of date (the actual result was 1.4 per cent).

Since that consensus forecast was locked in late last year, we've seen a near-relentless run of positive economic data, with particular strength in employment. This has prompted us to revise up our GDP call to 2.3 per cent per cent for this year, or 4 ticks faster than the budget assumption (with some serious upside risk to boot). Next year looks in-line, with both the fiscal plan and our forecast pegged at growth closer to 2 per cent.

The consensus expects that WTI oil prices will average around \$54 this year before rising further to \$59 in 2018—but the recent fade in crude raises the downside risks. Importantly for revenues, we're expecting the rebound in oil prices from their 2016 lows to drive a solid 4.9 per cent jump in nominal GDP this year (this budget is based on 4.1 per cent growth, leaving some potential upside for revenues). **P**

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Finance Minister Bill Morneau looks to the gallery on Budget Day, and may have played to it as well. Innovation was a budget theme, but still a work in progress. Adam Scotti photo

Innovation and the Budget: Much Policy Left on the Table

Jack M. Mintz

Following on the work of the Advisory Council on Economic Growth, the 2017 budget was long billed as the “Innovation Budget”. While the Trudeau government’s plans to boost innovation were said to have been trimmed somewhat by uncertainty surrounding the economic impact of the Trump presidency, the budget still contained innovation investment. Economist Jack Mintz breaks it down.

Economic growth per worker depends crucially on two factors: innovations adopted by entrepreneurs and investment. The 2017 federal budget is rightly focused on innovation. Last year, it was rightly focused on public infrastructure. Lacking in both budgets, however, is a plan to support entrepreneurship and private investment, which are both critical to the adoption of new innovations.

This lack of focus on the private sector seems rooted in a misperception of factors leading to growth. Ian Morris, in

his acclaimed book, “Why the West Rules—For Now”, shows that technology, often resulting from war-making demands, has been one of four major factors explaining economic growth since 14,000 BC. Others include energy capture, societal organization (eg. urbanization) and information technology/communication.

“ It is not just supply of innovators but also the demand for their ideas that matters. Demand depends on entrepreneurial businesses that put good ideas into profitable practice. ”

It is not just supply of innovators but also the demand for their ideas that matters. Demand depends on entrepreneurial businesses that put good ideas into profitable practice.

We know that Canada has many advantages relative to many countries—a relatively good infrastructure, political stability, good rule of law and a well-educated work force—but also several economic disadvantages. We have a small market (manufacturing and services tend to locate near large populations), a less dense labour pool and cold weather. To overcome these disadvantages, we have leveraged policies including free trade to access international markets, immigration policy to access a larger talent pool and business tax reform to improve competitiveness. These policies help contribute to a better innovation climate.

Yet something is still amiss. Canada’s growth has been less than stellar, with output per working hour still chugging along at roughly 1 per cent annually. Despite many good public policies adopted over the years, we have not dou-

Productivity Rates (Growth in Output per Working Hour) for Selected Countries: Averaged 2011-15

	Growth in Output per working hour (%)
Ireland*	6.4
Australia*	1.7
Mexico*	1.2
Israel*	1.1
Germany	1.0
Sweden	0.9
France	0.9
Canada*	0.8
United States*	0.3
United Kingdom	0.2
Italy	0.1
G7 average*	0.5
OECD average*	1.2

Note that * indicated 2011-15 only.
Source: OECD Statistics

bled productivity growth rates that would match some high-performing countries.

“ Yet something is still amiss. Canada’s growth has been less than stellar, with output per working hour still chugging along at roughly 1 percent annually. Despite many good public policies adopted over the years, we have not doubled productivity growth rates that would match some high-performing countries. ”

While our performance relative to other Organisation of Economic Co-operation and Development coun-

tries has improved since the 1990s when we were fourth-lowest, our relative ranking has improved only because of economic slowdowns in other countries since the 2008 financial crisis. Our productivity growth rate since 2011 has been better than the G7 average, but worse than the OECD average (see the table). It falls behind Ireland, resource-based Australia and Mexico although ahead of the United States and Norway.

In a recent paper published in Australia on tax reform, I showed that Canada’s private sector investment as share of GDP is far less than in most OECD countries in both manufacturing and services. Where we shine—the resource sector—we have witnessed plunging investment since 2014, especially in oil and gas and mining.

With improved prospects for our middle class over the years through better employment, new threats to

Canadian livelihoods are on the horizon. Disruptive labour-saving technologies being adopted throughout the western world are expected to put many workers out of work in the not-too-distant future.

The 2017 budget therefore stressed innovation at least in words. About \$1.5 billion per year of *new* and *re-directed* money is spent on skills and innovation, with less than a fifth spent on innovation itself. The most important measures—in dollar terms over five years—include reformed labour market agreements with the provinces (\$2.075 billion), expanding Employment Insurance for more flexibility for families (\$886 million), innovation superclusters (\$950 million) and a new innovation fund (\$200 million).

While improving skilled training is a worthy objective, it is unlikely to add to innovative capacity that depends on more than the availability of skilled labour. Besides, much of skill training depends on the effectiveness of provincial educational and training programs, which are vastly larger than federal training programs such as those funded by Employment Insurance. In part this reflects our constitution—provinces jealously guard their role in education and object to federal intrusion.

The federal government does have an important role in funding university and college research. Yet, the granting agency core budgets are nominally frozen in the coming year as the government delays releasing the report of for University of Toronto president David Naylor on science research. Some new funding is directed at targeted research programs. Overall, the budget comes up short.

With the roughly \$1.2 billion over five years with new or redirected funds for innovation, the funding is so low it would hardly budge long-term productivity rates. Even so, its logic is based on a faulty premise.

Taking advice from the Advisory

Council on Economic Growth, the budget directs funds to “winning” sector clusters. Why such funding is needed is unclear since one would expect entrepreneurs in the private sector would be more than willing to amass the resources on their own to pursue profitable opportunities. The budget’s focus is on six sectors: advanced manufacturing, agri-food, clean technology, digital industries, bio-health and clean resources. While some initiatives may work well, it is far from clear that anyone can predict which sectors and companies will be successful within two decades. Government winner-picking strategies have been spotty at best. For example, Peter Lougheed’s diversification strategies largely failed in Alberta, as shown by Ted Morten and Meredith McDonald in a paper two years ago.

“ The budget’s focus is on six sectors: advanced manufacturing, agri-food, clean technology, digital industries, bio-health and clean resources. While some initiatives may work well, it is far from clear that anyone can predict which sectors and companies will be successful within two decades. ”

A decade from now, I suspect we won’t move the productivity rate one decimal point resulting from measures taken in this budget.

In my view, a better working model for innovation is for government to reduce the burden of taxes and regulations that make entrepreneurs less willing to implement new projects.

Some of the policies would encourage public-funded universities and

colleges to connect better with the private sector to achieve commercialization of research ideas as currently done by the most successful global institutions. Typically, this would require regulatory changes to encourage a stronger connection between entrepreneurs and academics.

We also might want more health innovation but provincial health policies often get in the way (private medical innovators argue it is easier to export product than sell it in Canada). Procurement, for example, is focused on costs savings, not benefits, thereby reducing the demand for innovations.

Regulations based on old practices also make it more difficult for entrepreneurs to implement new processes and sell new products. Regulations also protect incumbents from market competition, reducing the incentive to innovate. It is not surprising that Canada is not at the forefront in world telecommunication markets with a regulated telecommunication sector protected from foreign competition.

Taxes can also impede innovation, especially capital gains taxes. Investors willing to invest in new projects must sell off under-performing assets but capital gains taxes discourage them from doing so. Governments looking to support venture capital unintentionally provide subsidies to poorly operated companies that crowd out better performing companies to raise capital from the market.

The 2017 budget wisely avoided raising capital gains taxes. With potential U.S. tax, trade and regulatory reforms in 2017, it will likely be the case that the next budget will have more meaningful impact on innovation by reducing regulatory and tax barriers in Canada, not raise them. Let’s hope that will be the case. **P**

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A Conservative Critique: Liberal Budget Increases Spending while Nickel and Diming Canadians

G rard Deltell

Federal budgets are more than a fiscal tool; they are a statement of values. That fact also makes the budget a political document, something that has never been lost on either the government or the opposition. Opposition Finance Critic G rard Deltell presents the Conservative Party's rebuttal to the Liberal budget.

On March 22, Finance Minister Bill Morneau rose in the House of Commons to deliver the Liberal government's second budget. Those who were hoping to see a shift in direction from a government drowning in deficits will be sorely disappointed.

For the second straight year, the Liberals have blown past their pledge to run "modest" deficits of only \$10 billion. The projected deficit for 2017-18 is pegged at \$28.5 billion. For reference, the Conservative government left the house in order in 2015 with a \$2.9 billion surplus. Oh, how times have changed.

Making matters worse, the budget contains no plan for how the Liberals propose to return Canada to balanced budgets, breaking the Liberal's election promise to have us back to balance by 2019. This budget projects deficits until at least 2021. A Department of Finance long-term forecast released on December 23 put us in deficits until the year 2055.

To pay for this massive new spending, the Liberals have had to hike taxes. This budget increases taxes on public transit use, Uber and ride-sharing, as well as beer and wine—to name just a few. This is on top of the taxes they've already increased on children's arts and fitness programs. All of this amounts to nickel and dimming Canadians.

And what has this new spending accomplished?

Not much so far.

The Liberals have promised to grow the economy. And yet, the economic growth outlook for Canada has worsened since last year's budget. This despite the massive increase in spending.

“The budget contains no plan for how the Liberals propose to return Canada to balanced budgets, breaking the Liberal's election promise to have us back to balance by 2019. This budget projects deficits until at least 2021. A Department of Finance long-term forecast released on December 23 put us in deficits until the year 2055”

Moreover, the Liberals' promised infrastructure spending is not materialising. In Budget 2017, the government admits that the implementation of their infrastructure plan has experienced some "slippage", with only 50-75 per

cent of the cash on track to be disbursed on time.

On the jobs front, this budget also misses the mark. As most Canadians know, small businesses are the engine of the Canadian economy—employing more than two thirds of the Canadian workforce. Conservatives recognized this and made sure that our budgets provided significant support for small businesses.

This Liberal budget does nothing to support them. Budget 2017 fails to deliver on the Liberal's election promise to lower small business taxes. Moreover, it increases payroll taxes, which will make running a business more expensive for thousands of small business owners across the country.

Big spending. Higher taxes. No results.

This stands in stark contrast with the Conservative economic record.

Under the stewardship of finance ministers Jim Flaherty and Joe Oliver, the Conservative government navigated the troubled waters of the 2008-09 global recession, the deepest downturn since the end of the Second World War. During that time, Canada had the best debt-to-GDP ratio in the G7. They did this while also executing a plan to return to balanced budgets. In 2015, the Conservatives delivered on that promise, tabling a balanced budget.

On taxes, the Conservative record is clear. We cut taxes over 180 times while in government, in every way that they are collected. As a result, the overall federal tax burden was at its lowest level in over 50 years under our watch.

During our tenure, the International Monetary Fund (IMF), the Bank of Canada, and the Organisation for Economic Cooperation and Development



Conservative Finance Critic Gérard Deltell in the House of Commons. “The budget,” he writes, “contains no plan on how the Liberals propose to return Canada to balanced budgets.” House of Commons photo

(OECD) projected that Canada would have among the strongest economic growth in the G7 in the years ahead.

On infrastructure, the Conservative government provided an unprecedented level of funding to support investments in public infrastructure across the country, supporting well over 12,000 projects from coast to coast to coast with our \$33 billion Building Canada Plan. We didn’t just promise funding, we delivered.

And on jobs, over 1.2 million net new jobs were created in Canada during our time in office. Of those jobs, 80 per cent were full-time and over 80 per cent were in the private sector, with over half of those jobs in high-wage industries.

This is because Conservatives understand the important role played by small businesses in driving our economy. During our time in office, we cut the small business tax rate from 11 to 10 per cent. We introduced the Small Business Job Credit, which lowered small business payroll taxes by 15 per cent over two years. And we made business easier by eliminating over 800,000 payroll deduction remittances to CRA made every year by over 50,000 small businesses.

All in all, we reduced the small business tax load by almost 50 per cent.

All of our Conservative, job-friendly policies led Bloomberg to recognize

Canada as the second-best place in the world to grow and start a business.

Balanced budget. Low taxes. Big results. That’s a policy road map we should all be following.

Beyond their reckless spending and taxes, this Liberal budget also misses the mark on a number of other important policy areas.

On skills training, the budget proposes almost no support for apprentices. As most Canadians know, there is a high demand for jobs in the skilled trades across our country. Support for apprentices provides an effective way for governments to incentivize more Canadians to get the skills they need to work in high-demand sectors.

On innovation, while the budget does make some good investments and changes—including making businesses compete for innovation funding, increasing private sector leadership in the file, and extending investments to venture capital funds—the overall impacts are expected to be modest. A recent report from the University of Ottawa’s Institute for Fiscal Studies and Democracy found that the federal government currently spends \$22.6 billion a year on nearly 150 skills and innovation-related programs with little understanding of their performance and value-for-money. The Liberals have not signalled how they plan to ensure that this new funding is delivering results.

We were also disappointed to see that Finance Minister Morneau did little to pay respect to the late Jim Flaherty’s strong legacy of support for individuals with disabilities. Flaherty’s budgets were known to always provide support for individuals with disabilities—a key priority for the late finance minister. He introduced the landmark Registered Disabilities Savings Plan (RDSP), making it easier for parents with children with disabilities to save for their children’s futures. And he also took strong steps to increase the number of individuals with disabilities in the workforce, building a more inclusive and accepting society.

Budget 2017 does little for individuals with disabilities. It tinkers with the RDSPs, making it harder for parents to save for their children, and wraps the Labour Market Agreements for Persons with Disabilities into a broader program, taking away this important focus.

Added to this, the budget failed to deliver support for the Canadian Autism Partnership—an important initiative started by the previous Conservative government. While the Liberals could find \$60 million in new funding for mental health services for prisoners, they couldn’t find \$4 million to provide needed support to thousands of individuals with autism and their families across this country.

All in all, this budget fails on many fronts. It continues along the dangerous path of deficit spending. It hikes taxes on hard-working Canadians. It delivers poor results on growth, jobs and infrastructure spending. And it hurts many important groups including small businesses, apprentices, and individuals with disabilities.

In a meaningful pre-budget photo-op, Bill Morneau decided to show his new budget shoes to children in a public school. The image had a powerful resonance: the children will later pay the note for this government’s bad administration. **P**

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Finance Minister Bill Morneau is congratulated by Prime Minister Justin Trudeau on delivering the Liberal government's second budget on March 22. The culmination of a long budgetary process that began the previous summer. Adam Scotti photo

A Marathon, Not a Sprint: How the Federal Budget is Prepared

Geoff Norquay

Many Policy readers have more than a passing knowledge of how the federal budget is prepared because they've covered budgets, helped prepare them, lobbied for asks or voted for or against them. But Earnscliffe principal and former senior political aide Geoff Norquay has provided a primer on the process that contains "aha" moments even for multiple-budget Ottawa veterans.

In the British parliamentary system, the budget is the most important political and economic document a government produces each year. In the Canadian context, the budget contains several essential elements:

- The details of intended government expenditures: how much money will be spent and the purposes and programs to which it will be allocated for the upcoming fiscal year and for several years into the future;

- An estimate of future government revenues and the sources of those revenues, as well as any measures necessary to raise those revenues: changes in taxation or tax expenditures;
- A description of the fiscal health of the government: surplus/deficit, debt, debt-to-GDP ratios, etc., plus estimates for economic growth in the short and longer term.

Budgets can serve many purposes.

In times of crisis or challenge, or following the election of a new government, they can be used to chart distinctly new directions. The Conservative budget of January 2009 was remarkable because the global economic crisis required the government to reverse course on balanced budgets and commit more than \$35 billion on spending to stimulate the economy and to take steps to backstop the financial system. Finance Minister Bill Morneau's first budget last year was seminal because it was brought in by a new government with a strong mandate, a huge set of high-cost commitments and a completely different approach to governing in both style and priorities.

Alternately, because a government has run out of money or ideas, or needs to play for time, a budget can be designed to stand pat and sink like a stone. In putting together Budget 2017, Morneau faced several of these challenges at once, beginning with a fiscal cupboard that was emptied by last year's big spending items (reforms to the child benefit, the middle-class tax cut and spending on infrastructure and Indigenous Canadians), sluggish economic growth and the risks and potential economic threats resulting from the election of Donald Trump.

The annual budget process begins several months before the document is actually presented. The previous June, the House Committee on Finance launches its pre-budget consultation process, setting its focus and priorities and establishing dead-

“ Because a government has run out of money or ideas, or needs to play for time, a budget can be designed to stand pat and sink like a stone. In putting together Budget 2017, Morneau faced several of these challenges at once. ”

lines for written submissions. Following the rise of the House for the summer, there is usually a cabinet retreat, at which an initial economic and fiscal update is presented and broad directions and priorities for next year's budget are reviewed. Over the summer, departments prepare program and spending options for the consideration of cabinet and the minister of finance in September/October. That results in individual letters from ministers to the finance minister setting out their priorities for the budget—usually their top three or four items.

October is budget consultation month, with the standing committee travelling the country to receive submissions from stakeholders. Also in the fall, the initial list of spending pressures is prepared by departments, identifying unexpected pain-points (Fort McMurray wildfire), sun-setting programs, potential lapsed funds (money that cannot/will not be spent as anticipated) and overall spending and revenue trends. In November, the prime minister may give general direction to the minister of finance or to operating ministers about their budget asks, as they and their departments finalize their top priorities for consideration by the minister of finance.

By November, the Department of Finance has a much clearer idea of spending and revenue trends, and the fall economic update is presented to the House by the minister. The update includes the latest estimates of growth and other economic indicators such as inflation and employment rates (provided by private sector economists invited to share their economic assumptions with the gov-

ernment), revenue flows, the deficit and the debt. The update is almost infinitely expandable; it can simply present the latest fiscal situation and economic forecasts, or it can make new spending and tax commitments, as well as foreshadowing measures that will be included in the upcoming budget. In December, the finance committee publishes its report on the pre-budget consultations.

“ While the fall update is being prepared, Finance is also preparing a series of “two-pagers”—briefing notes on each of the potential measures that have emerged from departments, as well as any interesting ideas that may have been raised by the finance committee consultations, and submissions from the general public. ”

While the fall update is being prepared, Finance is also preparing a series of “two-pagers”—briefing notes on each of the potential measures that have emerged from departments, as well as any interesting ideas that may have been raised by the finance committee consultations, and submissions from the general public. In the current budget cycle, there were some 2,000 proposals to increase spending received by the federal government. These measures are then mapped against the fiscal room the budget has for new commitments.

In January, Finance solicits updated views of the economy from private sector economists to inform final budget planning.

Budgets are governed by political imperatives—balance the budget, keep the deficit below a certain number, meet a particular debt-to-GDP ratio in the medium to long term. So, if the anticipated surplus is not there, or if the deficit number is too high, or if the debt track is just not defensible, spending may need to be scaled back. In other words, program and policy desires may have to give way to bottom-line realities. These are the calls that will ultimately be made by the prime minister and the minister of finance, but they have some support from several key individuals:

- At Finance Canada, these include the minister, deputy minister and assistant deputy minister for the Economic Development and Corporate Finance Branch, and the minister's chief of staff and policy director.
- Some Privy Council clerks play heavily on the budget, while others do not. Either way, PCO will follow the process closely and exercise a challenge function if they see anything amiss.
- In PMO, the principal secretary will likely be a major player, as well as the prime minister's director and/or deputy director of policy.

On budget day, the government produces two documents—the budget book and the budget speech. The former is written by the Department of Finance, runs to several hundred pages and contains all of the forecasts and details. It is a “biblical” text in government. Getting language into the budget is key to departments obtaining the go-ahead to prepare programs for submission to Treasury Board.

The budget speech is the political document, and its writing is a complex and demanding task—to weave together a seamless narrative that bal-

ances three objectives—political, program and financial: what the government stands for, what it is trying to achieve and how, all within a framework that is fiscally credible and can withstand scrutiny.

“*Budgets are governed by political imperatives—balance the budget, keep the deficit below a certain number, meet a particular debt-to-GDP ratio in the medium to long term.*”

In the final few weeks before the presentation of the budget speech, the principal writer gets to work. He or she may be an experienced writer for hire brought in for the job, or a senior member of the finance minister's staff, such as the director of policy. Either way, the required skill set includes deep knowledge of the government's political and policy agenda, an ability to write in the minister's speaking style, a wonkish appreciation for how governments and programs actually operate, an ability to describe complex subjects in accessible and plain language, a distinct lack of ego, the ability to work under acute pressure through scores of drafts, and infinite patience.

As the final crunch approaches, the deputy minister of finance and senior PMO officials prepare their principals for the final meeting/meetings to sign off on the budget. The prime minister and the minister then meet, and the final calls are made on the surplus/deficit numbers, the deficit/debt tracks and the key spending initiatives, and the budget is put to bed. After the budget, the first budget implementation bill is introduced into the House and debated and passed before the House rises in June. By then, the fed-

eral government is well into planning the next year's budget.

Finally, it's important to note that technology has changed the process of budget preparation in many ways. During the 1970s and 1980s, as today, it was considered essential that the budget be available to all Canadians as soon as it was released. As a result, the writing of the budget and budget speech had to be finished and printing had to begin three weeks before delivery. Printing staff were kept in lockdown conditions to prevent leaks. Following printing, thousands of copies of the budget and speech were dispatched across the country by Hercules aircraft, and then escorted under guard to Bank of Canada offices in each major centre.

Nowadays, the budget and speech are available on your electronic device as soon as the minister rises to speak—as long as the Department of Finance website doesn't crash. **P**

Geoff Norquay is a Principal with the Earnsccliffe Strategy Group. He worked in Brian Mulroney's PMO and was Director of Communications for then Leader of the Opposition, Stephen Harper. He was also the principal writer for the 2002 and 2003 Ontario budget speeches for Provincial Treasurer Janet Ecker.



Column / Don Newman

Much Ado About Nothing

It would be nice to report that Finance Minister Bill Morneau's March 22 budget was a document of Shakespearean proportions. But a report like that would hinge on the conclusion that the Shakespeare play it most resembled is "Much Ado About Nothing."

This budget was mostly a restatement of what the Trudeau government outlined in its first budget a year ago. A lot of trees were turned into paper to print large portions of last year budget again, in the supporting documents for this year's.

The budget speech the minister delivered was particularly anodyne. It was devoid of the numbers that traditionally are sprinkled through the speech; the deficit forecast, the expected growth rate of the Gross Domestic Product, and the predicted rate of inflation in the next year.

Instead, the central message in the budget was a reprise of the oft-stated fact that innovation is critical to creating the industries of the 21st century economy, and continuing education and skills training are necessary to prepare the workers that will be employed in them.

Significant money has been set aside to facilitate both. But if you look at spending on innovation, a lot of that money was in fact already committed.

The best example is the plan to create what are known as advanced clusters. These are high-tech groupings of industry, academia, skilled workers and the capital to underwrite the cutting edge work they will be doing.

The government is setting aside \$950 million over five years to foster these mini-Silicon Valleys. But it turns out that is not new money. Of the total amount, \$800 million of the money was announced in last year's budget, and the other \$150 million was announced in the fiscal update in November of 2016.

So how are we to understand such a bland offering? I think the only way is to view it as Act One in a two-act performance that will reach its climax with the finance minister's fiscal update next November.

Like any good drama, the first act laid out some of the dilemmas that will have to be resolved by the final curtain. Particularly the dilemma of changing the tax system.

In the run-up to this budget the government had hinted it was planning to tax more of the capital gains people make on investments. And it was also looking at doing away with the tax benefits some families can achieve by organizing themselves into personal corporations.

But it didn't do either. Instead, it said both decisions and other possible tax changes will be delayed until a review is completed later this year.

And more importantly than what the review finds out about Canadian taxes, the review will buy time for the government to find out what President Donald Trump and the U.S. Congress are doing with taxes in their budget. If Trump makes good on his promise to slash personal income taxes in the U.S., then Ottawa may be forced into a race for the bot-

tom, and if not lower, then at least not raise taxes on the more affluent.

The entrepreneurs Canada needs to attract often have much of their compensation in stock options, which they sell when the stock price rises and then pay the lower capital gains tax on their income. Likewise, some of these same people have organized their affairs into personal corporations and take their income out as dividends at a lower tax rate than if it were a salary.

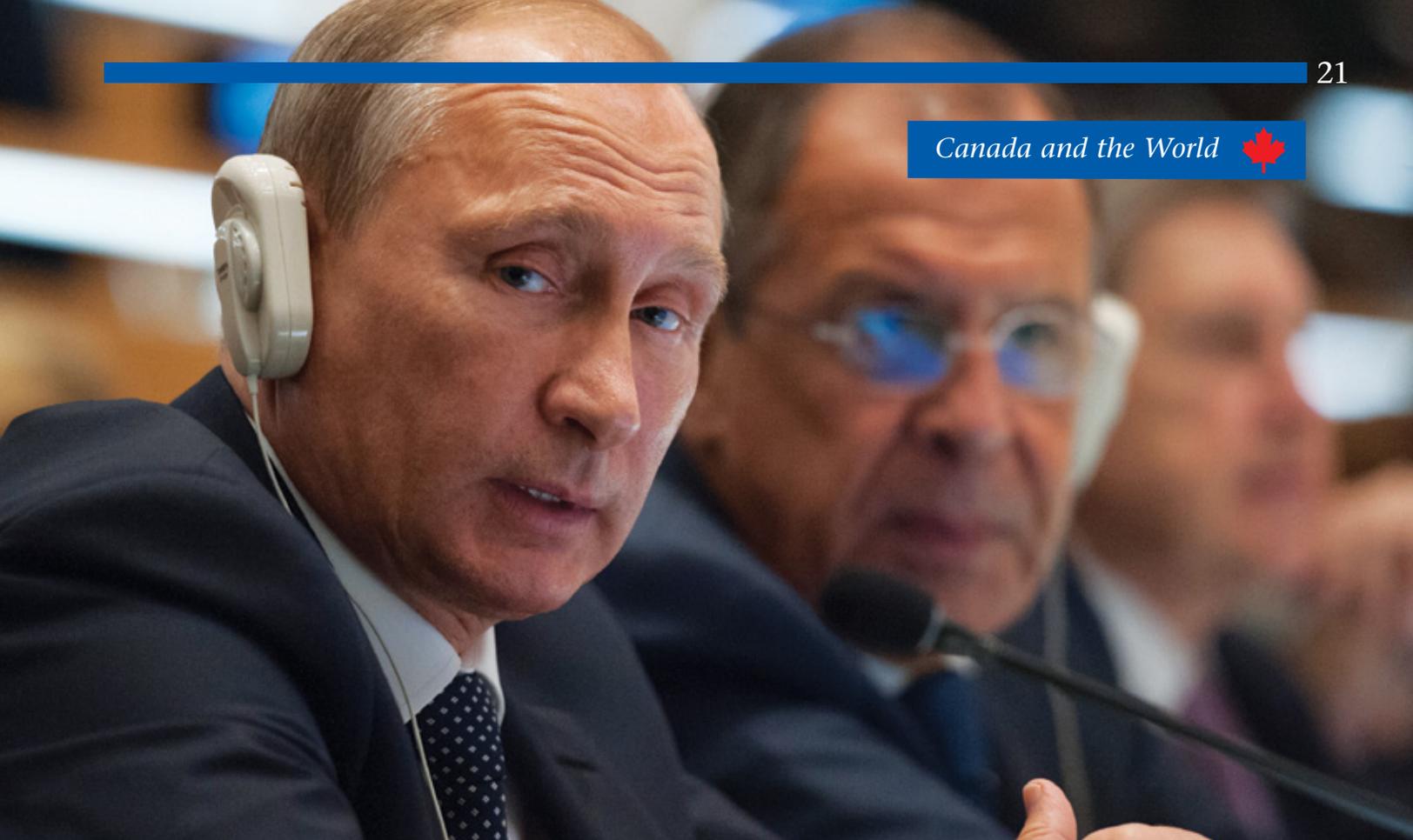
Whether Canadian-born or from somewhere else, these people are highly mobile. They are likely to set up operations in the most tax friendly locale they can find. How that is resolved could be a key to the success of the government's strategy.

And there is one more thing to add to the Act Two drama of this budget and financial update performance.

By the time of the update both the Conservatives and the New Democrats will have new, permanent leaders. Both parties will have selected the person that will lead them into the next federal election in October 2019. And by November, we will be closer to that next election than we are to the last.

At that point, instead of "Much Ado About Nothing" on the country's political playbill, Canadians can get ready for a full-blown performance of "The Tempest." **P**

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From Russia with love? Not exactly. Vladimir Putin has been in power for 18 years, and remains the dominant political actor in the post-Soviet era. Flickr photo

Vladimir Putin's Potent Recipe for Longevity

Anthony Wilson-Smith

A quarter-century after the demise of the Soviet Union, the early promise of a truly democratic Russia is a distant memory all but obscured by 18 years of Vladimir Putin's increasingly autocratic rule. Former Maclean's Moscow correspondent Anthony Wilson-Smith explains the potent alchemy of mythology, nostalgia and intimidation that keeps Putin in power.

In 1995, the celebrated Russian author Yevgeny Yevtushenko visited Toronto on a book tour. Over lunch, Yevtushenko was asked where he thought his still-torn country was headed—just over three years removed from the dissolution of the former Soviet Union at the end of 1991. In response, he picked up his novel, *Don't Die Before You're Dead*, and thumbed through it until he found the paragraph he wanted. Post-Soviet Russia, he had written, “divided into three countries. One was frightened and wanted to return to yesterday. The second did not yet know what tomorrow would be like, but did not want to return to yesterday. The third was waiting.”

Today, Yevtushenko appears to have been right not just once, but twice. After the erratic post-Soviet leadership of Boris Yeltsin, Russians ended their “waiting” by electing Vladimir Putin as president in 1999. And now, 18 years into Putin’s rule (including a spell where he nominally stepped aside as president for constitutional reasons while ceding little power as prime minister), Russia has in many ways returned to yesterday.

It’s increasingly hard to recall that period in the 1990s during which Russia looked to the West for cooperation and guidance. In place of that, consider this: Canada’s foreign affairs minister, Chrystia Freeland, is barred from entering Russia because of her support of Ukraine and criticism of Moscow arising from the troubled relations between the two countries. Russia has found itself by revisiting many elements of its past, including suspicion toward the West and an unwelcome fondness for acting unilaterally and aggressively in other countries’ spheres. Those paths are led by Putin, the sort of wilful, unblinking and casually ruthless leader that the country has lived with—and often enough, loved—through much of its past.

To many, Putin embodies the slick, cold-eyed villains that are staples of James Bond movies. Those same qualities are among the ones that Russians prefer. They include Putin’s strong nationalism, his well-honed skills as a communicator and shrewd branding of his lone-wolf self. His enthusiasm for blunt talk is accompanied by aggressive action in places ranging from Ukraine across Eastern Europe and into the Middle East. Most recently, there are the allegations—and clear indications—that Russia did all it could in clandestine ways to tilt the United States presidential election toward Donald Trump, even though Trump now seems to have fallen into disfavour around the Kremlin.

At home, Putin is often referred to as *batyushka*—or holy father. In keeping with that, his approval ratings routinely eclipse 80 per cent. His hold on power is helped by the fact that over the years, oppo-

“To many, Putin embodies the slick, cold-eyed villains that are staples of James Bond movies. Those same qualities are among the ones that Russians prefer. They include Putin’s strong nationalism, his well-honed skills as a communicator and shrewd branding of his lone-wolf self.”

nents of Putin often end up jailed—or worse—while there have been frequent allegations of voting irregularities in successive elections. That includes the 2016 vote that saw his United Party and other supportive groups resoundingly swept back to power.

But Putin’s popularity isn’t wholly manufactured or reliant only on fear. Surveys by independent pollsters reflect his soaring popularity levels, and those are supported by a wide body of anecdotal evidence. This remains true even as the economy has been in a downward spiral for years as a result of plummeting oil prices, a flawed infrastructure, an overly high percentage of spending devoted to rebuilding the military, and damaging economic sanctions imposed by a disapproving West.

In fact, Putin has shrewdly taken advantage of his country’s diminished status and economic conditions. Outsiders have often underestimated or misread the deep anger and frustration among Russians over the turmoil and hardship wrought by the end of the Soviet system. For Russians, it meant the collapse of a system that sustained them—albeit in bare-bones fashion—from cradle to grave. After its fall, jobs disappeared, pensions vanished, the ruble’s value plunged, and the already threadbare health system collapsed. Some of the most talked-about improvements, such as the growth of private enterprise and the freedom to travel abroad, touched relatively few Russians.

The holes in the old Soviet Union’s economy were apparent well before its final collapse. In some ways, President Mikhail Gorbachev’s policies of *glasnost* (increased openness) and *perestroika* (reform) contributed to his unpopularity: for the first time, Russians could see how poorly they were

living measured against many other countries—and with that knowledge came the freedom to publicly lament their situation. During my three years travelling the USSR as a Moscow-based correspondent, Gorbachev’s unpopularity became more apparent month-by-month. At first, many people equated greater democracy with increased prosperity. When the latter did not arrive alongside the former, they were shocked and felt betrayed.

To some extent, Russians have long accepted hardships in their living conditions so long as there were other compensations. Many became inured to tales of brutality meted out by their leaders. I recall interviewing Second World War veterans in Moscow about their wartime experiences. By then, the media was rife with stories of Joseph Stalin’s indiscriminate jailing and murder of millions of Soviet citizens during his time as leader. But the veterans either didn’t believe or simply dismissed those stories. To them, Stalin remained a hero because he led their country to triumph over Nazi Germany against long odds. Putin understands that sentiment. As he has once observed: “Stalin is the most popular figure in all of Russia.”

Putin is no Stalin, but he similarly understands the importance that Russians place on their standing in the world. Before the collapse of oil prices, it was a common and accurate boast among Russians that Moscow had more billionaires than New York City. Many newly-minted oligarchs were Putin intimates who provided vocal and financial support in his favour.

But Putin has also shown a cheerful willingness to toss those same people aside when convenient. For a classic demonstration, search “Putin Rage”

on Youtube to see a video that appears in various choices of length. It features a 2012 Putin visit to the town of Pikolyovo to investigate cost overruns and delays that were afflicting a large factory and its workers. With cameras conveniently on hand, as well as a strong showing of local residents, Putin summons the factory managers and the owner, the billionaire Oleg Deripaska.

Speaking in a soft voice with his rage nonetheless apparent, he asks several perfunctory questions, denounces the managers and owners as “cockroaches”, and then summons Deripaska to publicly sign a contract committing to get the factory fully moving again. First, Deripaska argues he has already done so; then, recognizing defeat, he slouches forward and signs. As a final touch, Putin lets him get five or six strides away, then snaps: “Give me back my pen!”

Other, similar videos all make for great theatre. Putin, a former KGB station chief, has

no trouble looking genuinely menacing. Couple that with his palpable enjoyment of the perquisites of power, fluency in German (and occasional displays of impressive English proficiency) and you have a leader of whom Russians generally feel proud. Never mind the speculation that Putin has close to a dozen residences in various places, and that his net worth has been estimated at anywhere from \$40-\$70 billion (US). Official Russian government disclosures list his annual salary at \$187,000 (US) or 5.8 million rubles with a total net worth of less than \$500,000 (US).

By rights, Putin should be past his best-before date, done in by an economy that has sputtered too long. The Russian economy shrank by an estimated 3.7 per cent in 2015, and real disposable income fell by 10 per cent. The ruble’s value is now about half what it was at its peak, and the number of poor increased by 3.1 million to 19.2 million in 2015.

But Putin seems likely to remain in power as long as he wants. One con-

cern outside Russia is whether his ambitions include the restoration of the old Soviet Union. He fuelled that speculation in 2010 with a now-famous quote in which he said: “Whoever does not miss the Soviet Union has no heart.” But, he then added: “Whoever wants it back has no brain.”

Since then, Putin has insisted that he simply wants to restore Russia’s pride in itself and starring role on the world stage. Russians like that—and it helps that Putin has a knack for the sort of turn of phrase that would make for a great tag line in any Hollywood action movie. Asked once about his view on terrorism, he responded: “We’ll chase terrorists everywhere. If in an airport, then in the airport. If in the toilet, we’ll waste them in the outhouse. Case closed.” As his opponents know too well, he means it. **P**

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Prime Minister Justin Trudeau addresses the EU Parliament in Strasbourg in mid-February. The next evening he told an audience in Hamburg, Germany: "Increasing inequality has made citizens mistrust their governments." Adam Scotti photo

The Crack-Up: Can the West Get it Back Together Again?

Jeremy Kinsman

Writer's block occurs when an author doesn't know what to say, or can't make it up. We may be there now with the dystopian presidency of Donald Trump, Brexit in the UK and the rise of the far right in Europe, with elections this year in France, Germany and the Netherlands, with Vladimir Putin's Russia as a nosy neighbour. Our senior foreign affairs writer, himself a former Canadian ambassador to Russia and the EU, tries to make sense of a world order that seems to be coming apart.

"The Crack-Up" was an essay F. Scott Fitzgerald wrote in 1936 for *Esquire* magazine, to which he had regularly supplied short stories. His creative talent had gone dry but he needed money. The editor, Arnold Gingrich, told him just to write about why he couldn't write.

In Russia's crazy topsy-turvy 1990s, when each day seemed to be more astonishing than the one before, the fertile Russian creative imagination couldn't compete. Writers of screenplays and narrative fiction were on empty, realizing no one could "make this stuff up."

Poor American writers today. Who could have imagined the election of the most preposterous public figure of our time,

who launched his candidacy by claiming President Barack Obama was born in Kenya, and who wooed disgruntled white blue-collar citizens with incendiary falsehoods and crude attacks on opponents, including the charge that the Democratic nominee would soon be indicted and “locked up”? Candidate Donald Trump’s base of agitated working-class supporters believed he was just “telling it like it is.” But President Trump continues to invent facts and events while denouncing fact-checking from legitimate media he calls “the enemy of the people.”

The bizarre election was the first to be consumed by “fake news.” Teenage hackers in Macedonia posted on a tolerant Facebook imaginary reports from false sites pretending such now well-known fables as Hillary Clinton and John Podesta’s “pedophile ring” run from a Washington pizzeria, and her imminent demise from a brain tumour. Millions of credible Americans on “alternative” right-wing news sites gobbled up the lies, rewarding the teenagers with Google click-money from advertising.

We continue to reel from a dark Russian connection. Convinced the Russian government hacked into Democratic Party e-mails and exposed embarrassing messages to support the Putin-admiring Trump’s candidacy, U.S. intelligence agencies broke with the new president.

As he termed his own intelligence agencies “very un-American,” confidence from U.S. allies plummeted. The dive deepened when Trump’s main strategic adviser, Stephen Bannon—who formerly ran the “alternative right” website Breitbart—labelled the Trump administration as “populist nationalist,” deriding liberal internationalism that has underpinned international economic, monetary, humanitarian, and civil cooperation since the Second World War, thereby premising U.S. defection from operating principles shared with Canada and democratic Europe.

Faint hope endures that the reality-distorting president and fact-denying “America-firsters” will be moderated,

“European citizens long ago banked as givens the EU’s accomplishments of having ended Europe’s murderous wars and eventually extending democracy across the continent. Europeans have never been as prosperous, educated, healthy, green, or free in their history. But they now take it for granted.”

including by U.S. institutions. The new U.S. national security team, vastly improved by the appointment of credible and brainy Lt. General H.R. McMaster to replace the conspiratorial and loopy Michael Flynn—fired after three weeks on the job—is trying to soothe the nerves of allies, especially in Europe, jarred by Trump’s description of NATO as “obsolete” and his rooting for the break-up of the European Union.

But the picture is of democracy discredited, America in a kind of vindictive retreat, and the EU in disarray.

None of it began yesterday, especially in Europe, where the European Union struggles against decades-old right-wing national political insurgencies whose resentments against the established order are encouraged by Donald Trump.

What happened to the European dream, constructed on the ruins left by the war driven by the last wave of “populist nationalism”?

European citizens long ago banked as givens the EU’s accomplishments of having ended Europe’s murderous wars and eventually extending democracy across the continent. Europeans have never been as prosperous, educated, healthy, green, or free in their history. But they now take it for granted.

After the post-war 30-year economic “miracle” stagnated, making their deep social benefits unaffordable, national politicians in the EU scapegoated the bureaucracy in “Brussels.” Anti-EU. sentiment began to grow.

Waves of refugees and economic migrants deepened resentment. Drawn to European prosperity, they are not

“immigrants” in the Canadian sense of being recruited, prepared, and welcomed. EU countries had declared themselves as “zero-immigration” almost 40 years ago but respected international covenants to accept refugees. However, because they hadn’t asked them to come and because the refugees were vastly less prepared to adapt to an unfamiliar established culture than are recruited settlement immigrants, Europeans pushed back against challenges to local identities posed by the newcomers’ religious and cultural practices.

Nativist political parties in EU countries conflated an anti-newcomer message with resentment of “Brussels” and added resentment at forces of globalization they argued exported their jobs to lower-cost locales while enriching only a tiny minority at home. Jihadist terrorists darkened public fears as the horrendous wars in the Middle East spewed more desperate people to a European sanctuary.

Recently, having struggled with a divisive euro crisis, the pressured EU has begun pasting a better collective act together on refugees, deporting hundreds of thousands of non-eligible economic migrants, cutting deals to keep war zone refugees closer to their region of origin, and trying to manage their more pluralist societies.

But in a surreal tsunami event, the British voted to exit the EU despite expert advice it would cost them dearly and could lose them Scotland to boot. The British had always been ambivalent about EU membership. De Gaulle believed they were incapable of choosing an EU vocation over their self-involved “special relationship”

with Washington. UK governments balked at the EU's principles of a more egalitarian "European social model" and at the political project's goal of "an ever-closer Union." EU membership for most Brits was about access to the world's biggest market, period.

“ In the Brexit campaign, economics took a back seat to more mythic issues of national identity, amped up by phony claims the country was being “overrun” by welfare-shopping EU migrants. ”

But in the Brexit campaign, economics took a back seat to more mythic issues of national identity, amped up by phony claims the country was being “overrun” by welfare-shopping EU migrants.

The referendum itself was a Conservative party political device to neutralize the growing appeal of the UK Independence Party that was eating into the Tories' right and rural flank. But the “Remain” fear-mongering campaign was incompetently managed with nothing positive to say about the EU itself. Meanwhile, the “Leave” side played to English emotions in a campaign as mendacious as any in memory. The Oxford Dictionary declared “post-truth” the new word of the year.

Most UK voters didn't—and still don't—expect to lose the UK's tariff-free and just-in-time access to the EU market for 44 per cent of British exports. In that such a consequent clean total exit—a “hard Brexit”—is unaffordable, logic favours a UK compromise toward Swiss-EU lines down the road. That Prime Minister Theresa May has seemed determined to drive to a much harder fate is due either to an opening negotiating stance or to what one British scholar friend calls the “North Korea-like” bubble she is said to inhabit.

As in the U.S., there was an echo chamber effect of only listening to those with whom you agree, and ignoring anything implying “expertise.” The credibility of authorities and experts who warned of the economic consequences had been undermined by a decade of lies about the invasion of Iraq and the 2008 financial meltdown that eroded trust for years to come.

The EU's 27 partners aren't going to reward May's venture, especially after her rush to be the first to pay homage to the anti-EU President Trump.

I doubt even the Brexit crisis will cause the EU to crack up. The EU, built to adapt to crisis, may well evolve into a looser, more flexible structure, but it will survive, including populist challenges in vital elections in France and Germany, as it did in the Netherlands on March 16, where the centre held with voters rejecting right-wing leader Geert Wilders' platform to ban Muslim immigrants and take the Dutch out of Europe in a “Nexit”. But in stagnating Italy, elections may prove to be a setback for the EU.

Russia, the resentful disrupter, may think it got what it wanted from this mess. But like Brexit, Russia is the dog that caught the bus. Russia went too far in interfering with the U.S. democratic process. Sooner or later, there will be a price to pay and it may cost Putin plenty.

But Russian hacking didn't elect Trump, who was blessed with an opponent easy to denigrate in the new age of lightning-fast false and fake news that an electorate with surprising pockets of civil deficiency chose to buy. The Democrats ran a terrible campaign without a positive message, and a weak messenger in Hillary Clinton, who had been too long on the national stage.

What is true is that Trump—and Brexit—did benefit electorally from a vast well of malaise about unfairness in the distribution of wealth. The salaries of working U.S. males have not increased in real terms in 40 years. In Los Angeles, a house went on the market in February for \$250 million.

Such obscene disparity has caused a ground-level revulsion against the globalized world order. Bernie Sanders won tens of millions of Americans to his call for redress. The issue is “fairness.” The question is whether governments can adjust in time.

Such disarray and dismay in the western “demos” leave Canada and our “sunny ways” kind of exposed. Justin Trudeau warned the EU that our jointly wrought CETA may be the last international trade agreement for years to come if we don't put our shoulders jointly to the task of defending and improving the liberal internationalist order from the Vulcans of populist nationalism.

In Hamburg, Trudeau told his German hosts: “Increasing inequality has made citizens distrust their governments. Distrust their employers. And we're watching that anxiety transform into anger on an almost daily basis. It follows that people's natural defence mechanism ... is to hunker down and recoil inward. To give into cynicism. To retreat from one another. But it's time for us, as leaders in politics and business, to step up.”

These words parallel Trump's channeling of distrust in his inaugural message but without his in-your-face nationalism—“From this day forward, it's going to be only America first—America first.”

With an artful Washington performance, Trudeau bought some time for Canada and the U.S. to sort out some vital neighbourhood issues between us.

But now that we can daily expect the unexpected, it will take more than eloquent words from remaining liberal internationalist partners to paste global confidence and cooperation back together. Otherwise, the screenplay for the next decade will again be unimaginable. **P**

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President Donald Trump with Vice President Mike Pence and Secretary of Homeland Security John Kelly at the White House in January. Trump leads a deeply divided America. Official DHS photo

The Mood of America: Seldom So Divided

Robin V. Sears

Before America and the world had time to adequately process the events of the 2016 presidential election, Donald Trump had turned the U.S. presidency into a perpetual distraction machine of unprecedented clips, headlines and tweets. Veteran political strategist Robin Sears ponders what America is living through and what may come, from the cocktail crowd of Trump's New York to the beaches of the Florida Panhandle.

An update to the most iconic bumper sticker of the past 50 years has already been spotted on American freeways: "Don't Blame Me. You Voted For for Him." Donald Trump's dystopian administration challenges comedy's sharpest satirists at SNL and elsewhere. We have an American administration that, given the stakes, should defy parody but simply generates too much prize material on a daily basis not to lampoon.

As Americans and the world tried to understand what happened last November 8, and why, as the post-election smoke cleared on the most divisive campaign in fifty years, some explanations for the stunning result did emerge. Perhaps, not

surprisingly, if you were a high school dropout you were highly likely to be a Trump supporter. After all, he had declared on several occasions that he loved “the poorly educated.” Equally, understandable was that if you were also a poor, white, retiree from a rural county, you were more than 80 per cent likely to see him as your man.

But many affluent, college-educated men and women were also Trumpies, as were a surprising number of Hispanics and young people. What did they not understand about the bizarre promises that Trump made, and has now begun to implement in a stunningly incompetent manner? Were they not listening? Likely not. Did they not care about his misogyny, racism and ethnic slurs? Perhaps not.

A month after election day, at a large private business event in New York, it was hard to tell whether the wealthy and powerful guests—many of whom had known Trump for years—were more offended that the nation was about to be governed by a vulgar buffoon or by what he might do with the levers of power. They collectively confirmed the suspicions of the conservative poor about the snobbery of rich liberal New Yorkers.

But two weeks’ vacation in deepest Trumpland—the Florida panhandle—in February offered additional insight that we have not given sufficient weight to. Yes, this was a change election, but not a leap for aspirational, hopeful change. It was a “throw the bums out” tidal wave. Hillary Clinton never successfully branded herself as anything other than “one of the boys.” She became an icon for working and middle-class anger. She and her husband had also been on the national stage for a quarter century, and many Americans had seen quite enough of them.

After some days of conversation with, and eavesdropping on, older, richer, white Floridians, it became clear that it was this revulsion with the corruption of the American electoral process, the appearance of politicians enriching themselves while doing little to help

“Some experts point to the increasingly rigid stovepipes of information that most of us now consume—social media and digital sources tailored to our prejudices. Others cite the impact of race and class, and the slide in the living standards among previously secure middle class Americans.”

those crushed by this past painful decade was the far more powerful driver of Trump’s rise. They were looking for a vehicle to punish, not one to deliver positive change.

Their spitting anger at these elites, even if some of the angry were ironically members of the club themselves, was deep and vehement. I saw several shiny Mercedes with a chilling bumper sticker that read: “Hillary Clinton in 2016—*To Prison Now!*” Their contempt for her was not greatly different than their disdain for many Republican politicians locally and nationally. It was not merely that she was a “woman, bossy, been around too long.” She was the symbol of the elites’ foul play and Trump would “Lock her up!”

America is a nation of nearly infinite contradiction, a collection of contending communities that somehow manage not to lose the values of shared citizenship. Deeply distrustful of politics, government and increasingly, all institutions, from banks to Bible school. Yet there remains a profound sense of national pride, vested principally today in the military. The famous Tea Party-era placard that read, “Keep your dirty government hands off my Medicare!,” not only aptly frames the contradictions, it is also a sad insight into how Trump managed to pull the wool over the eyes of so many of his desperate supporters, those looking for a tough guy to punish the rich and to lead them out of the desert of the past decade. His cabinet of billionaires may not be the most likely crew for such a revolutionary task.

It is a noteworthy phenomenon that while Canadians’ values and politics become less regional, and less parochial, America’s divisions appear to

be constantly widening. Researchers, political scientists and sociologists offer a variety of explanations. So far, none has demonstrable proof as to why our neighbouring societies are reacting so differently to accelerating 21st century change.

Some experts point to the increasingly rigid stovepipes of information that most of us now consume—social media and digital sources tailored to our prejudices. Others cite the impact of race and class, and the slide in the living standards among previously secure middle class Americans. And some point to the still raw wounds of 9/11 and the too many years of too pointless foreign wars. Whichever combination of roots one prefers, this election offered devastating evidence of how far apart are the values and convictions of conservative and progressive Americans.

“As the drip by drip revelation of Trump’s relations with the Russians continues to unfold, it does beg the question, “What happens next?” If we are heading into another Watergate moment, can Mike Pence successfully play Jerry Ford?”

These divisions do have a long tradition, however. From William Jennings “Cross of Gold” Bryan, to Teddy Roosevelt, to Joe McCarthy, Ross Perot, Ralph Nader and even Barack Obama, perhaps a third



The Womens March on Washington, the day after Trump's inauguration. He insisted he drew bigger crowds, nope. Wikimedia image

of American voters are always available to a charismatic insurgent from left or right, as a result of this deep skepticism of many Americans about their government.

As the drip by drip revelation of Trump's relations with the Russians continues to unfold, it does beg the question, "What happens next?" If we are heading into another Watergate moment, can Mike Pence successfully play Jerry Ford? That is, can he be seen as a source of calm and restoration of normalcy, after what will have been months of increasingly bitter recrimination, leading to a final showdown?

It will be hard. Unlike Nixon, who finally accepted his end, Trump will continue to shriek his innocence and his fury at being framed, long and loud. Even if he is able to fend off the stench of collusion with Moscow successfully in the short term, the list of potential clashes involving conflict, dubious business partners, and the values of some of his closest advisers continues to grow. If Trump survives a full term, it is likely to be as disputatious and ugly a presidency as anyone has seen since the Nixon era.

Some evidence of buyers' remorse among those voters who chose a Hillary killer, rather than a Trump agenda, is beginning to emerge. A "@Trump_Regrets" Twitter account has amassed more than 220,000 followers according to the *New York Times*. Typical of many of the contributions

is that of Debbie Nelson in Chicago. She concedes that she voted for Trump "because of Hillary's lies." Already disillusioned, she posted, "We need a mature adult as a president. Can I take my vote back?" The final straw for her was Trump's behaviour and his continuing jihad against the media as purveyors of "fake news" and as "enemies of the people." Not surprisingly the account has also become a target for angry and threatening Trump fans, presenting a sad, real-time update on the bitter divisions that divide America.

Perhaps the most astonishing development post-November 8 has been the explosion of protests against him, apparently self-organizing in many cases. The Women's March following his inauguration drew bigger crowds than Trump. Within hours of the bungled ban on travellers from seven predominantly Muslim Middle East countries, American airports were besieged with angry protestors. While Trump used his Twitter account to great effect during the campaign, the power of social media now threatens to become a more effective source of opposition than the media, the intelligence community, the Democrats and his unhappy GOP critics combined. Drawing on the powerful symbolism of a resistance movement, the groups are increasingly branding themselves as "Resist!"

The Obama team first demonstrated

the power of Twitter and Facebook as organizing tools. Ironically, the Trump presidency appears likely to give birth to a real-time globally connected international opposition movement. This may be a mixed blessing for the Democratic Party. The leaders of many of these groups clearly don't need the endorsement of politicians to be successful, and may come to challenge their relevance to the Resist movement itself.

We have seen this movie before. When Students for a Democratic Society and the 1960s anti-war movement undermined the legitimacy of the Democratic party in the Johnson, it was the GOP who were the beneficiaries. History does not repeat itself precisely, however, and this era is marked by two important differences: a much wider network of opponents than angry anti-war students and a Republican party which already holds deep reservations about its president. Each seems likely to grow.

An optimistic view of where these trends will go is an early and decisive collision between Trump and his de-tractors. His resignation within two years and his replacement by Mike Pence are the outcome English bookies are already giving good odds on. Nothing in his makeup and behaviour to date leads one to think that he would fall on his own sword, however. But even a showdown that he wins, and allows him to continue to govern like an angry crazed autocrat, is preferable to the most pessimistic scenario.

Surely the gloomiest vision of the years ahead is one in which the skirmishes and guerilla warfare between the courts, the media, Congress and the White House grind on for four long years, and protests and street violence escalate, each undermining American self-confidence and credibility internationally, and plunging the nation itself into a form of venomous digital civil war from which recovery and healing would take years. **P**

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A subdued World Economic Forum at Davos, reflected the attacks on globalization from Brexit and Donald Trump's America First presidency. WEF photo, Benedict von Loebell

Letter From Davos

Kevin Lynch

At its annual gathering of global political and economic thought leaders in January, the World Economic Forum grappled with the geopolitical implications of Donald Trump's presidency and China's ascendancy, and what the future will hold for millions of workers displaced by technology. In such an uncertain environment, Canada is well positioned to provide solutions.

After an exuberant gathering of the global policy elite at Davos last year, the 2017 edition was a subdued and rather anxious affair. Coming at the outset of Donald Trump's "America first" presidency and Theresa May's "hard Brexit" UK premiership, the World Economic Forum's mantra of the benefits of the Fourth Industrial Revolution, driven by globalization and technological change, was under siege by a surge of populism in many Western countries.

Trust in government, business and media—the elites—has declined across western democracies. Some surveys suggest a majority of citizens do not trust their governments, with middle classes feel-

ing under growing stress, and fretting that their governments don't get it and are not on their sides. Workers made redundant by robots and global supply chains, who are more aware every day of increasing income inequality and decreasing equality of opportunity in the society around them, are embracing populist tenets ranging from nationalism to protectionism, from distrust of "others" to anti-establishment resentment, from nostalgia to angst and anger. As history teaches us, bouts of fervent populism seldom end well.

Taken aback by this counter-revolution against the "Fourth Industrial Revolution", Davos discussions lacked a convincing understanding of the drivers of this populism that has surprised elites and pollsters alike in the U.S., Britain, France and elsewhere in the West. Elite angst and collective hand-wringing need to move smartly to examining solutions if we are to sustain the benefits delivered by innovation and global trade.

As Fareed Zakaria observed, this is not the time for Western business and government leaders to vacillate on whether globalization and technological change are good, either for their national economies or the global community—they are and always have been. The focus must shift to rebuilding growth, facilitating adjustment for firms and sectors and workers negatively impacted by technological change and the economics of global supply chains, and to do so at the required scale and scope. Remarkably, the strongest and clearest defence of globalization, trade, innovation and even capitalism at Davos came from President Xi Jinping of China.

We are living in highly uncertain, volatile and contradictory times. It is a world where 10 per cent of the world's public companies earn 80 per cent of the profits, and wealth inequality across the globe is equally striking; where short-termism is estimated by McKinsey & Company to have cost the U.S. economy alone up to 5 mil-

“ Elite angst and collective hand-wringing need to move smartly to examining solutions if we are to sustain the benefits delivered by innovation and global trade. ”

lion jobs; where global infrastructure needs exceed \$49 trillion between now and 2030 but the surplus funds are in private sector not government hands; where 85 per cent of U.S. job losses have been due to technology not trade, and technological change is accelerating; where mediocre growth is the new normal in most Western countries and even emerging economies have slowed, but trade has slowed even more. This is a world where global geopolitical leadership is hugely uncertain as America withdraws, China expands and Europe dithers.

“ Workers made redundant by robots and global supply chains, who are more aware every day of increasing income inequality and decreasing equality of opportunity in the society around them, are embracing populist tenets ranging from nationalism to protectionism. ”

A key theme reverberating across Davos conversations was that trust is missing in action in many countries, particularly in the West, with disenchanted middle classes giving rise to a "world of distrust" that nurtures populism.

Edelman produces an annual, multi-country trust barometer which measures public trust in government, business, media and NGOs, for both the "informed public" (aged 25-64, top quartile of income, financial lit-

eracy) and the "mass population" (the rest). What they found is that a majority of the mass population now distrusts these four key institutions (taken as a whole) in 20 of the 28 countries in their most recent survey, including Canada. Moreover, there is a pronounced "inequality of trust", with the informed public indicating significantly higher levels of trust in these institutions than the mass population—these "trust gaps" were an incredible 21 points for the U.S. and 19 points for the U.K. On the business front, CEO credibility with the mass population was down, with 67 per cent citing too much focus on short-term results and 57 per cent citing not enough focus on positive long-term impacts.

A post-Brexit drill down by Edelman for the U.K. showed the sharpest drops in trust were for the government and the media (particularly traditional media), with over 60 per cent of the mass population believing "the system" is failing them, and with two-thirds agreeing with the statement "we need to prioritize the interests of our country over those of the rest of the world." The echo chamber of post-trust populism was also evident, with a sizeable minority indicating that facts mattered less to them than authenticity and commitment, and that they tended to ignore information that supports a position they did not believe in.

If trust is on the decline, so too is support for globalization. The United States, the key architect of the post-Second World War system of global institutions and international trade liberalization through the World Trade Organization, has signalled an "America first" approach that em-



Chinese President Xi Jinping adroitly occupied the Davos agenda space vacated by absent western leaders. WEF photo, Manuel Lopez

braces protectionism, eschews global rules and risks trade frictions turning into trade wars.

With this Trump trade policy approach, and the growing tensions within the EU, the new face of globalization risks being shaped more by national policies in major nations than through a set of global rules arrived at by negotiations involving the international community. Power will trump process, nationalism will take precedence over the international community, and zero sum thinking will replace cooperative models of trade and growth. This should be cause for concern for countries like Canada, who benefit from global rules of the game,

In the U.S. (and U.K.), according to former Treasury Secretary and National Economic Council Director Larry Summers, the middle class feels that the government is not “fighting for them”, and we need to find effective ways to bring the

shrinking U.S. middle class back into the mainstream—economically, socially and politically. Rising income inequality and declining equality of opportunity at home, an inadequate focus on international tax and regulatory havens, and no focus on adjustment programs for firms and workers to respond to shifting economics of trade, has reduced middle class American trust and confidence in globalization.

While it is true that globalization has widened wealth gaps within countries and narrowed wealth gaps among countries, this obscures the crucial point that the vast majority of job losses in the United States have been the result of automation, digitization, and other cost reduction innovations, not trade and globalization. And, the rate of technological change is accelerating not slowing down. The march of the robots is clearly not consistent with the Trump

narrative of why American jobs have disappeared and who the job stealing culprits are.

“*The march of the robots is clearly not consistent with the Trump narrative of why American jobs have disappeared and who the job stealing culprits are.*”

All voices have not turned negative or fallen silent on the globalization front: China is offering to fill the void. As *New York Times* columnist Tom Friedman quipped, “If you closed your eyes and just listened to President Xi’s Davos speech, you would be forgiven for thinking that President Obama had come to Davos after all to deliver a stirring defence of globalization, technological change, and capitalism.” Indeed, the contrast with President Trump’s Inauguration Address, in which he stated: “We must protect our borders from the ravages of other countries making our products, stealing our companies and destroying our jobs. Protection will lead to great prosperity and strength,” could not be more stark.

President Xi’s strategic decision to be the first Chinese leader to address Davos and to do so at this time to fill the void created by the U.S. president’s antipathy to globalization and embrace of protectionism was masterful: He flattered the Davos elites; he launched a robust defence of globalization and free trade; he warned about the dangers of protectionism leading to trade wars (“No one will emerge as a winner.”); he acknowledged the voices against globalization and indicated we need to bring their concerns into our discussions; he called for more effective and shared governance of the global system; and he lauded the dynamic benefits of technological change, calling for an innovation-driven growth model for China.

It was a bravura performance. To Trans-Pacific Partnership countries, his message was that the U.S. is undependable and you should join our alternative regional economic alliance. To Asian countries, it was that there is a new sheriff in the hood. To the global community, it was that the international system needs new protectors and new reforms and China expects to be a leader in both. And to the United States, the message could not have been clearer—don't mess with China.

And then there is the march of the robots. After populism, the most commonly heard phrase at Davos this year was AI (artificial intelligence)—the current “tech superstar”. As in recent years, Davos was awash with tech titans, with Google, Facebook, Microsoft, IBM, Salesforce, Infosys and Alibaba very prominent. While continuing to beat the drum of accelerating technological change and its benefits, driven by a range of disruptive technologies including robotics, AI, blockchain, big data, internet of things, virtual and augmented realities, biotech and energy storage, there was a new tone of concern about technological job displacement, not unrelated to the populism in the U.S. and elsewhere.

According to World Economic Forum research, 86 per cent of U.S. manufacturing job losses between 1997 and 2007 were the result of technology-induced productivity increases, compared to less than 14 per cent because of trade. The OECD has demonstrated that technological change is shifting the distribution of income from labor to capital in Western economies. And, most experts expect rapid advances in robotics, sensors, machine learning and big data to impact an increasing range of non-manufacturing sectors in the coming years, with positive implications for productivity and growth but with inevitable job displacement and skill shifting.

Satya Nadella of Microsoft noted that we are only in the first phase of AI, where the applications are largely hu-

“ According to World Economic Forum research, 86 per cent of U.S. manufacturing job losses between 1997 and 2007 were the result of technology-induced productivity increases, compared to less than 14 per cent because of trade. ”

man augmentation, but longer term it will replace humans in a variety of occupations including highly skilled professions such as radiologists. AI is not IT on steroids: it is disruptive and transformative, and massively reduces the costs of inference and prediction. Investors will fund AI innovations that either do something that cannot be done today, or do something to add current value, or cuts costs, usually through worker displacement. McKinsey estimates that 45 per cent of all work activities in the United States have the potential to be automated through machine learning technologies. The challenge, as in previous industrial revolutions, is the creation of new, quality jobs in sufficient numbers, at the right pace, and the successful retraining of workers for these new jobs.

So, where does this declining trust, rising populism, rising protectionism and increasing technological change leave the world economy? The contradictions are striking: despite the deep funk in many quarters as a result of the Trump victory (and Brexit), stock market valuations are up in the U.S. and the U.K., so too are business and CEO confidence surveys, and short-term economic forecasts have been notched upwards in the U.S. and elsewhere. U.S. business executives at Davos cited lower corporate taxes, a rebalancing of the regulatory burden, expansionary fiscal policy (infrastructure spending and military procurement) and generally a more pro-growth environment by the Trump administration as reasons for their economic optimism.

Balanced against this short-term economic optimism is enormous uncer-

tainty as the Trump policy agenda is remarkably vague on specifics despite its bluster and rhetoric. In this regard, key questions, and uncertainties for 2017 include:

- Whether Congress cooperates with President Trump's infrastructure ambitions (up to \$1 trillion), and plans for tax reform and business regulatory reform will importantly influence the prospects for a sustained rebound in business investment spending, a key driver of long-term productivity performance and growth.
- How aggressively and broadly the Trump administration moves against China and the nature of the Chinese response will determine whether trade protectionist measures by the U.S. lead to tit-for-tat frictions or an all-out trade war. In attempting to anticipate the Chinese response, remember that this is a year of political transition in China, and President Xi would prefer to minimize instability.
- With the triggering of Article 50 in March, the great Brexit unwinding will begin, fraught with complexity, a two-year prescribed time frame, and an unhappy and restive Eurozone with elections in France, Germany and the Netherlands, and perhaps Italy, this year, all with invigorated populist movements. It was likened to a divorce proceeding with 28 partners and no judge.
- How far the Fed will go in raising rates, and how high the U.S. dollar will go in response, will impact on debt-servicing costs (both government and corporate) in indebted emerging markets where

growth has only just recently firmed up.

- Whether the U.S. will lift sanctions on Russia and scupper the Iran deal, both of which are entangled with European politics, and would have major geopolitical and economic implications.
- Whether the Saudi-brokered energy supply agreement holds and how price-responsive American shale oil producers have become will shape oil price movements.
- How U.S. demands for renegotiation of NAFTA—and the Canadian and Mexican responses—will determine whether there are significant shifts in North American trade patterns.

In a world undergoing multiple complex transitions—towards technological change of unprecedented depth and speed, towards new global economic and geopolitical balances, towards redistribution of wealth, within and among economies, towards a lower-carbon future—one

lesson from recent elections is that governments have not been able to bring voters along with them on the journey. What can be done?

Elements of what must be an integrated and forceful response to today's populism surfaced at Davos. Short-termism, a too prevalent feature of corporations and financial markets, needs to be reversed: more investing in capital and innovation for the longer term and less managing for quarterly results is in the best interests of shareholders, employees and the economy. Job displacement from technological change will require reskilling and retraining at a scale not seen since demobilization after the war and delivered over working lifetimes with new partnerships and delivery models between firms, education institutions, employees and government. Production displacement from trade should call for adjustment support, not protectionism, assisting affected sectors and firms to move up the

value-added curve in what they produce and how they produce it. And, a sea change in communications by government and business is a crucial part of the rebuilding of public trust. The corporate sector needs to speak to society more on public issues and less to analysts on quarterly results.

In this environment, Canada has considerable scope to provide policy leadership and to burnish the Canada brand. While Prime Minister Trudeau's absence from Davos was a missed opportunity, given the dearth of Western political leaders, Davos 2018 will be focussed on identifying solutions to the populist threat. If the government is able to move beyond rhetoric on its objective of inclusive growth, and design and implement policies that move the needle on both inclusion and growth, Canada could have a strong story to tell at Davos next year. **P**

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Transporting Oil by Rail: Safety First

Michael Bourque

Michael Bourque, President and CEO of the Railway Association of Canada, highlights the reasons why oil producers and marketers sometimes choose rail to transport their product, and what railways are doing to ensure dangerous goods are moved safely. “Canada’s railways do not seek to replace pipeline movement of crude, nor does our industry oppose any of the new pipeline projects under consideration,” Bourque writes. “Our goal is to work collaboratively to move these essential goods without incident.”

When it comes to the transportation of dangerous goods in Canada, the focus is usually on the comparative environmental and safety records of our country’s railway and pipeline industries. In this ongoing discussion, there are some key facts that bear repeating; mainly that both rail and pipelines are generally safe.

In the rail versus pipe comparison, the most talked-about product is crude oil. Again, both rail and pipeline are very safe transportation modes for moving goods to market, and crude oil is no different. The report *Canadian Crude Oil Transportation: Comparing the Safety of Pipelines and Railways* reviews safety data for each mode. It found that, between 2012 and 2014, Canadian pipelines and Class 1 railways together transported 252.7 billion gallons of crude oil, 99.9997 per cent of which was delivered safely without spillage. It also assessed the movement of dangerous goods by rail from 2004 to 2014 and concluded that railways and pipelines have equally strong safety records.

Under the common carrier obliga-

tion of the *Canada Transportation Act*, Canada’s railways are legally obligated to transport dangerous goods, including crude oil. Nothing is more important to Canada’s railways than safety, and the industry is committed to working with regulators, communities and other stakeholders to continuously improve the safe transportation of dangerous goods.

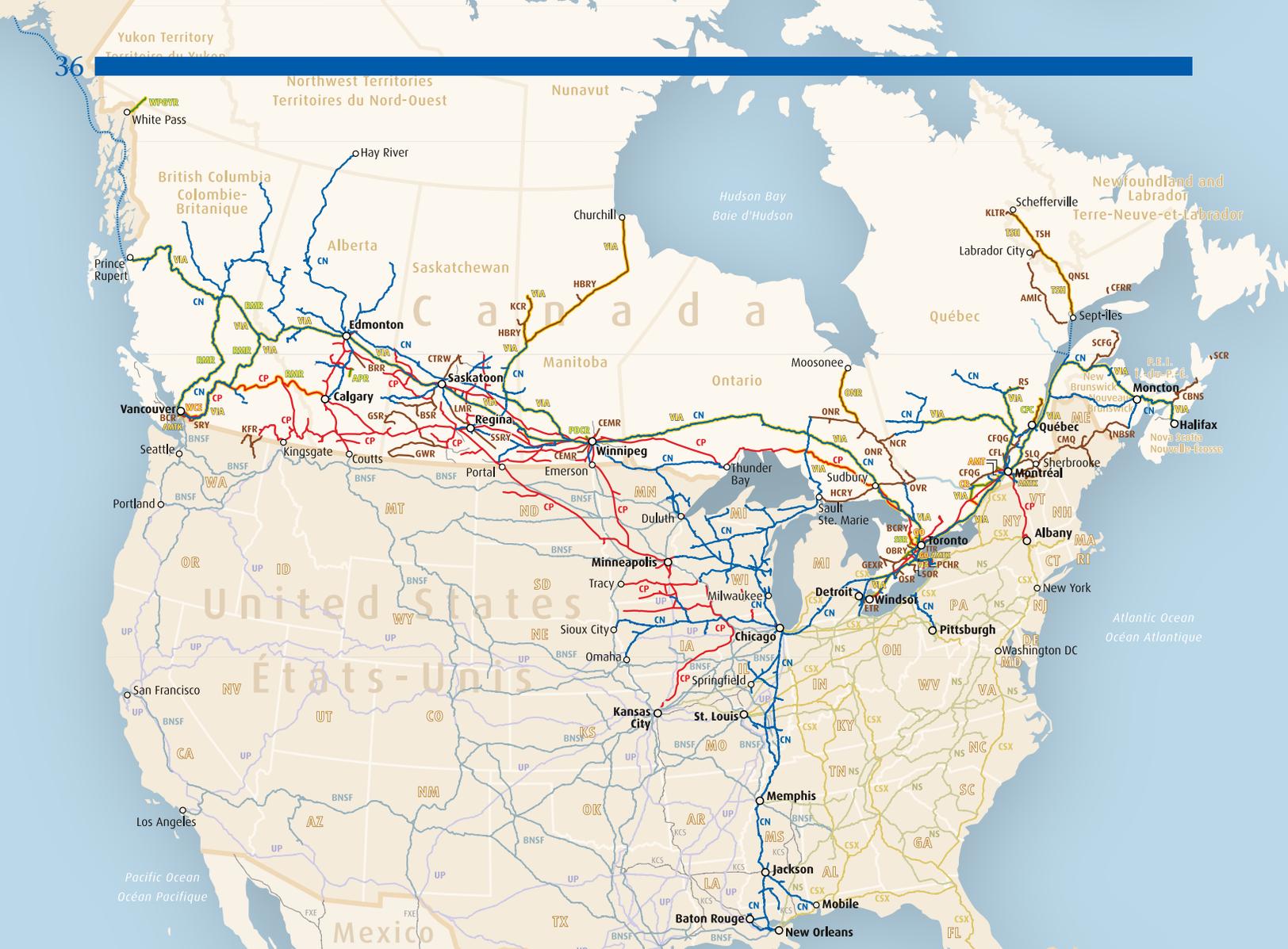
For example, for many years, Canada’s railway industry advocated for a more robust tank car standard to be introduced. We were pleased with the federal government’s new standard and worked collaboratively with Transport Canada on many of the new regulatory requirements that have been implemented over the past several years.

We have long shared information with municipalities about the goods travelling by rail. Today, through Protective Direction 36, Canada’s railways provide information to hundreds of municipalities to help them properly train for, and respond to, a potential incident. These reports contain de-

tailed information about the commodities that transit through each municipality.

Railways are continuously improving safety outreach when it comes to transporting dangerous goods. We work proactively with emergency responders and communities to prevent, prepare for and respond to incidents. In the last three years alone, railways in Canada have met with hundreds of municipalities, First Nations chiefs and emergency responders to share information about dangerous goods movements by rail. Over that same period, CN and CP sponsored some 600 first responders from communities across Canada to receive rail-specific dangerous goods training in Pueblo, Colo. And railways have long been active supporters of TRANSCAER®, an important initiative led by the chemical industry that provides outreach and information to communities and first responders across Canada. In addition, the AskRail mobile app, developed by North American railways, gives first responders immediate access to accurate, timely information about railcar contents so they can make informed decisions in the event of a rail emergency.

“ Our industry has developed a strong safety record thanks to investments—more than \$24 billion in infrastructure since 1999 to maintain a safe and efficient network—and a commitment to fostering a robust safety culture. ”



Canada's railways are key drivers of Canadian trade in North America and beyond. CN (blue) and CP (red) are the two national players with significant reach in the U.S. Map courtesy of the Railway Association of Canada

In addition to these outreach efforts, our industry has developed a strong safety record thanks to investments—more than \$24 billion in infrastructure since 1999 to maintain a safe and efficient network—and a commitment to fostering a robust safety culture. As part of these investments, Canada's railways have introduced a wide range of new technologies that can improve rail safety. For example, Canada's Class 1 railways use automated track and equipment inspection systems with predictive, analytical capabilities. This technology allows companies to identify and prevent risks before they turn into potential safety issues. Mandatory in-cab locomotive voice and video recorders would allow railways to miti-

gate human factors that could potentially cause an incident.

“ Not all oil is created equal. There are many types of crude oil, and Canada's oil sands product is well suited to innovative rail transportation. For example, heavy oils, such as pure bitumen, can be transported in tank cars that are specially designed to carry this product. ”

Since the tragic accident in Lac-Mégantic in 2013, there has been a focus on the safety of crude-by-rail. But not all oil is created equal. There are many types of crude oil, and Canada's oil sands product is well suited to innovative rail transportation. For example, heavy oils, such as pure bitumen, can be transported in tank cars that are specially designed to carry this product. Another example of rail innovation is CN's work with researchers in Alberta to come up with a way to move bitumen in solid pellet form. This solid bitumen pellet, which CN calls CanaPux, is not flammable and floats in water, resulting in a new way of transporting bitumen that puts safety and the environment at the forefront.

Pure bitumen must be diluted with condensate—resulting in what’s known as “dilbit”—for transport via pipeline. Diluting bitumen increases the cost of moving this product by pipeline, and makes it more challenging to mitigate the environmental consequences in the event of a spill. Finally, there are lighter crude oils. Each of these products possesses distinct characteristics and must be treated accordingly. Regulations require classification tests on crude oil and there are rules for the type of tank car that can be used for these products.

“ Pipelines are, and will continue to be, the dominant mode for transporting oil. The vast majority of crude oil is transported by pipeline. At the peak of the crude-by-rail business in 2013-2014, fuel oils and crude petroleum accounted for less than 5 per cent of total carloads. ”

Pipelines are, and will continue to be, the dominant mode for transporting oil. The vast majority of crude oil is transported by pipeline. At the peak of the crude-by-rail business in 2013-2014, fuel oils and crude petroleum accounted for less than 5 per cent of total carloads.

However, market factors make rail an option for transporting energy products to market. Rail plays a niche role as a complementary option to pipelines, and for Canada’s oil producers, refiners and marketers. There has been rapid development of non-conventional energy (such as shale oil) in North America, and expansions in existing energy-producing regions. Railways can

reach places that pipelines can’t and, as a result, offer shippers the flexibility to respond to new and ever-changing markets. Some refineries are located near tidewater with access to ocean tankers, but are not currently served by pipeline. When Canadian and U.S. energy producers are presented with the opportunity to get a higher price for their product, or when there is no other way for them to reach their customer, we can expect them to choose rail.

Canada’s railways do not seek to replace pipelines as the main transportation mode for moving crude oil, nor does our industry oppose any of the new pipeline projects under consideration. Our goal is to work collaboratively to move these essential goods without incident.

Canada must transport what it produces in the most environmentally sustainable way. By investing and innovating to continuously improve operational sustainability, our railways play a vital role in helping Canada reach its climate change goals. Rail is one of Canada’s greenest transportation options—a train can move one tonne of freight more than 200 km on a single litre of fuel—and our freight railways have a long track record of reducing emissions.

We believe it is important to share the facts when it comes to the transportation of dangerous goods by rail. Public confidence in rail is strong, thanks to our excellent safety record and continuous outreach. Lac-Mégantic has raised awareness of the dangers of improper operating practices and has led to a number of safety improvements. Canada’s freight rail accident rate, for example, stands at less than 1.5 accidents per billion gross tonne-kilometres. We are continuously striving toward zero accidents.

Rail is essential for the transport of energy inputs that are used in the development of natural resources; from pipe and fittings, to chemicals and sand. Railways move more than 200 dangerous goods, many

of which cannot be economically transported by pipeline. Rail is the preferred method for moving these goods and we are working hard to ensure that our preparedness, community outreach and excellent safety record will continue to garner support from Canadians.

“ Rail is essential for the transport of energy inputs that are used in the development of natural resources; from pipe and fittings, to chemicals and sand. Railways move more than 200 dangerous goods, many of which cannot be economically transported by pipeline. ”

Canadian railways have transported dangerous goods for decades, establishing a solid record of safety and sustainability. Railways are working with regulators, accident investigators, equipment manufacturers and universities to examine all incidents and prevent their reoccurrence. We must continue to work together as producers, transporters and regulators to ensure that we move these essential products safely into the future. **P**

Michael Bourque is President and CEO of the Railway Association of Canada. mbourque@railcan.ca

Can Social Media Solve the Polling Problem?

Erin Kelly

Like so many elements of democracy, traditional public opinion polling has been overtaken by technology. The gap between technological adoption among consumers and technological innovation among pollsters has contributed to a parade of polling debacles whereby election-eve numbers and actual election results are wildly divergent. Advanced Symbolics CEO Erin Kelly describes how social media sampling enabled by artificial intelligence may be the solution.

Social media isn't just a broadcast technology. It's also a polling technology; a polling technology that is far superior to any other on the planet today, including the telephone. So why does the Canadian government continue to use telephone polling to find out what the citizenry is thinking? Why haven't public servants progressed to new tools for polling, as have the governments of France, the United Kingdom, and even municipal governments in Canada?

On March 15, the Privy Council Office—the prime minister's own department and the central agency of government—announced it had commissioned Forum Research to a \$312,000 one-year polling contract to conduct a weekly rolling survey of Canadians. PCO decided to limit itself to telephone surveys and as the British Journal Nature so aptly argued in an October 2016 article *"The Polling Crisis and How to Tell What People Really Think"*, telephone polling is so flawed that many governments have stopped using it. Consider the following:

- Fewer than 10 per cent of respondents will agree to participate in a telephone survey.

This creates what scientists call opt-in bias.

- Low opt-in rates force pollsters to over-sample minority demographics. Since opt-in bias tells us they are likely outliers to begin with, this leads to a very distorted view of public opinion.
- Merely posing a question to respondents creates question bias.
- Small sample sizes are not representative. The government's rolling survey will sample 500 people a week. That is not enough to tell us what people across the country, from every region, language and socio-economic group think. Not even close.
- Rolling or windowed surveys are controversial because they are trying to mimic longitudinal studies which survey the same people over a longer period of time. With new technology, there is no need for this mimicry. Real longitudinal studies are already possible, for a fraction of the cost the government paid for this substitute method.

The 2015 Canadian Federal election provides a good illustration of how telephone polls

can lead to wrong insights, and cause politicians and policymakers to make the wrong decisions.

Polls released a week after the viral release of a photo of the body of 3-year-old refugee Alan Kurdi washed ashore in Turkey showed a drop in Conservative support. The media immediately assumed that the drop in support was due to Kurdi's death, and "social media listening" on Twitter seemed to confirm this. Tweets about Kurdish and Syrian refugees increased 300-fold, as did criticism of the Harper government, which had been slow to let refugees into the country.

What Harper, the media and just about everyone else failed to recognize was that the fall in Conservative support had nothing to do with Alan Kurdi's death. The day before Kurdi drowned, Statistics Canada published a report saying that Canada had entered a technical recession. It was this report, and not the drowning, that caused the fall in Conservative support. People who voted Harper did so because they believed him to be a good steward of the economy. They were not concerned about his policies on refugees. Conservatives supported taking a cautious approach on immigration. And all those anti-Harper Tweets? This is a perfect example of why social media listening doesn't work (listening is not the same as sampling. Listening analyzes every Tweet, and Twitter is over-represented by certain demographic groups, so you need to correct for this through sampling).

Our artificial intelligence (AI) showed those anti-Harper Tweets came from committed supporters of the Liberals and NDP. They were never going to vote for Harper in the first place. How do we know this? Because the



A Leave mobile billboard makes its way through London before a TV debate between David Cameron, prime minister and head of the Remain side, and Nigel Farage, head of the Brexit insurgency in the June 2016 UK referendum on staying or quitting the EU. Wikimedia photo

AI is able to analyze the same people over the whole year. It knows where your true colours lie, and it doesn't need to ask.

It was the Harper government's over-reaction to the refugee issue that cost them the election. The Conservatives, in order to defend their refugee policy (which their supporters weren't asking them to defend in the first place), went overboard, promoting fears about Muslim immigration with the "barbaric cultural practices" tip line. This over-reaction turned the soft Conservative support away.

Because AI works 24 hours a day, it is able to see, up to the minute, when public opinion changes. It was able to distinguish between the Statistics Canada report and the photo of the Kurdish boy drowning. A phone poll taken a week after both events, and which cannot analyze the real leanings of the people taking the poll, was not able to make the distinction. With phone polling, if you are not asking the right questions, you have no chance of getting the right answers. Furthermore, the phone pollsters were questioning people when emotions were running high. The AI, by contrast, can analyze the

same people all year, and can predict how things will settle after immediate tragedies have passed.

We now have the ability to call up social media pages randomly the same way that we used to randomly dial telephone numbers. To be clear: We're not talking about web panels. Web panels are even worse than telephone polling for gauging public opinion. Samples garnered from web panels are neither randomized nor controlled—two necessary pre-conditions for interpreting public opinion. I am talking about randomized, controlled samples of social media users. This new technology is called Conditional Independence Coupling (CIC).

CIC (pronounced "Kick") was invented in 2012 and has been used successfully to predict over 100 elections and referendums around the world, including the recent Trump election in the United States, BREXIT and the Canadian Federal Election in 2015. Here's the kicker (pardon the pun): Since it was commercialized in 2015, CIC has never been wrong. Not once. It is being used by governments around the world, including

the United States, France and Britain. CIC does not require opt-in and it does not require the pollster to ask any questions (that's the beauty—the information is already there). Consider the following advantages of using randomized, controlled samples from social media:

- **Engagement Score.** CIC can tell us what percentage of the population is discussing a particular topic without being prompted. For example, if I call someone and ask "What do you think of the Islamophobia Motion (M-103)", the respondent will give me an answer even if, previous to this call, she didn't care about it at all. With CIC technology, we can gauge how important a topic is to Canadians, without asking them.
- **Large sample sizes.** We have a Canadian sample of 75,000 Canadians. Compare that with the sample of 500 the government's rolling survey is using. And we can survey that sample every hour if we wish to, and see how their opinion changes over time or even how it changed over the last year or five (we can go back in time with social media). We can even

predict how their opinion will evolve over time and what will change it. And we can do it for less than what the government paid for its telephone survey.

- **No need to “weight” under-sampled demographics.** With over 3,000 Aboriginals in our sample, we don’t have to “weight” the Aboriginals in our sample more heavily, we have enough of them in our sample to be confident we are measuring their opinions accurately.
- **No opt-in bias.** Privacy is meticulously protected, no names collected, only demographic information. The AI can map the demographics to the census to ensure a perfectly representative sample—no weighting required.
- **No question bias.** No questions are asked. Instead, the CIC algorithm is able to interpret what is being said to answer the questions posed to it—naturally and without biasing the sample.

“ *In the case of the 2016 BREXIT referendum, the CIC algorithm correctly predicted an EXIT at 52 per cent with a margin of error of +/- 1.2 percent. Our company was one of only 16 in the world to correctly predict an exit, and we did it using CIC.* ”

In the case of the 2016 BREXIT referendum, the CIC algorithm correctly predicted an EXIT at 52 per cent with a margin of error of +/- 1.2 percent. Our company was one of only 16 in the world to correctly predict an exit, and we did it using CIC. CIC’s AI read all social media topics over a yearlong period (not a weekly poll, a yearlong poll of the same individuals) and developed a prediction algorithm based on its

“ *Not everyone participates in social media and social media is over-represented by some demographic groups—like young people. But there are enough people on social media that we can get a representative sample of the population. Not everyone has a telephone landline either. Consider that, since 2010, there are more people with a social media account than with a telephone.* ”

analysis of how people reacted to different events and news items related to BREXIT. Using a sample of over 30,000 Britons from every region and walk of life, it was able to analyze how the opinions of Britons changed over the course of the year, which enabled it to correctly predict that the murder of MP Jo Cox a week before the referendum would change the outcome of the BREXIT vote. This would not have been achievable using telephone polling. Don’t blame the pollsters. It’s the technology that isn’t working anymore.

Back in August, 2016, when media commentators were poking fun at Donald Trump for alienating black and Hispanic voters, our company published a report showing the opposite—that support for Donald Trump was growing in exactly these demographics the pundits thought he was losing. Because the stereotype of the Trump voter was so negative (sexist, racist, lower-class), people were unwilling to admit to pollsters on the other end of the telephone that they were going to vote Trump. It was unpopular to admit such things in polite company. But online, our AI could see differently. It saw voters sharing anti-Clinton documentaries such as *Clinton Cash*, documentaries that were professionally produced by friends of the GOP, but which never saw mainstream play. As we now know, there was a whole stream of underground news taking place during the 2016 election that the intelligentsia knew nothing about.

Not everyone participates in social media and social media is over-

represented by some demographic groups—like young people. But there are enough people on social media that we can get a representative sample of the population. Not everyone has a telephone landline either. Consider that, since 2010, there are more people with a social media account than with a telephone. This is why we sample. Sampling ensures that we have enough people in each demographic to accurately assess public opinion. Contrast this with social media listening, where companies listen to everything that is said. This is bad, because, for example, 1/3 of all posts are made by bots. And many lobbyists are paid to Tweet, distorting results like we saw in the 2015 Canadian election. The CIC algorithm has dozens of algorithms that correct for this, ensuring we are reaching real, average people. Not bots, not influencers or pop stars. Average citizens.

The whole impetus for the populism movements taking shape around the world is that citizens do not feel they are being heard. It is still true that if you want to effect change in our society, you have to be well-heeled and organized. Policy is being made by special interest groups, lobbyists and big business. We want to change that. We want to make it possible for policymakers to hear what citizens are saying so that policy reflects the needs of real people. That is the essence of good government—an engaged citizenry whose needs are being met. **P**

Erin Kelly is President and CEO of Advanced Symbolics, an Ottawa-based company that uses artificial intelligence (AI) for public opinion research.
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At the FarmTech conference, former Prime Minister Brian Mulroney called for “a generous phase out of our supply management programs in dairy and poultry.” Canada 2020 photo

Verbatim: Canada, Trade and Trump in a Changing World

Brian Mulroney

The former Prime Minister addressed the FarmTech conference in Edmonton on February 2, telling Canada’s agricultural producers that he’s sanguine about the Trump administration on trade and calling for an end to the country’s supply management system.

I am not here today as an expert in farm technologies. If I were, that would make for a very short speech.

What I really want to offer is a comprehensive vision of agriculture, one that stresses the importance of more open trade to Canada’s economic wellbeing, of preserving the vital market access we enjoy and of pursuing new horizons for exports of Canada’s agri-food products.

After all, agriculture is a real asset, a sustainable asset for the Canadian

economy, one that contributed more than \$108 billion to our GDP in 2014, more than half of which—58 per cent—was exported and more than half of that went to one market—the United States. Agriculture employs one out of eight Canadians, more than 2.3 million in total.

We should never underestimate the importance of commodities—agriculture and energy in particular—to the wellbeing of our economy. They constitute more than one third of Canada’s GDP. I believe that there are lessons from my time in government that may help us meet threats from protectionism, especially in our most vital market—the U.S.—and embolden us to negotiate access to promising growth markets in Europe as well and most notably in Asia.

Thirty years ago, Canada negotiated the Free Trade Agreement (FTA) with the U.S. and five years later Mexico joined in the North American Free Trade Agreement (NAFTA). The combination has delivered unprecedented benefits in terms of growth and employment in Canada. By reducing tariffs across the board, as well as other barriers to trade on our continent, we also dramatically improved the efficiencies and productivity of many sectors of our economy, including agriculture.

The theory was that if we could compete fairly and effectively on our own continent we would be better able to compete globally. That premise is even more compelling today, especially as we see increasing signs of protectionism on many fronts.

The U.S. will continue to be the major market for all of our exports and should be the overriding priority on trade. Geography does give us a vital advantage but we have to be ever vigilant in safeguarding our access to that market. The discriminatory labels that were put on Canadian beef are just one illustration of the persistent resonance that protectionism has in Washington. That labeling practice hurt our pork industry as well and reversed the integration of North American livestock industries that had been forged by

“ In fact, some of the opinions being expressed about President Trump remind me of initial attitudes regarding President Reagan. Many Canadians questioned whether he was really fit for this high office and he became one of the most powerful and respected U.S. presidents in the past century. ”

NAFTA. The U.S. has lost repeatedly on this dispute at the World Trade Organization to complaints from both Canada and Mexico and the panel actually found that the “solution” the U.S. had introduced compounded the violation. While this issue has been resolved, I do not have to remind any of you that the threat these days of more damaging protectionism from the U.S. is very real. We need to do everything we can to ensure that we do not become a target, accidental or otherwise.

I know you must be wondering about how Canada will fare with the new Trump administration. On balance, I am convinced that there are more opportunities for constructive partnerships than for differences or concern.

In fact, some of the opinions being expressed about President Trump remind me of initial attitudes regarding President Reagan. Many Canadians questioned whether he was really fit for this high office and he became one of the most powerful and respected U.S. presidents in the past century.

Let history, not conceit or sanctimony be your guide. I made a conscious effort to establish a close and constructive relationship with President Reagan and with his successor, George Bush, Sr. I said at the time that I would give the Americans “the benefit of the doubt” from time to time and I did exactly that. That personal commitment helped us conclude vital agreements on trade, on the environment and on our shared security concerns on this continent. All of which produced mutual benefits.

I genuinely believe that there are lessons to be drawn from that history

that would be helpful in meeting the challenges we face today in the early days of the Trump Administration. The key is to find avenues of common ground and common purpose while managing differences—and in a relationship this complex there are bound to be differences—in a pragmatic, diplomatic fashion. Not simply to demonstrate a penchant to be different.

“ The key is to find avenues of common ground and common purpose while managing differences—and in a relationship this complex there are bound to be differences—in a pragmatic, diplomatic fashion. Not simply to demonstrate a penchant to be different. ”

The litmus test for success in any negotiation between governments is that the result must be a demonstrable win for both sides. Negotiators seldom get everything that either side may have wanted but they need to agree on enough that will enable both sides to gain significant advantage from the result—and at minimal cost. That is key to any successful negotiation.

The FTA and NAFTA more than met that objective. The proof can be found most prominently in the numbers. Trade between Canada and the U.S. exploded, more than tripling in

the first 20 years alone—more than \$1 million now every minute of every hour, every day. More than \$2 billion in total each and every day of every month of the year. More than \$800 billion in total. The largest bilateral trade exchange between any two countries in the history of the world, generating almost five million jobs in Canada alone. As you well know, even many of our fiercest critics at the time have become supporters.

I am confident that, with astute management, these agreements will continue to provide a solid, healthily balanced foundation for future trade and investment between us.

These agreements were possible because, as leaders of our respective governments, Presidents Reagan and George H. W. Bush and I were determined to succeed and to guide each negotiation every step of the way. Not to get a deal for the sake of getting a deal but to conclude agreements consistent with our basic objective—making trade relations, environmental and border management significantly better for both countries.

Should we be concerned about protectionist impulses gaining attention today from the new Trump Administration? Of course we should. We need to be persistent and rigorous in defending access to our most vital market, reminding our neighbour at every opportunity that the best measure of success is the two-way benefit from trade flows and from the highly integrated nature of our two economies.

If there are ways to improve trade and investment, we should examine them on their merits. If there are aspects of existing agreements that warrant adjustment, we should be ready to examine them as well. After all, the internet had not been invented when I negotiated the FTA with President Reagan. What we cannot do is stick our heads in the sand and hope that the protectionist pressures will abate on their own.

Turning to other markets, the Com-

prehensive Economic and Trade Agreement (CETA) with the EU, once ratified, will offer significant promise for Canadian agriculture. Our exports to the EU averaged \$2.8 billion annually between 2013 and 2015, led by durum wheat, soybeans, non-durum wheat and other seeds, canola seeds and lentils.

But Canadian exporters face high tariff rates on agriculture products throughout Europe. With CETA, most of those tariffs will disappear. We will gain duty-free access for specified amounts of beef, pork and bison—a real breakthrough—and preferential access for processed food products and beverages. It is estimated (conservatively) that our agri-food exports to the EU will increase by \$1 billion annually.

The agreement has been signed but ratification is still needed by each of the 28 EU member states and that will not be a slam-dunk precisely because nationalist, protectionist pressures are looming on several fronts, as are elections.

We also need to plan for a post-Brexit trade agreement with the U.K.—our largest, European trade partner and one of the top markets for our agriculture exports.

Impressive as these trade agreements are, Canada needs to do even more on the trade front. We should not allow complacency to prevent us from being a leader instead of a laggard in markets where we have the capacity to excel.

The most dramatic developments since the negotiations of free trade with the U.S. has been the remarkable transformation of the global economy with power shifting to China—soon to overtake the U.S. as the world's largest economy—and to emerging markets more generally in the Asia-Pacific region.

Canada cannot afford to stand on the sidelines and ignore the opportunities that are emerging from fast-growing markets and from the wonders of buying and selling via the internet. We need to take better advantage of

these trends and our agricultural capabilities should be a genuine comparative advantage for Canada.

Canada's FTA with Korea was certainly an important step in the right direction for all of our exporters who were otherwise losing market share to those who had gained privileged access before we did. (Canada's exports dropped by one-third during the first year of the Korea—U.S. FTA!) It is, I believe, a model that should be emulated more broadly in the Asia-Pacific region.

Agriculture was, as I am sure you know, the most heavily protected sector in Korea with tariffs averaging more than 50 per cent and with some as high as 900 per cent.

Duties on beef and pork in Korea are now being phased out over a period of five to 15 years so that Canada will quickly be on a level playing field with our principal competitors. For exporters of wheat, canola, frozen French fries, ice wine and rye whisky, duties have already been eliminated. Exports of our agricultural products to Korea increased by more than 20% in the first 11 months of 2016.

Agricultural producers should continue to be major beneficiaries but my question to you is how many are planning strategically to take advantage of this new access? If you do not upgrade and invest in your technology for seeds or software how will you expect to benefit from the new market access offered by Alibaba and similar service ventures?

Trade agreements on their own simply open new doors. To generate value and stimulate employment businesses, producers and exporters alike need to gear up, invest and develop marketing strategies in order to capture new opportunities.

Success in agriculture may start with what comes out of the ground but the value chain for prosperity is much broader and more sophisticated.

We may very well be living in what may become "China's century". In 1985, China was the world's 32nd

most important exporter. Today it is number one. Spectacular economic growth underpins aspirations for great power status and respect. China is growing today at a seven per cent clip and is expected to provide almost 40 per cent of global growth this year. It is clearly in the driver's seat regarding commodity markets.

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The task of sustaining economic growth while maintaining strict political stability only becomes more difficult as more people in China acquire more things. Obviously, we would like to see more in the way of political reforms and human rights in China and a growing middle class will stimulate demands in that direction. But, before we offer too many lessons to China, we in the West could also do a better job demonstrating that our system of government and the values enshrined in it are better able to meet the demands of our own citizens.

Because of our rich commodity base, Canada is better positioned than many to take advantage of the emerging opportunities for economic expansion, not only in China but throughout the Asia-Pacific region.

The GDP of Asia now exceeds \$30 Trillion. (By comparison, the U.S. economy stands at \$18 Trillion). We obviously need to exploit promising huge markets like China and India. And, with TPP in limbo, we should also strike to salvage on a bilateral basis what has already been negotiated with promising markets like Japan, Malaysia and Vietnam. Each is a significant market for Canadian agriculture.

Above all, we need a broader vision on trade and the audacity to pursue it, not to replace but to complement access to what will be our most vital market for decades to come. The more balance, the better.

We could also use a little audacity right here at home. Agriculture is unquestionably the most protected and politically sensitive sector for many countries, including Canada. But we are *not* the lone outlier. The U.S. has its own supply management for sugar and peanuts as well as massive subsidies that distort trade prospects globally and notably for developing countries.

When governments try to “manage” any form of trade they inevitably undermine both the efficiencies and productivity that healthy competition can inspire. There needs to be more of a balance, one that ensures a measure of stability without stifling innovation.

That is why, in anticipation of either a regional or multilateral consensus on serious reductions of practices that distort agricultural trade, I believe we should give some thought to the consideration of a careful, innovative and generous phase-out of our supply management programs for dairy and poultry.

I recognize the political allergies on this issue in Canada but cannot help but think that we tend to ignore both the benefits for Canadians and the enormous export potential that could be derived if we were to unshackle these sectors in a sensible manner, provided of course that other countries are prepared to make

similar moves to dismantle their restrictive regimes.

Supply management is a double constraint not just for consumers but also for exporters and food processors who are obliged to locate plants and production for global export in countries where inputs are cheaper.

The Australian and New Zealand examples of success are frankly compelling. We should be prepared to consider a similarly pragmatic transformation, one that allows for some consolidation as well as generous compensation packages and would position Canada to be an efficient exporter as well as a dominant, more efficient domestic supplier. We also need to move forward expeditiously on new infrastructure that will enable us to ship our resources to promising markets beyond North America.

The fact that the Trump administration has approved the Keystone XL pipeline is a salutary “better late than never” piece of good news for Canada. But we need more of the same positive decisions on infrastructure to serve access to global markets. If we are stymied by endless protests and court challenges we will not have the financial resources to support the social and educational needs of our own society. It is time we Canadians acknowledged that reality.

Whether we implement a bolder vision on trade or similarly bold policy action here at home it is ultimately a question of confident, persistent political leadership. That is the most precious asset of all. Consultations in the absence of leadership will never be sufficient. Leadership that not only anticipates the need for change but is brave enough to implement change.

History demonstrates convincingly that, when we get our act together with vision, confidence and leadership, beneficial results will follow. **P**

Former Prime Minister Brian Mulroney negotiated the Canada-U.S. FTA in 1987, and the NAFTA with the U.S. and Mexico in 1992. He is now a senior partner at Norton Rose Fulbright.



Guest Column / Morgane Richer La Flèche

Cringe With Me: The False Freedom of Humiliation

One of the early scenes in Martin Scorsese's documentary *Public Speaking* is of author and social commentator Fran Lebowitz addressing a crowd during a Q&A session. Lebowitz, visibly amused by her provocation, tells the crowd that young people today are suffering from a false sense of greatness. On aspiring writers, she says: "Too many people are writing books, period. There are too many books, the books are terrible, and this is because you have been taught to have self-esteem." Her punchline receives the raucous applause of people being found out.

I was reminded of Lebowitz's diagnosis of my generation by a recent article in *The Globe and Mail*. In "Pathetic and proud," Eric Andrew-Gee delivers a compelling portrait of what he calls "competitive abjection," or the phenomenon of publicly debasing oneself online, whether as private individuals on social media or as auteurs of hit shows on HBO. Andrew-Gee's article is a thorough chronicle of the wide range of catalysts for this behaviour, from solitary evenings with leftover takeout to humiliating sexual encounters.

Faced with failure or simply banality, we anticipate the punch of public perception and eagerly display our loserdom in tweets and posts that marry self-consciousness and irony. We share our small humiliations with derisive aplomb, simultaneously daring judgment and welcoming connection. We sigh with relief when our friends answer "same!" and we relax knowing we are not alone in our lameness. Insofar as it signals that what we are doing is always worth sharing, the phenomenon might be

dismissed as yet another example of navel-gazing by what has been derided as a particularly self-centered generation. The self-awareness inherent in the exercise complicates that explanation, however, and co-opting platforms dedicated to covert self-congratulation—what has become known as the "humble brag"—is undoubtedly a kind of subversion.

Yet the willingness to turn even our darker moments of shame into comedy for general consumption suggests a deeper discomfort in being alone with ourselves. In her 1961 essay "On Self-Respect," Joan Didion emphasized the essentially private nature of that elusive quality. Self-respect, she argued, "has nothing to do with the face of things, but concerns instead a separate peace, a private reconciliation." It's the solidity that comes with quiet acceptance of your mistakes and your hand in creating them; it's what the French mean when they say *elle s'assume*.

Crucially, self-respect has the power "to give us back to ourselves," to free us from continuously playing to the perceptions of others. Self-respect means accountability, but it's also a way out of falseness. Didion saw the tie between self-respect and true vulnerability: people with self-respect are willing to commit, even when they know they might not come out looking good. That kind of sincerity seems antithetical to an ironic mockery of the self.

My distrust of competitive abjection is even greater inside the realm of art. Television shows like *Girls* and

Broad City feature young women whose incompetence is meant as an honest rebuttal to the burdensome expectations of adulthood. While I am sympathetic to the idea that admitting one's failure to meet standards can be liberating—particularly if the standards are antiquated or unfair—I am skeptical of the usefulness of these portrayals.

Granting women the agency to humiliate themselves on screen is only empowering if there exist, just as prominently in the public imagination, representations of women whose power makes the reverse seem surprising. I'm too hungry for better heroines to find women's degradation refreshing, however self-inflicted it may be. Moreover, there's a disturbing end-of-history passivity to the phenomenon, a tacit submission to inadequate ideals without the energy to fully reject and replace them. Turning yourself into a joke is a poor substitute for self-actualization.

Perhaps ritual debasement is what you get when our cultural appetite for authenticity—seen elsewhere in the success of politicians who eschew accepted rhetoric—confronts the fundamentally performative medium of social media. Much of our lives will be mundane; it makes sense that we would want to share it anyway, if only to have witnesses to our existence. With a little more self-respect, we wouldn't need the cover of derision, either. **P**

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