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Canadian Politics and Public Policy

Policy

Budget 2016

Bill Morneau

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Policy

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In This Issue

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From the Editor / L. Ian MacDonald

Budget 2016

Welcome to our issue on Budget 2016, the first of the new Liberal era.

It's a very different fiscal framework than the one the Liberals were costing their promises on during the 2015 election. In the campaign, the Liberals said they would run stimulative deficits of $10 billion in each of their first two years in government before returning to balance in 2019. Even before the budget on March 22, Finance Minister Bill Morneau warned Canadians the deficit would be much higher than $10 billion, and that it would be a steep challenge to return to balance by the 2019 election.

This is called managing expectations. The Liberals' new bottom line for the fiscal framework was their hope of reducing the debt-to-GDP ratio below current levels of 30 per cent. But that's also unlikely, given the Liberals taking on at least $113 billion of new debt over five years.

On Budget Day, we learned the final fiscal forecast of a $29.4 billion deficit in the current fiscal year and $99 billion over four years. The Liberals also tipped the books into deficit territory for 2015-16 by booking $3.7 billion of veterans' benefits at the end of the fiscal year. Welcome to Creative Accounting 101.

Our take on the budget begins with an overview from BMO economists Douglas Porter and Robert Kavcic who note the budget projects "a string of deficits as far as the eye can see." Jack Mintz, President's Fellow at University of Calgary's School of Public Policy, writes that "it is hard to believe that deficits will come in below $30 billion in any year."

BMO Vice-Chair Kevin Lynch, a former clerk of the Privy Council and deputy minister of finance, offers a beyond-the-budget view of the larger and longer-term growth challenges facing the Canadian economy. He looks at the "ongoing decline in productivity growth and slower labour force growth" and suggests that "longer-term Canadian growth over the next decade(s) will be less than two per cent" per year "and perhaps well less."

Across the aisle, Conservative finance critic Lisa Raitt offers an Opposition critique of Budget 2016. In her take, the Conservatives left the Liberals with a balanced budget for 2015, indeed, a small surplus. She points to the Finance Department's own Fiscal Monitor as evidence of this. As for the deficit, she is quite unsparing in her comments.

And Don Newman, who has covered budgets going back several decades, offers his impressions of the first Morneau budget in his column.

Such has been the response to the thematic of our last issue on electoral reform that we've decided to make *Democratic Reform* an ongoing feature in *Policy*. Though the debate has barely begun, the debate on the debate—whether there should be a referendum on whatever the government proposes or passes—has already taken hold. In an article titled "Referendum, Yes or No", Contributing Writer David Mitchell notes that while waiting for the proposed reforms, "there appears to be support at this stage for a referendum to approve changes to the way we vote."

From the Institute of Governance, Davide Cargnello and Karl Salgo consider the Westminster system meeting the challenge of the digital age. "Governments," they write, "are being confronted with the reality that they no longer hold the monopoly on defining citizens' roles, responsibilities and interests."

And in a *Guest Column*, Green Party Leader Elizabeth May predicts "there will be an open and honest national consultation" on electoral reform, and writes that Democratic Institutions Minister Maryam Monsef "is off to an impressive start."

Turning to *Canada and the World*, Jack Hughes looks at the Trans-Pacific Partnership trade deal, and feels "certain that Canada will be part of it." How could Canada not be, given our reliance on trade, especially with the U.S. and Mexico in NAFTA, with the 12-nation TPP opening up 40 per cent of the world's economy?

Jeremy Kinsman, our lead writer on foreign affairs, considers the Middle East as a failed region, with Syria at the epicentre of it.

From the University of Regina, Fulbright Fellow Cheryl Camillo notes that eight provinces and 11 U.S. states have a shared border, and suggests that provincial health ministers could benefit from a dialogue with their U.S. colleagues. Time for a meeting, she suggests. Hands across the border on health.

Michael Bourque, CEO of the Railway Association of Canada, writes that short-line railways are essential lifelines for remote communities, and for moving their products to markets in Canada and the U.S.

Finally, in a *Verbatim* from a keynote at the Manning Conference, *Washington Post* columnist Michael Gerson, former chief speechwriter to President George W. Bush, weighs in on the candidacy of Donald Trump and concludes that "Trumpism is Putinism by another name." P

Red is the New Black: Deficits as Far as the Eye Can See

Douglas Porter and Robert Kavcic

After nearly a decade of relentless focus—sometimes borne out, sometimes not—on balancing the budget by the Harper government, the change of fiscal regime produced by October's election results is overwhelmingly evident in the Trudeau government's first budget. BMO's Douglas Porter and Robert Kavcic break down the swing to a $29.4 billion deficit.

Finance Finance Minister Bill Morneau's first budget projected a string of deficits as far as the eye can see, with even fiscal year 2015-16 ending with a small deficit (after a small $1.9 billion surplus the prior year). This comes as little surprise, as it was well-advertised ahead of time that we would be looking at years of red ink, especially in light of a weaker-than-expected economic backdrop, loaded on top of the government's election pledge to crank up spending and run $10 billion shortfalls.

The two major areas of uncertainty heading into the budget were: 1) How much net new stimulus would be planned for the coming fiscal year; and 2) How aggressively would it be wound down in coming years, if at all?

As mostly expected, Ottawa will stick to the initial election plan of injecting just over $10 billion of net new stimulus in the coming year (equivalent to 0.5 per cent of GDP), which will push the expected deficit to $29.4 billion. Deficits in excess of $20 billion then persist for two more years, and a $14 billion shortfall still remains by FY 2020-21—in other words, there is no plan to balance the books, even beyond the first mandate. This scenario would see the closely-watched debt-to-GDP ratio rise again this coming fiscal year, to 32.5 per cent, before grinding back down to 30.9 per cent by 2020-21, essentially back to where it started when the government took office.

Note that above and beyond the headline-grabbing $29 billion deficits over the next two years, arguably the bigger story in the budget plan is the notable 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 next two years.

That plan has gone out the window, and not just because the economy is more challenging in the near-term. Indeed, the budget includes net new fiscal measures of $7 billion per year as far out as 2020-21, leaving the

Chart 1: Deficits Persist

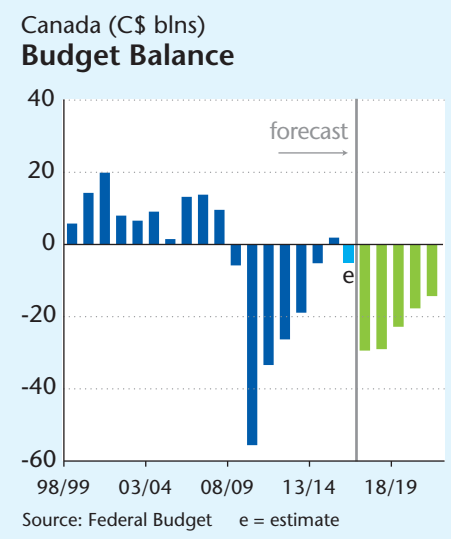


Chart 2: Revenues Grow with GDP

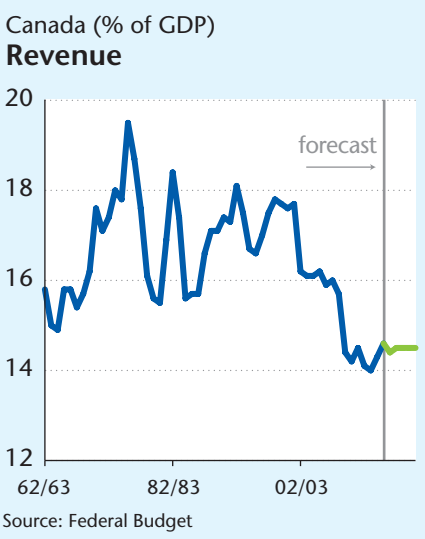
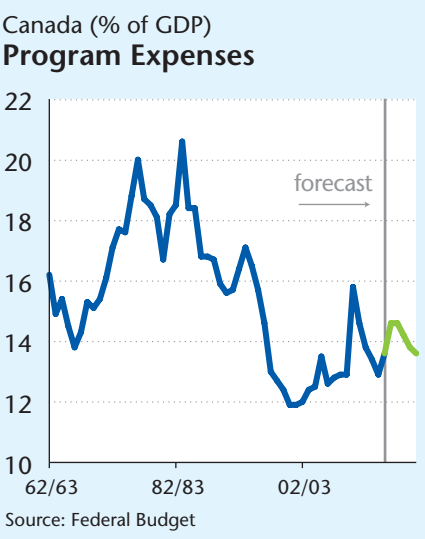


Chart 3: Spending Jumps



above-noted $14 billion gap at that point. Thus, even five years out, the fiscal plan now includes deficits well above the previously pledged maximum limit of $10 billion. Has the long-term economic outlook changed that dramatically in the past five months? In a word, no.

> *"Even five years out, the fiscal plan now includes deficits well above the previously pledged maximum limit of $10 billion. Has the long-term economic outlook changed that dramatically in the past five months? In a word, no."*

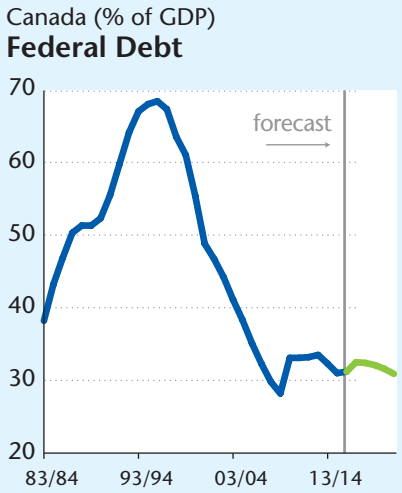
While we fully agree that a moderate dose of stimulus was an entirely appropriate response to current economic realities, we counseled caution in minding the dosage, for two distinct reasons: First, the growth restraints on Canada look to be structural in nature (a reset lower on commodity prices), and not a short-term cyclical phenomena that can be countered with a quick fiscal boost. Second, an overly aggressive fiscal boost could do lasting damage to Canada's finances, casting doubt on the country's hard-won triple-A credit rating, especially at a time when provincial credit has been steadily deteriorating.

In other words, we believe that, barring a much more serious slowdown in the economy, $30 billion should be the absolute ceiling for deficits, and certainly not the floor. Note that the latest deficit estimate includes a fattened $6 billion contingency, which means that if the economy performs broadly as expected, there will be plenty of scope to beat fiscal targets. In reality, we might see a page taken from the Ontario playbook—that is, part of the cushion gets back-filled with more spending, while the finance minister still reports better-than-expected bottom lines through the forecast horizon.

New measures announced in this year's budget net out to roughly $11.6 billion in 2016-17. Here is a quick recap of the largest of the many new initiatives:

- **Infrastructure spending:** This budget will famously "invest" in a wide range of infrastructure projects. That said, the total amount delivered in 2016-17 will be somewhat less than previously expected at $4.0 billion, but a much larger $7.3 billion in 2017-18. Infrastructure is loosely defined to include transportation, social and green infrastructure, each accounting for roughly a third of the spending pie. Public transit infrastructure will actually be relatively modest at $852 million this coming fiscal year, rising to $1.7 billion in 2017-18.
- **Program spending** will rise a hefty 7.6 per cent in 2016-17, the strongest clip since 2010 (post-recession stimulus), and a further 4.5 per cent in 2017-18. As a share of GDP, program spending will rise from just under 13 per cent in 2014-15, to 14.6 per cent by 2017-18. This is back above the 30-year average of 14.2 per cent. Notably, program spending will begin to decline in real per-capita terms by 2018-19 in order to reduce the size of the deficit further out in the forecast horizon.
- **Canada Child Benefit:** The new benefit replaces a trio of programs (the Universal Child Care Benefit, the Canada Child Tax Benefit and National Child Benefit Supplement), and tops them up with an additional $4.5 billion per year. The new plan is a tax-free benefit starting at $6,400 per child under the age of 6, and $5,400 per child between 6 and 17, phased out gradually based on income. Benefit payments get fattened meaningfully in the low-to-middle income range

Chart 4: Debt to Edge Up



Source: Federal Budget

Table 1: Fiscal Outlook

(C$ blns, except where noted)

	Est.	— Forecast —		
	15/16	16/17	17/18	18/19
Revenues	291.2	287.7	302.0	315.3
Expenditures	296.6	317.1	331.0	338.0
Program Spending	270.9	291.4	304.6	308.7
Public Debt Charges	25.7	25.7	26.4	29.4
Budget Balance	(5.4)	(29.4)	(29.0)	(22.8)
Federal Debt	619.3	648.7	677.7	700.5
As a percent of GDP:				
Budget Balance	(0.3)	(1.5)	(1.4)	(1.0)
Federal Debt	31.2	32.5	32.4	32.1

Note: totals may not add due to rounding ( ) = deficit Source: Federal Budget

at the expense of those in the middle-to-upper income ranges. The change will take place on July 1, and be based on prior-year income.

- **Income splitting (for families) eliminated:** The ability of families with children under the age of 18 to effectively split their income will be eliminated for the 2016 tax year, saving roughly $2 billion per year (and offsetting part of the cost of expanded child care benefits). The maximum benefit was $2,000.
- **Tax avoidance:** Ottawa aims to find $450 million by 2017-18 through a variety of measures aimed at eliminating tax evasion and avoidance, and collecting outstanding tax debts.
- **Targeted tax measures:** A few smaller-ticket items such as the children's fitness and arts credits are eliminated; others such as school supply credit for teachers are introduced.
- **Canada Student Grant:** A 50 per cent increase in Canada Student Grant amounts—the maximum grant for a full-time student rises to $3,000 from $2,000 currently. Cost will be roughly $750 million per year; increase in the income threshold at which students have to repay loans to $25,000.
- **Employment Insurance changes:** The waiting period for EI benefits (after a lost job) will be reduced to one week from two; accumulated hour requirements will be relaxed for new entrants; benefit period will be extended by five weeks in the hardest-hit areas. All told, changes to the EI system will cost $602 million this coming fiscal year.
- **GIS/OAS changes:** The Guaranteed Income Supplement will receive a 10 per cent boost, and OAS/GIS will be indexed to a new Seniors Price Index. The eligibility age for OAS will be returned to 65 after being raised to 67 for those born April 1, 1958 or later. Total cost is roughly $775 million in 2016-17.
- **What didn't change:** The capital gains inclusion rate (which was widely speculated); the treatment of stock options, and the small business tax rate.

Ottawa's economic assumptions are based on the latest private sector consensus, as has been the convention for more than a decade. We are slightly below the average on real GDP growth at 1.3 per cent this year, and at 2.1 per cent in 2017. Our call assumes that growth firms slightly through 2016 to eventually north of 2 per cent next year, with the extra fiscal spending accounting for some of the growth pick-up (note that our GDP growth forecast had already factored in about $10 billion of net new spending from the budget). The consensus expects that WTI oil prices have found a bottom, and will average around $40 this year before rising to $52 in 2017. Importantly for revenues, this will drive a rebound in nominal GDP growth to 4.6 per cent next year (consensus view), after a very sluggish 0.6 per cent pace in 2015 and 2.4 per cent this year.

Note that the nominal GDP projection for this year is less than half of the assumption in last year's budget of 4.9 per cent. In light of that huge misfire by forecasters, Ottawa has built in a much larger cushion for error. To factor in additional risks related to oil prices or economic underperformance, the government has based its projections on a nominal GDP undershoot of a honking $40 billion (equal to about 2 per cent of GDP), which translates into $6 billion per year in fiscal wiggle room (this is $3 billion above the norm and $5 billion higher than last year's budget). Thus, if the economy performs as we expect, the deficit would theoretically be $5-to-$6 billion lower than Ottawa projects in the coming year.

"The consensus expects that WTI oil prices have found a bottom, and will average around $40 this year before rising to $52 in 2017. Importantly for revenues, this will drive a rebound in nominal GDP growth to 4.6 per cent next year (consensus view), after a very sluggish 0.6 per cent pace in 2015 and 2.4 per cent this year."

Table 2: Economic Assumptions

(percent)	— Ottawa —			BMO Capital Markets	
	2015	2016	2017	**2016**	**2017**
GDP Growth					
Real	1.2	1.4	2.2	**1.3**	**2.1**
Nominal	0.7	2.4	4.6	**2.2**	**4.3**
Yields					
3-month T-Bill	0.5	0.5	0.7	**0.5**	**0.6**
10-yearGoC	1.5	1.6	2.3	**1.4**	**1.8**

The Bottom Line: The 2016 budget may well be remembered as a crucial turning point for federal finances. Deficits that were initially billed as moderate, temporary stimulus suddenly look large and structural in nature. Should the economy face serious headwinds in the next few years, Canada's fiscal position will be left in much weaker standing. P

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Finance Minister Bill Morneau is congratulated by Prime Minister Justin Trudeau on delivering the Liberal government's first budget in the House on March 22. Adam Scotti photo

Tax Policy: Long on Re-Distribution, Short on Growth

Jack M. Mintz

The Trudeau government anointed its first budget, during the 2015 election campaign, as an engine of growth. Economist Jack Mintz analyzes the ways in which, he says, the changes to Canada's tax policy contained in the 2016 budget actually undermine that aim. Mintz decries the lack of a plan for balance, and warns that demographics will lead us into a low-productivity trap.

The 2016 federal budget can be viewed as the "Campaign Promise Implementation Act". Not that much new was in it except for breaking two important election promises: running deficits to be no more than $10 billion and balancing the budget by end of the first mandate. With a blowout in program spending, eyes in the future will turn to tax policy—will a GST rate increase be in the cards?

There is something "McGuinty-esque" about the 2016 federal budget. With

$113.2 billion in projected deficits by 2021, there is almost no plan in sight to reach a budgetary balance. In fact, the budget is not realistic with its program spending ramping-up 12.4 per cent in the first two years, followed by a lean 6.1 percent increase in the following three years.

This was the same trick played by Ontario budgets for many years. Operating and capital pending was predicted to increase very little after one or two years, promising smaller deficits and lower debt-GDP levels down the path. Meanwhile, the debt-to-GDP level kept rising over the years, eventually forcing the province to put the lid on cost increases in the past few years.

> *"It is hard to believe that deficits will come below $30 billion in any year, assuming the economy grows at a steady 2 percent clip after 2016, which cannot be forecasted with certainty."*

While the federal budget is at least pessimistic on its economic assumptions, suggesting a $6 billion contingency reserve, its projection of spending is, to say the least, optimistically low. With future promises, it is hard to believe that deficits will come below $30 billion in any year, assuming the economy grows at a steady 2 percent clip after 2016, which cannot be forecasted with certainty.

This gets to the role of tax policy in the future. As dour economists like to point out, deficits today delay tax increases or spending cuts to the future. In fact, part of tax policy is to assess the economic cost of imposing taxes on future voters compared with today's generation. Optimal taxation principles include "tax smoothing" to keep tax burdens aligned today and in the future. Low taxes today coupled with high taxes in the future create more economic loss than a more even distribution of tax burdens over time.

With our aging population, pushing taxation to the future is now a more problematic issue. With more retirees relative to workers, one can easily predict a slowdown in tax revenues relative to GDP since retirees earn less income and spend less compared to workers. At the same time, federal and provincial spending on health and pensions will accelerate as more Canadians retire.

Currently, Canada's growth rate will be stuck at 2 per cent per year unless we fundamentally improve productivity. With population growth at 0.9 percent and labour productivity growth roughly 1 per cent since 1980, our normal growth rate is 2 per cent per year (15 years ago we would think that 3 per cent was the potential growth rate). With the aging population, Canada will need to eke out more output with the resources we have. The 2016 federal budget's tax policy was long on redistribution and shorter on growth.

This puts tax policy in a precarious position in the near future. If a tax hike were needed to cover spending promises, what would be the best approach to avoid harming economic growth? Even if no hike were needed, would some tax reductions be better suited to boost productivity replaced by other taxes that do less harm to the economy. The new Trudeau government will need to carefully assess tax policy in the next few years to determine the best results. Tax policy in the 2016 budget is a mixed bag, with some good and some bad measures.

To assess what is good tax policy, one has to start with some basic principles, already well-known among tax policy gurus. A tax system should be "efficient", meaning that it distorts as little as possible the best allocation of resources to maximize output over time. Taxes should be fair, meaning they are neutral among people with similar resources and rise with ability to pay. Taxes should be simple, or at

Table 1: New 2016 Federal-Ontario Marginal Tax Rates Including the Effect of Clawing Back Canada Child Benefits at the Federal Level

Income	Marginal Tax Rate-No Chldren	Marginal Tax Rate-One Child	Marginal Tax Rate-Two Children	Marginal Tax Rate-Three Children	Marginal Tax Rate-Four or More Children
$30,000-45,282	20.05	27.05	33.55	39.05	43.05
$45,283-65,000	24.15	31.15	37.65	43.15	47.15
$65,000-$73,145	29.65	32.85	35.35	37.65	39.15
$73,145-83,075	31.48	34.68	37.18	39.48	40.98
$83,075-86,176	33.79	35.99	39.49	41.79	43.29
$83,176-$90,563	37.91	41.11	43.61	45.91	47.41
$90,563-140,388	43.71	46.91	49.41	51.71	53.21

least avoid high administrative and compliance costs.

The two tax policy centerpieces in the budget were the middle class income tax cut and the child tax benefit plan. The middle personal income tax rate is reduced from 22 to 20.5 percent for incomes roughly between $45,000 and $90,000. The tax-exempt Canada Child Benefit replaces the old non-taxable child tax benefit and taxable Universal Child Care Benefit with new maximum annual benefits of $6,400 per child under six and $5,400 per child aged 6 through 17.

No question the middle-class tax cut and Canada Child Benefit plan will see a substantial reduction in taxes paid for both low and middle-income families (although, ironically, this will be partly offset by the cancellation of the income-splitting tax credit up to $2,000 for those families with a parent staying at home to raise children). But here is the rub. The cost of redistributive policies is raising marginal tax rates for many taxpayers, discouraging work, saving and risk-taking.

The middle-income tax cut is partly covered by hiking the top rate on growth-generating Canadians with incomes of more than $200,000, bringing Canada's federal-provincial top rate to 53 percent, one of the highest in the OECD. For working families, marginal tax rates will substantially increase since the Canada Child Benefit is clawed back at rates ranging from 3.2 to 23 percentage points, depending on income level and number of children and much higher for childless taxpayers, as illustrated by new 2016 marginal tax rates in Table 1 for Ontario.

The consequences of the new tax packages for many families are to deter work even if some short-term demand stimulus is achieved through tax reductions. With higher marginal tax rates and more household income (through the tax cut) economists would predict that people would prefer more leisure or non-taxable "home production". This is especially important with respect to secondary workers that tend to be most sensitive to taxes. For these workers, the higher child benefits and marginal tax rates will encourage mom or dad to stay home.

> ***"The middle-class tax cut and Canada Child Benefit plan will see a substantial reduction in taxes paid for both low and middle-income families (although, ironically, this will be partly offset by the cancellation of the income-splitting tax credit up to $2,000 for those families with a parent staying at home to raise children)."***

What about other tax policies? While I would strongly argue that the income-splitting measure brought some fairness between those families with two working and single working parents, I do think the elimination of the child fitness and arts credits was quite appropriate. These credits increase the administrative costs with unclear impacts on efficiency (one might argue fitness increases health and productivity but the credit was likely too little to matter).

More problematic was the extension of the mineral exploration tax credit for flow-through shares and the bizarre re-introduction of the Labour-Sponsored Venture Capital Corporate tax credit in those provinces with existing LLSVC entities (Ontario and Alberta do not have a venture capital credits but will now be pressured to provide one). Both credits fail efficiency and fairness tests for good tax policy.

As several recent studies have shown, flow-through and LLSVC tax credits have encouraged sub-performing investment, as taxpayers are more interested in the tax benefits rather than the economic returns from the investment. The LLSVC tax credit has not only been ineffective in spurring innovation but has harmed the venture capital market with average rates of return of 3 percent or less. No wonder that Canadian pension funds do not invest in Canadian venture capital funds when they can earn six times the returns in the US funds. We need to think of better tax policy ideas for innovation and investment.

Many other tax policy issues are raised by this budget but let me add just one more. In work done with Daria Crisan and Ken McKenzie, the current tax-transfer system is highly geared towards seniors, increasingly so through the years. Pension-income splitting (kept for seniors but not workers), pension credits, aged tax credits, Old Age Security and other various benefits have resulted in negative taxes (taxes net of transfers paid) on seniors for incomes up to $60,000. This leads to significant income redistribution from workers to retirees and is therefore a critical issue as to how to target support to help low-income seniors as the population ages. The top-up under the Guaranteed Income Supplement for single seniors to avoid poverty was a welcome change. Bigger issues lie down the road since middle-income seniors might need to bear more taxes.

Obviously, one tax that is distributed more fairly across the population is the GST. Many economists, critical of the Conservative GST cut from 7 to 5 percent, would argue that a higher GST rate would be appropriate to consider. This might be the most efficient tax increase but it will certainly hurt the very group that the government targeted to help.

It will be fascinating to watch how tax policy plays out in this government. Hopefully, it will put more focus on growth in the future than suggested by this budget. P

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Canada: We Have a Growth Problem

Kevin Lynch

International Monetary Fund Managing Director Christine Lagarde has put the world's advanced economies on notice: low, slow growth is the new normal. BMO Vice Chair and former Clerk of the Privy Council Kevin Lynch scans the horizon for solutions, and says the upcoming federal budget is the place to put them.

The International Monetary Fund (IMF) sees Canada eking out at most 1¼ per cent growth last year, perhaps around 1½ per cent this year and at best 2 percent next year. Many domestic forecasters are less optimistic. With oil prices finding new lows, stock markets weak and volatile and the Canadian dollar continuing to sag, Canada has a growth problem.

But, is this a cyclical bump or something more permanent, more structural? Is it a uniquely Canadian problem, or are other advanced economies similarly challenged? Is it inevitable and irreversible, or can a suitable combination of policies and behaviours reverse this slowing growth trajectory and all it implies for future living standards and fiscal sustainability? How we answer these questions will shape our economy and growth prospects well into the future.

A 2015 IMF report ("Lower Potential Growth: A New Reality") put forward the rather dismal view that lower potential growth is the new reality for advanced economies, including Canada. It argues that "absent policy action to encourage innovation, promote investment in productive capital, and counteract the negative impetus from aging, countries will have to adjust to a new reality of lower speed limits (potential growth)."

This report formed the basis for the warning to political leaders by Christine Lagarde of the IMF that industrial countries face a "new mediocre" growth trajectory unless they undertake structural reforms and fiscal policies designed to raise long term (potential) growth. This time really is different, according to the IMF, and no amount of hyper-expansionary monetary policy will restore the sustained rates of growth we have grown accustomed to throughout the postwar period.

The McKinsey Global Institute, in a 2015 study ("Global Growth: Can Productivity Save the Day in an Aging World?"), provides a similarly sobering perspective on future growth prospects for Canada and other developed countries. Canadian growth, which was 3.1 per cent on average over the last 50 years, would average only 1.5 per cent over the next 50 years based on long-term demographics projections (UN median global projections scenario) and on a continuation of our past average productivity growth. But reduce the productivity assumption to reflect the reality of much slower productivity growth over the past 15 years, and Canada's long-term growth prospects would be dimmer still unless our demographics improved. While this is more scenario analysis than forecasting, it does reinforce the observation attributed to President John F. Kennedy that "change is the law of life, and those who look only to the past or the present are certain to miss the future."

"This time really is different, according to the IMF, and no amount of hyper-expansionary monetary policy will restore the sustained rates of growth we have grown accustomed to throughout the postwar period."

Paradoxically, while short term variations in economic activity are devilishly difficult to forecast with a high and consistent degree of accuracy, average growth rates of the economy over the longer term are much more predictable. The reason is that long-term growth is essentially dictated by just two drivers—the growth of productivity and the growth of the labour force (plus an impact from the terms of trade, or ratio of export prices to import prices).

In Figure 1, this basic relationship between growth, productivity and the labour force is set out, as well as what the math of productivity and the labour force implies for Canadian growth.

Over the 25-year period from 1982 to 2007, the eve of the great global finan-

cial crisis, Canadian real GDP growth averaged just under three per cent per year. This growth emanated fairly equally from productivity growth that averaged 1.3 per cent and labour force growth that averaged 1½ per cent. Not bad economic performance.

Looking at these same growth drivers in the 2010-to-2015 period after the global recession, their patterns are considerably weaker. The aging of the population and a lessening of employment prospects are reducing labour force growth significantly—in the last five years to just less than 1 per cent. And, while the decline in Canadian productivity growth is longstanding, it averaged only 0.9 per cent from 2010 onwards.

The implications of this ongoing decline in productivity growth and slower labour force growth are profound. It is quite likely that long term Canadian growth over the next decade(s) will be less than two per cent, and perhaps well less. This would represent a decline of more than one third relative to the real GDP growth we have experienced over the last four decades, and upon which we have built our enviable standard of living and established our fiscal plans and programs.

"The implications of this ongoing decline in productivity growth and slower labour force growth are profound. It is quite likely that long term Canadian growth over the next decade(s) will be less than two per cent, and perhaps well less."

Elsewhere, former Bank of Canada Deputy Governor Tiff Macklem and I have written that Canada needs a credible long-term growth plan (*Globe and Mail*, January, 2016). Canada's growth problems have been accumulating for years, masked by the commodity super-cycle. Economic growth is in a rut, with low productivity, weak innovation, declining terms of trade and limited access to high-growth foreign markets.

In the most recent World Economic Forum Global Competitiveness Report (2015-2016), where Canada ranks 13th, the challenges are clear. We do well on the basics—health, education, institutions, financial systems—but are found lacking on key productivity drivers such as innovation and business sophistication, where we rank 24th.

McKinsey Global Institute has identified 10 key enablers of growth that essentially revolve around improving productivity and labour force growth (Figure 2). These are the key structural reforms that are needed to reboot long- term growth; hyper-expansionary monetary policy will not cure structural ills.

On the productivity enhancement front, core reforms range from increasing private and public R&D, to encouraging greater business capital investment, investing long term

Figure 1: The Drivers of Long Term Growth

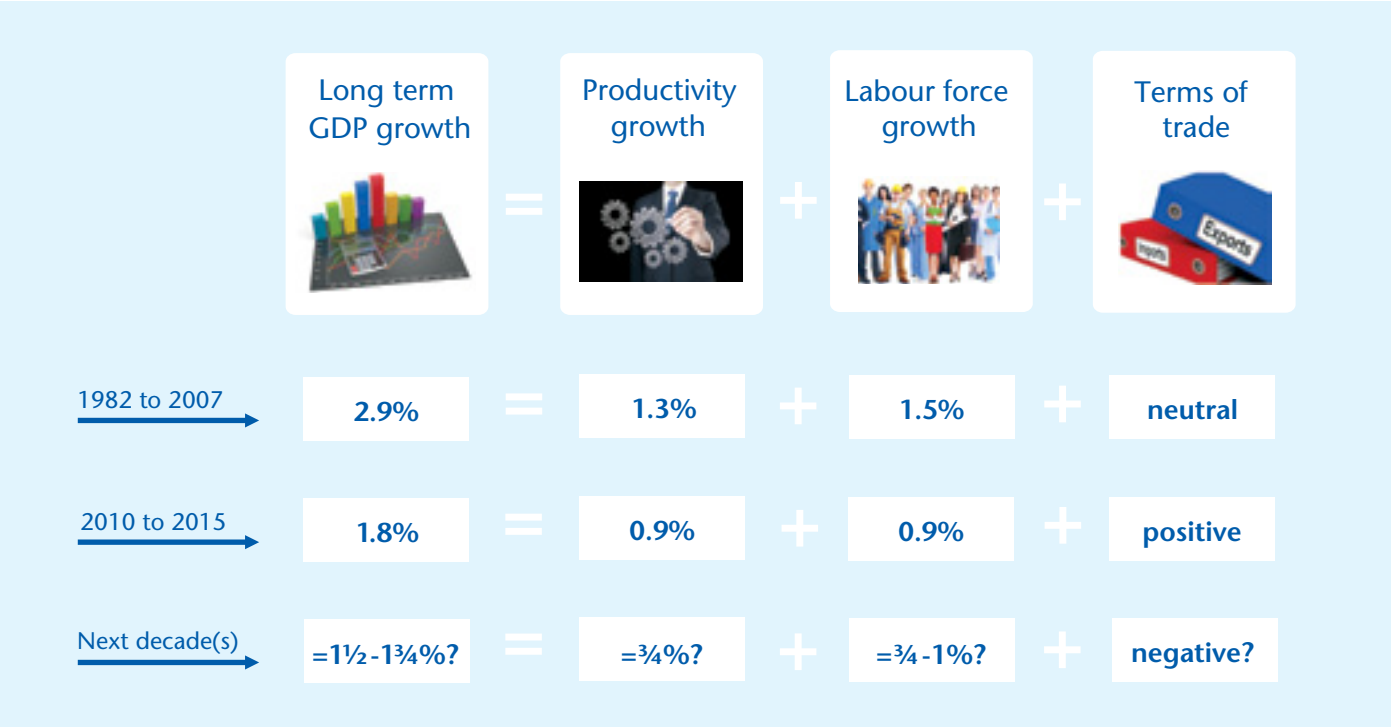


Figure 2: McKinsey's 10 Enablers of Growth|

in public and private infrastructure, building a modern digital and data infrastructure and" fostering competition through trade agreements and reducing regulatory barriers.

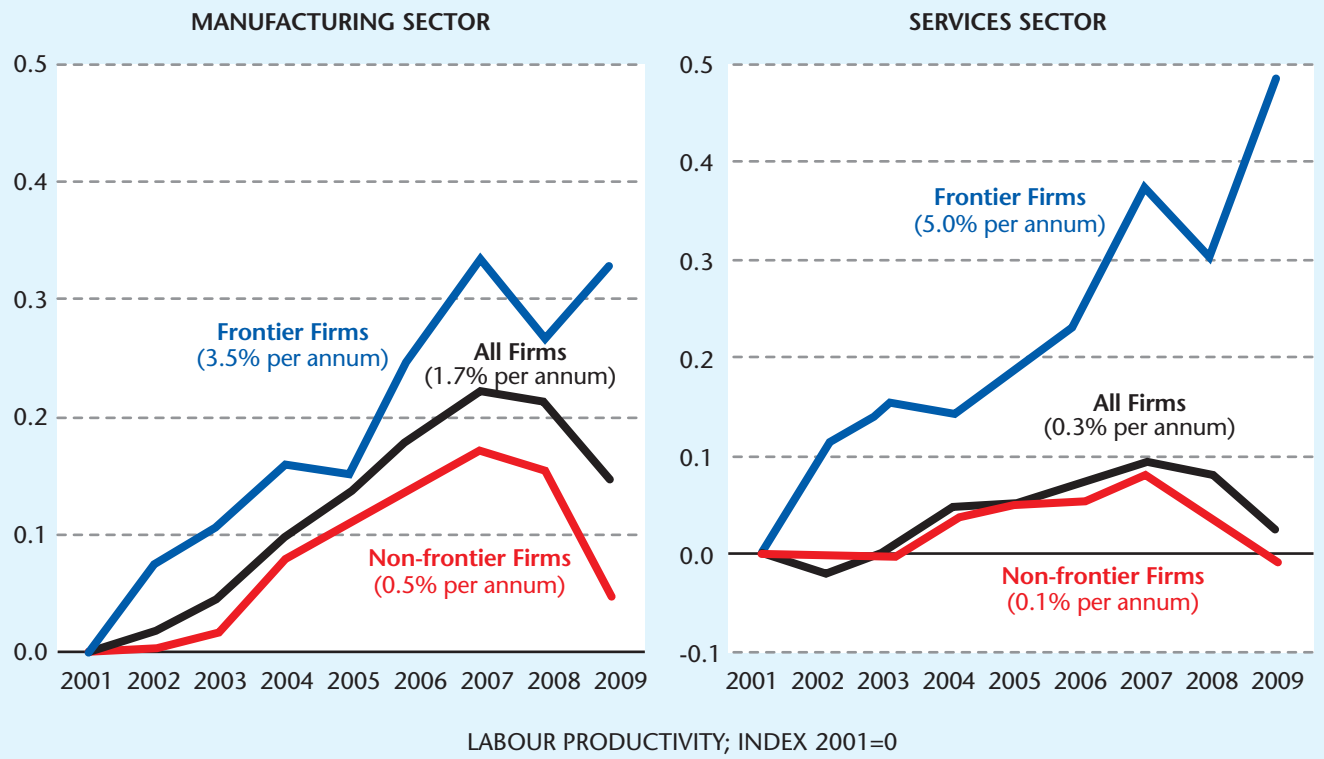
Labour force amplifiers include higher immigration, labour market flexibilities, education and skills training geared to the jobs of tomorrow, and boosting the labour force attachment of older people, youth and women.

No one of these enablers alone is the silver bullet that will make a quantum difference to our growth trajectory. But, employed together, as part of a coordinated and consistent growth plan, these structural reforms have the potential to do so.

> ***"The jobs of tomorrow will change, the workers of tomorrow will change in what they do and the skills they need to do it, the successful firms of tomorrow will be innovation-intensive and highly flexible. The gains will go disproportionately to the disruptors and early adapters."***

The OECD stresses the importance of "frontier firms" in driving productivity growth. These are firms at the leading edge of applied research and product, process and market innovations. Their behaviours are dramatically different from the other firms in their industry. For example, as shown in Figure 3, the "frontier firms" in the service sector (defined as the 100 most productive firms globally in each two-digit sector) had average productivity growth of 5.0 per cent per year from 2001 to 2009, while non-frontier service firms had essentially no productivity growth over this period. Hence, the importance of innovation to the dynamism and growth potential of economies.

Figure 3: The Importance of Frontier Firms



Source: Andrews, Criscuolo and Gal (2015), "Frontier firms, technology diffusion and public policy: micro evidence from OECD countries" forthcoming OECD Working Paper.

While one would expect new innovations and best practices to be quickly diffused to other firms in any given sector, both within a country and cross-border, given the pervasiveness of globalization, such is not the case. This suggests there are also large productivity gains to be had by raising average business efficiency towards best-in-class in each sector. This underscores the importance of removing barriers to competition, opening up economies to trade flows and resisting regulations that stifle competition and diffusion.

Innovation and its centrality to future growth was centre stage at the World Economic Forum in Davos this year. The core message was: get ready for pervasive change, driven by an accelerating scale, scope and pace of innovation. Why is innovation seemingly at a pivot point? It is the combinatorial of multiple new technologies, rather than the diffusion of a single new technology; it is their platform nature, extending across the physical, digital and biological worlds; and, it is their speed of diffusion. Precision medicine, smart robots, blockchains, artificial intelligence, autonomous vehicles, 3-D printing, machine learning, big data and analytics drones, and on and on.

The implication of all this is: disruption. The jobs of tomorrow will change, the workers of tomorrow will change in what they do and the skills they need to do it, the successful firms of tomorrow will be innovation-intensive and highly flexible. The gains will go disproportionately to the disruptors and early adapters. The lessons for Canada are rather obvious.

All of this leads us back to Canada's growth problem, and the need for a clear and credible growth plan, one that provides a road map for business, investors, governments and educators as to how we can rebuild our growth potential for the long haul. It will involve new thinking, strong collaborations and clear strategies for productivity and innovation, for trade, for strategic infrastructure and for talent. Budget 2016 indicated a commitment to tackling our long term growth challenge, and hopefully Budget 2017 will be a pivotal step in this direction. Such a growth plan would go a long way to resetting expectations and strengthening confidence in Canada. P

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A Budget Canadians Can't Afford

Lisa Raitt

From balanced budgets in the last two years under the Conservatives, the Liberals are forecasting four consecutive years of deficit spending of $99 billion to 2019, the year they promised to balance the books. Which they won't. From the Opposition front bench, finance critic Lisa Raitt offers a Conservative perspective on Budget 2016.

When trying on his new shoes for the budget, Finance Minister Bill Morneau held a photo-op at the Boys and Girls Club in Toronto, a place well-known for teaching valuable life lessons and giving kids a good foundation.

I couldn't help but feel a sense of irony that the minister chose this spot to talk about his plan for the Liberal budget, a plan that commits Canadians to long-term structural deficits that will saddle future generations with unsustainable debt.

While the Liberals struggle with the idea that if you borrow money you have to pay it back, it is a concept that most young children in that room would find easy to comprehend.

What Canadians can't comprehend is how the Liberal government attempts to justify its plan. On budget day itself, yet another report from the Finance Department`s own Fiscal Monitor again confirmed that the former Conservative government left the country with a surplus. For the April 2015 to January 2016 period, the report said, the government`s budgetary surplus was $4.3 billion, with a surplus also forecast for February.

But the Liberals projected an operating deficit of $9.1 billion in March, the last month of the fiscal year, with a forecast of a $5.4 billion deficit over FY 2015-16. Apart from the usual year-end cost adjustments, the Liberals booked $3.7 billion of veterans' benefits in the next fiscal year to the previous fiscal exercise. This is not a deficit left behind by the Conservatives, but one created entirely by the Liberals.

Not only have the Liberals already made so many commitments they have virtually squandered all they inherited, they have cast aside their election promise to cap their deficit spending at $10 billion.

> **"Gone is any plan to return to balance by 2019. Morneau talks about returning to balance after five years of deficit, but his own budget numbers tell another story, one written entirely in red."**

Furthermore, Budget 2016 specifically plans for deficits totaling $99 billion over the next four years. In fact, they project a further deficit of $14 billion beyond that in fiscal 2020-21. Simply put—another broken promise. Gone is any plan to return to balance by 2019. Morneau talks about returning to balance after five years of deficit, but his own budget numbers tell another story, one written entirely in red.

Morneau's budget speech was titled "Growing the Middle Class", but the budget is a betrayal of the middle class, who understand that if we are not willing to control spending, taxes will eventually have to go up to pay for the money borrowed today. It's a betrayal of families who understand their household budgets can't be sustained on credit. And it's a betrayal of Canadians who trusted them to keep their promise to limit their stimulative deficits to $10 billion in each of their first two years of government, returning balance in 2019. That's two important broken promises on the integrity and viability of the fiscal framework.

Not even one year ago, Justin Trudeau said: "Our platform will be fully costed, fiscally responsible and a balanced budget." As we now know for certain, none of these things are true. This budget puts taxpayers on the hook for a Liberal plan to spend money Canada doesn't have—to fight a recession Canada isn't in.

Conservatives found themselves in a tough economic situation in the Great Recession of 2008-09. That's why we had a plan to return to balance—to live within our means—something we achieved in 2015.

We met the challenge of the global financial crisis with Jim Flaherty's Economic Action Plan. And our legacy of surplus was to be protected thanks to Joe Oliver's balanced budget legislation, which the Liberals are repealing. During our last full year in office, the budget was balanced for the second consecutive year. Our job creation record was the best in the G7, despite the fallout after the Great Recession. When the Liberals took office, taxes were at their lowest point in 50 years. They had a model to follow that cre-

ated 1.2 million net new jobs during a global economic downturn.

Yes, Conservatives disagreed with the Liberals' proposal to borrow even a "modest" $10 billion. You can do a lot for $10 billion. Had the Liberals kept that pledge, our Opposition would have been there to make sure every dollar of that $10 billion went to encouraging job creation.

Now, that number is a dream compared to the reality, or rather nightmare. Uncontrolled spending will inevitably lead to long-term, structural deficits that are unsustainable. Some economists go so far as to suggest this government will rack up more than $150 billion in new debt over the next four years alone. At $99 billion of deficit spending forecast by the budget, we are already two-thirds of the way there.

For Canadians, this is a big problem. After breaking such a simple promise, the Liberals simply can't be trusted when they say their spending will create the jobs and growth our country needs, and handing borrowed money from one politician to another is not a jobs plan.

There are more than 100,000 Canadians from across the country out of work in the oil and gas industry alone. These families needed to see a real plan to create well-paying jobs.

What they got instead was a plan that seeks to increase payroll taxes on small business and introduce a carbon tax, both job-killing measures that discourage investment in our economy. The prime minister continues to throw up roadblocks to job-creating pipeline projects, and the thousands of new jobs that come with them. The Liberals are also sending mixed-messages on LNG in British Columbia.

Many Canadians are wondering: "What did Justin Trudeau buy with $30 billion of our money?" I can't blame them for being confused. Canadians see money flying out the door, with no assurance that they will receive value for this profligate spending, which the Liberals call "investments" in the economy. The Liberals have clearly demonstrated their inability to make hard choices that governing requires and they have demonstrated an even greater inability to provide measures for Canadians that will really help.

Opposition Finance critic Lisa Raitt on Budget 2016: "This is not a deficit left behind by the Conservatives, but created entirely by the Liberals." House of Commons photo

And so in the weeks and months following the budget—you can count on the Conservative caucus to hold the Liberals to account on these issues. We will be the voice of everyday working people. The Liberals talk of growing the middle class. The Conservatives will stand up for the middle class.

We'll push for proper infrastructure spending—targeted with a lasting impact with transparent selection criteria. We'll push them to embrace free trade and the $5 to $10 billion in long-term GDP growth that will come with the Trans-Pacific Partnership, a significant trade deal that the trade minister herself said was not her job to promote.

And we'll push for a commitment to balance the budget by the end of their four-year term, as they promised during the campaign. It can be done.

We won't forget the Canadians who voted for us. They voted for lower taxes, a balanced budget, and a plan to keep Canada the best place to find a good job. And we won't forget the Canadians who voted for the Liberals, either. Because the plan they voted for, the plan they were promised, is certainly not what the Liberals have delivered. They wanted to believe Justin Trudeau when he said he would spend responsibly. Those were his words. His promises. So it is our job to speak for those voters as well.

Our Conservative values resonate with so many Canadians, including those who voted for other parties last October, because they are fundamentally Canadian values. Universal values, in fact—shared by Canadians whose families have been in this country for generations, and those whose families can measure their time in Canada in just days and weeks.

As Opposition Leader Rona Ambrose says, it is easy for a party in opposition to speak about what it is against. But it is more important that we speak with clarity about what we are for—because that is what distinguishes us from the current government.

We believe that government should help anyone in genuine need, and hinder none who finds success—that government should pave a road to prosperity, and then get out of the way.

We believe free enterprise and entrepreneurship are the keys to safeguarding our environment. We believe that doing what's right is more important than doing what's popular, and that this is essential to being a principled player on the world stage.

Canadians aspire to great things, and we share their aspirations. So we will continue to stand up for Canadians for their hard-earned dollars, for their deeply held values, and for their economic and political freedoms. P

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Prescription Drug Abuse and Canada's Lagging Regulatory Framework

Craig Landau and Doug Sommerville

In Budget 2016, the Trudeau government was true to its campaign word. It will negotiate a new Health Accord with the provinces and territories and invest in mental health, palliative care, vaccination uptake and population health interventions with First Nations communities. However, notably absent was mention of Canada's National Anti-Drug Strategy or the long-awaited regulations to mandate that all pharmaceutical manufacturers of prescription opioids convert their product portfolios to formulations that are abuse-deterrent/tamper-resistant. The Canadian heads of two leading innovative and generic pharma companies are of one mind on this issue.

At the risk of paraphrasing Finance Minister Bill Morneau's Budget speech, it was replete with soaring phrases about the importance of meeting the challenges of today, and tomorrow, with tempered judgment leading to wise choices buttressed by strategic investments. And it clearly echoed the Liberals' 2015 winning election narrative themed around an innovative, inclusive, transparent and collaborative approach to governing.

Budget 2016 builds on these themes laying out leadership roles for the government in middle class economic growth, infrastructure renewal, climate change, reconciliation with our indigenous communities, and a more expansive role in international affairs, to name a few.

In terms of healthcare policy, the government was true to its campaign word. It will negotiate and finance a new Health Accord with the provinces and territories and its commitments to invest in mental health, palliative care, vaccination uptake and population health interventions with First Nations communities were honoured.

Howevear, there was no mention of Canada's National Anti-Drug Strategy or long-awaited regulations to mandate that all pharmaceutical manufacturers of prescription opioids (aka: powerful pain medications) convert their product portfolios to formulations that are abuse-deterrent/tamper-resistant.

Given that Budget 2016 was tabled just two weeks after Prime Minister Trudeau's successful visit to Washington with President Obama, the importance of these specific regulations has only grown. Just prior to this visit, a bi-partisan congressional delegation representing nine states released an open letter to Health Minister Jane Philpott urging greater regulatory cooperation on the prescription drug abuse file. They specifically urged Canada to move ahead with its own abuse-deterrent/tamper-resistance regulations.

For context, in 2011, the current Obama Administration, as part of the *National Drug Control Strategy*, directed the U.S. Food and Drug Administration (FDA) to give priority reviews to pain treatments with the potential to deter abuse, misuse and diversion and to encourage the development of abuse-deterrent formulations (ADFs) of opioid medications. Fast forward five years and the benefits of this approach are self-evident. The FDA has approved five ADF products for prescription by American healthcare professionals to their patients and reports that 30 more ADF products—from brand-name and generic pharma companies—are in various stages of development.

This news is very important as Canada currently finds itself in the midst of two related public health crises: the under-treatment of pain and the challenges of prescription drug abuse, misuse and diversion. Pain affects one in five Canadians as well as their families and caregivers. Patients can experience debilitating pain during end-of-life care, cancer treatment, and post-surgical recovery or by suffering from unrelenting, severe and often progressive non-cancer pain conditions. Prescription opioids remain a safe and effective treatment for appropriately diagnosed, selected and monitored patients.

However, these medicines do have a risk profile when incorrectly prescribed, misused by patients and/or abused by and diverted to non-patient populations. Prescription drug abuse has disproportionately affected young Canadians and our First Nations communities. It has also resulted in large expenditures of healthcare, social services and law enforcement resources. As well, the stigmatization of those who struggle with addiction

alongside those who responsibly prescribe, dispense, and use these medicines cannot be ignored.

In several areas of pharmaceutical policy, brand-name (innovative) and generic companies are often on opposite sides of public policy debates. However, our two companies—Purdue and Teva Canada Limited—as the respective brand-name and generic industry leaders with a combined 110 years' experience in pain product education, research and development and working with physicians and pharmacists, are in complete agreement that opioid analgesic products manufactured with ADF properties that are intended to reduce misuse, abuse and diversion are an important contribution by industry to the broad multi-pronged, multi-stakeholder strategy to address prescription drug abuse.

Moreover, our joint commitment to abuse-deterrence is driven and continues to be bolstered by the abundance of published evidence supporting the positive impact these technologies can have on public health.

[ADFs are not a "silver bullet" for addressing the complex societal issues of prescription opioid abuse, but they are an important and available 'upstream' tool to help deter misuse, abuse and diversion of these medicines. However, they are an upstream tool to complement other "harm reduction" interventions such as prescription drug monitoring programs, prescriber education, revising clinical practice guidelines, national surveillance programs, patient and family education, responsible storage and disposal programs, law enforcement and the provision of naloxone to first responders and addiction outreach workers.]

Fortuitously, much of the groundwork has been laid for the health minister to move forward—robust public consultation and research occurred during the last Parliament. Both the Senate Social Affairs, Science and Technology (November 2013) and the House of Commons Health (April 2014) committees recommended that Health Canada amend the *Controlled Drugs and Substances Act* regulations to make abuse-deterrent/tamper-resistant products a Canadian reality. These recommendations were informed by experts from the fields of medicine, pharmacy, public health, law enforcement, and addiction.

> ***"These medicines do have a risk profile when incorrectly prescribed, misused by patients and/or abused by and diverted to non-patient populations. Prescription drug abuse has disproportionately affected young Canadians and our First Nations communities. It has also resulted in large expenditures of healthcare, social services and law enforcement resources."***

Then, just before the 2015 election call last summer, Health Canada gazetted regulations to incorporate abuse-deterrent/tamper-resistant properties into all controlled-release oxycodone products. While positive, it was a timid first step as evidenced in criticism from the addiction, public health and pharmacy communities, due to its lengthy implementation timing and limited scope. Nonetheless, both of our companies strongly urged Health Canada then, and Minister Philpott now to require controlled release oxycodone to be tamper-resistant.

Looking to the future, our ideal goal should be that abused opioids (and preferably any opioid product) should be converted to abuse-deterrent formulations whenever possible, provided that the formulation does not hinder the intended delivery characteristics of the product for the benefit of the patient (e.g., rapid onset formulation for severe breakthrough pain), as all opioids have the potential for abuse.

To achieve this policy objective, Health Canada, needs to work in concert with industry, the FDA, regulatory bodies, and other stakeholders as ADF technologies continue to evolve. The ultimate goal should be to transition today's opioid products to ADF products in an orderly manner, while ensuring no undue disruption for patients who are stabilized on existing therapies. This collaboration will help generate the appropriate evidence base, which will in turn allow regulators to approve products, and companies to obtain product monograph claims as to the abuse-deterrent properties of their products to better inform prescribers and patients.

The pressing need of the current crisis of prescription drug abuse combined with the fact that Canadian prescribers, pharmacists and patients have limited access to these technologies provides ample political and public health rationale for action.

Moreover, the bulk of a regulatory impact assessment work has already been conducted by Health Canada officials and awaits ministerial direction. Finally, the U.S. pressure and attention on the gap between our two countries on this file will only intensify in the months ahead so alignment of our respective national regulatory approaches makes eminent sense.

Health Minister Philpott recently wrote that she has a "moral imperative" to respond to "staggering mortality rates from suicide and substance abuse." This eloquence conveys her deep understanding of the issue and compassion for the lives, families and communities affected. In this task she has our full support and we firmly believe the regulatory approach we advocate is the right thing to do as a positive, evidence-based contribution to improving public health. P

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Doug Sommerville is Senior Vice President and General Manager of Teva Canada Limited. He has over 25 years' experience in healthcare leadership across North America in both pharmaceuticals and medical devices. Teva Canada Limited is a member of the Canadian Generic Pharmaceutical Association.

Column / Don Newman

Milestone or Millstone

A finance minister's first budget is usually like a hockey player's first NHL goal. Tremendously important to him; noticed, but soon forgotten by everyone else.

Only if he goes on to be a Guy Lafleur, Wayne Gretzky or Sidney Crosbie does anyone pay any attention to the first time he scored.

However the budget brought down on March 22 by Finance Minister Bill Morneau is likely to be signposted for years to come, it will be the budget that started moving Canada to a competitive, prosperous player in the 21st century. Or, it will be the budget that sent Canada tumbling into a cycle of deficits and mounting public debt from which it will be difficult to ever recover.

The budget is the fiscal plan to fulfill the Liberals' economic campaign platform and the mandate letters Prime Minister Justin Trudeau sent to cabinet ministers when he announced their appointments. On budget day, Morneau said his document was the "beginning" of the government's plan. "Important first steps," he added, on a longer pathway.

But the success of the budget will ultimately be decided by other steps soon to be taken by the government. Later this year, Innovation, Science and Technology Minister Navdeep Bains will unveil the government's plans for making the Canadian economy a hub of innovation and a central player in what is being called the fourth industrial revolution.

Even without that strategy in place, the budget is getting ready for it. In a section titled "Investments in World-Class Institutions and Research," the government is committing ↑$2 billion to a fund to modernize on-campus research, commercialization and training facilities, and that will be just the beginning.

The strategies being worked on by Bains will be the most comprehensive and ambitious since the Mulroney government first started talking about innovation in the 1980s and consulted Harvard Professor Michael Porter, author of the acclaimed *The Competitive Advantage of Nations*.

If successful, they will transform Canada and its economy. Future budgets will indeed balance themselves. However, this budget was focused more on the short term, and on meeting campaign commitments.

The Liberals won the election last Oct. 19th for two reasons: They were not Stephen Harper heading a Conservative government that had grown tired and Canadians had grown tired of, after 10 years in office. And the Liberals had a key election promise.

They would forsake the economic orthodoxy of a balanced budget and go into deficits. Not that much in the red, mind you, and not for too long. Just $10 billion a year, and just for the first two years of their mandate. The increased economic activity that investment would generate on infrastructure spending, plus an economy that was growing slowly without the added stimulus, would bring the budget back into balance by the time of the next election in 2019. Or so they said.

But the Morneau budget tells a far different story. There will be deficit spending all right, but instead of the rather modest deficits promised in the election campaign, they will be huge.

In fiscal 2016-17, the government will run a deficit of $29.4 billion—three times the election promise. The deficit will be about the same the next fiscal year, down about $6 billion the year after that and will still be at $17.7 billion by the time of the next election.

What's more, there is no end in sight. "Over time" is the answer given to the question of when the budget will be back in balance. Rather like "In the fullness of time," the Biblical explanation to questions impossible to answer with a time limit.

Of course there were other high profile promises in the Liberals campaign platform besides deficit spending. There was a middle class tax cut for people earning between $45,000 and $90,000 a year, and a new child benefit program that is more generous and tax free. They are in the budget, part of the plan for "growing the middle class," which the Liberals called their budget document.

Campaign promises were also made to Canada's aboriginal voters, who responded by voting in record numbers for the Liberals. Their fealty was rewarded, to the tune of an $8.4 billion commitment over the next five years to improve housing, drinking water and education for indigenous people mainly living on reserves.

And on infrastructure, the "first phase" of that commitment will be $11 billion over five years to modernize and repair public transit systems, water and waste systems and public housing. The new, more expensive public transit and other infrastructure spending will come in future budgets.

How quickly and how much stimulus the infrastructure spending will add will determine the success of this budget in the short term. How quickly and how successfully the strategy to transform the economy into a post-industrial, less carbon reliant Canada is will determine how Bill Morneau's first budget is viewed "Over Time."

The rookie minister has his first goal. Now the watch is on to see what happens next. P

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Democratic Institutions Minister Maryam Mosef says the Liberal government is committed to an open dialogue on parliamentary reform and democratic renewal. Will a referendum on proposed reforms be part of the dialogue? Adam Scotti photo

Electoral Reform: Referendum, Yes or No?

David Mitchell

The good news is that the federal government's pledge to do away with our existing system of voting is sparking a lively national debate on democratic renewal. The bad news is that that debate may be drowned out by the debate over how to ask Canadians what they think of it.

The Liberal promise to reform Canada's electoral system before the next election has already provoked extreme and divergent views, including threats of political opposition, extra-parliamentary protests, Senate filibusters and court challenges. In fact, the electoral reform debate could become a proxy for pent-up frustrations and emotional turmoil not witnessed in our country since the trying constitutional battles of a generation ago at the time of the Charlottetown Accord.

And a key question seems to be whether or not a proposal for changing our system of voting will be put to a vote in a national referendum.

It's a vexing question, combining all of the important elements of major democratic reform: process, constitutionality, morality and effectiveness.

Of course, first we'll need to see the results of the work of the prospective parliamentary committee on this important file. They'll be studying different balloting options, as well as the possibility of implementing mandatory voting and online voting. Significantly, the process includes promised consultations with Canadians, although how this will be managed is not yet clear. The government's goal is to introduce reform legislation by the spring of 2017, well in advance of the 2019 federal election.

> ***"The electoral reform debate could become a proxy for pent-up frustrations and emotional turmoil not witnessed in our country since the trying constitutional battles of a generation ago at the time of the Charlottetown Accord."***

Where would a referendum fit into this scenario—and would it actually be necessary?

While it may seem premature to contemplate the need for a referendum before seeing what might be proposed by the parliamentary committee, advocates in favour have already cloaked themselves in the robes of protectors of our democratic rights.

They've argued, for instance, that no changes should be made to the essential features of our democratic franchise without broad public support—and that the only way to test this would be by means of a referendum. They've also defended the status quo as a steady, reliable system that has served Canada well for a century and a half, with good governance and orderly transitions. It has even been suggested that changing the way we vote may be the equivalent of a constitutional amendment, requiring provincial consent.

> ***"When referenda are used to seek public input on large, galvanizing issues, rather than providing meaningful public deliberation, they can become opportunities for a heightened polarization of views and public mischief as well."***

It's not as if Canadians have been clamouring for change. However, most citizens would likely approve of the idea that our governments should reflect the views of a majority of Canadians. And advocates of reform have long argued that our current system is fundamentally undemocratic, with majority governments often being elected with much less than 50 percent of the popular vote. (In the last 60 years, the winning party has exceeded 50 per cent of the vote only in the Diefenbaker and Mulroney landslides of 1958 and 1984). Now, with a government elected on the promise to reform the electoral system and eliminating these "false majorities," would a referendum on any planned change be necessary?

There appears to be support at this stage for a referendum to approve changes to the way we vote. An InsightsWest online poll published Feb. 9 showed that 65 per cent of respondents think a change in the current electoral system should be put to a nationwide referendum, while 17 per cent believe a vote in the House of Commons is enough to settle the issue.

Changes to voting systems by referendum are rare. In Canada, for instance, the British Columbia experiment with a ranked ballot in 1952-53 was effected by legislation, with no referendum. Internationally, such changes have usually occurred without being ratified by referendum.

Referenda can be seen as a tool of so-called "direct democracy," going beyond our legislatures and elected representatives to directly seek the views of citizens, with some arguing that it's inconsistent with parliamentary democracy. However, in modern times, a referendum was conducted for the Charlottetown Accord in 1992. And, of course, Quebec organized referenda in 1980 and 1995 on questions related to the sovereignty of the province.

What we have learned from such exercises is that when referenda are used to seek public input on large, galvanizing issues, rather than providing meaningful public deliberation, they can become opportunities for a heightened polarization of views and public mischief as well. Referendum campaigns can easily become hijacked by partisan interests and demagoguery, especially when those calling for a referendum are often the same people who are resisting change.

The specific issue of electoral reform has actually been put to referenda in three Canadian provinces: Prince Edward Island in 2005, Ontario in 2007 and British Columbia in 2005 and 2009. In each case, the reforms presented to provincial voters were accompanied by only weak commitments to change or to educating or informing the public about those changes by both the governments and the news media. In all three provinces a "super majority" of 60 per cent approval was required, with each referendum failing to reach that perhaps unreasonable level of support. B.C. came the closest with 57 per cent approval in 2005.

What have we learned from experience? A referendum can be a reliable means to kill a reform proposal.

It's possible, however, that a clear and understandable alternative to our existing voting system, fairly presented and intelligently discussed, might produce a different result.

There may not be a legal requirement for a plebiscite, but is there a moral imperative to determine public approval through such means? Or are there other ways to engage the public, seeking their views through consultation and dialogue?

The Liberal government has committed itself to democratic renewal and restoring trust in public institutions. This is no mean feat and certainly suggests the need for a national dialogue on an important issue like electoral reform.

A true test of the government's openness to such a dialogue will be the approach taken by the parliamentary committee appointed to spearhead this issue. If the special committee is actually provided with the independence and resources to thoughtfully and imaginatively engage with Canadians of all regions on this issue and report back to the House of Commons with a strong consensus on specific reforms, it may prove sufficient. Of course, this will depend upon the authenticity of its deliberations which will need to be very different from some of the phony forms of engagement and "drive-by consultations" that have too often characterized similar government efforts over the past generation.

The parliamentary special committee's work on this issue will also be a litmus test for the willingness of our parliamentarians to work together collaboratively on an important issue. If they can do so, in a spirit of independence, without being whipped into line by their party leadership, they will have achieved something quite remarkable, regardless of the outcome of the electoral reform issue. On the other hand, given the spirit of optimism and generational change infusing our body politic today, it will be deeply troubling if the process breaks down into partisan squabbling.

In the meantime, if we're to have any chance of renewing our trust in public institutions, we should be willing to suspend our disbelief, and trust the work of the committee as it seeks a better way to elect our representatives, including the question of whether reform itself should be approved by a national vote.

If it's any consolation, the election of October 2015 was a referendum of sorts on this question. Three of the parties campaigned in favour of changing our electoral system: the Liberals, NDP and Greens. Sixty-three percent of Canadians voted for these parties on a combined basis. That's not a bad place to start. P

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Westminster Meets Digital: Are We Up to the Challenge?

Davide Cargnello and Karl Salgo

In Canada as elsewhere, governments are struggling to keep up with the rapid pace of social and cultural change—especially change associated with the rise of digital culture and technology. Digital governance may well be the most significant challenge facing governing institutions in the coming years—in a context where information knows no boundaries, power is dispersed and authority and accountability need to be reconceived. Is Canada up to the challenge?

Last October, Canadians voted for a change of government after an election campaign in which Liberal Leader Justin Trudeau arguably spent more time communicating digitally with Canadians than any previously elected G7 leader. An ambitious agenda of institutional and democratic reform suggests that the new government in Ottawa is certainly alive to many of the challenges and opportunities associated with governance in the digital age. The first step—recognition of the need for evolution—has already been taken.

By and large, Westminster governments are beholden to command-and-control industrial-age organizational models and cultures. This is unsurprising given that public sector bureaucracies and industrial economies came to prominence roughly in tandem.

Over time, the two grew in complexity, and it became necessary to build more elaborate procedures, structures and controls for public administration. In accordance with classical principles of public administration, public sector bureaucracies operated like stovepipes, channelling information vertically. As social and technological conditions have evolved, these stovepipes have become obstacles rather than enablers of progress.

Despite numerous attempts at change, governing organizations continue to be locked into outdated structures and ways of working. When governments, like corporations, began deploying computers and building data processing systems some 30 years ago, these were initially seen as a means to spur innovation and create efficiencies in the public sector. In reality, their introduction tended to solidify old procedures, processes and cultural norms by encoding them directly into new systems and software.

This strict adherence to industrial age organizational models is increasingly creating tensions where governing institutions come into contact with the citizens—now fully digital—that they were created to serve. A more sophisticated, demanding and skeptical public is in-

creasingly aware of the limits of what government can do for them as the Westminster system of governance—once seen as a model system for peace, order and good government—is becoming less and less relevant as an intermediary for achieving collective purposes.

The Westminster system was not designed with the digital era in mind. In our new, networked reality, issues and problems can easily fall outside the organizational fiefdoms of ministerial departments and other traditional Westminster institutions. Social, cultural and technological pressures are combining to change the overall policy and governance landscape—a landscape that has become more distributed and variegated.

The public sphere, broadly construed, is being populated by more agile organizations, including citizen-led initiatives, private and non-profit entities. Low-cost communications technology and the superabundance of readily available information have no doubt driven the proliferation of these new stakeholders, giving rise to networks that can coalesce quickly around complex public policy issues, and that can marshal the public support necessary to catalyze agency.

Indeed, governments are being confronted with the reality that they no longer hold the monopoly on defining citizens' roles, responsibilities and interests. Citizens no longer necessarily turn to governments to solve problems, and governments no longer necessarily turn to the public service for authoritative expertise.

Some of these developments are certainly encouraging in so far as they suggest avenues for increased public engagement and new, more participatory forms of democratic governance. At the same time, as traditional governing institutions cede their space to more dexterous organizations and networks, they risk losing both the capacity and legitimacy to help shape solutions to society's most pressing challenges. In a context where many public institutions are being "disintermediated"—or cut out of the policy and governance equations—new tensions have emerged: for example, the tension created by, on the one hand, the demand for control on the part of a siloed, compartmentalized and often insular Westminster system, and, on the other, the need for information sharing, collaboration and increased public engagement, as demanded by an emerging networked environment.

"The Westminster system was not designed with the digital era in mind. In our new, networked reality, issues and problems can easily fall outside the organizational fiefdoms of ministerial departments and other traditional Westminster institutions."

As a result of this and related tensions, the digital age is giving rise to new conceptions of power and governance, where horizontality and citizen-focused design are critical. In fact, as the state's traditional policy, service and regulatory functions are increasingly called into question, the very concepts of authority and accountability may require re-examination.

Past attempts at public sector transformation have tended to focus on incremental process improvement—"doing more with less" rather than "doing different"—leaving the underlying mechanics of public administration largely unchanged. For example, the first wave of digitally enabled "e-government" strategies initiated over the last few decades delivered important benefits but many of these initiatives focused on automating existing processes and moving services online.

"Faster, better, cheaper" may well be a successful strategy for realizing efficiencies within our existing system but deep innovation will require moving to a new paradigm, one that focuses more squarely on the unique role of government in advancing the public good within the new governance ecosystem with its networks of diverse stakeholders, interests and influencers.

Embracing this new paradigm will require further exploration of opportunities for co-creation and co-design of public services, policies and regulatory frameworks, as well as widespread public engagement in the governance process. Ultimately, the coming wave of digitally inspired innovation presents an opportunity to redesign how government operates—that is, to rethink what the public sector does, how it does it, and indeed, how governments interact and engage with citizens.

As we look to the future, the fact that societies everywhere are facing challenges of unprecedented complexity on a global scale is impossible to ignore. Sustaining modern life and its mosaic of interconnected economies in the face of wicked problems related to climate change, energy, poverty, demographics and security, for example, will test the ingenuity of all who shape and participate in the governance process across its full array of institutions.

Governing institutions must reconcile themselves to the fact that their authority is increasingly dependent on a network of powers and counter-influences of which they are but one important part. Just as the modern multinational corporation sources ideas, parts and materials from a vast external network of customers, researchers and suppliers, governments will have to hone their capacity to integrate skills and knowledge from multiple sources, external collaborators and other stakeholders, to meet expectations for a more responsive, resourceful, efficient and accountable form of governance. P

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DEMOCRATIC REFORM

Guest Column / Elizabeth May

Trudeau's Big Test—Will Electoral Reform be Real?

It is the boldest reform, wrapped in an unequivocal promise: 2015 will be the last election held under the first-past-the-post (FPTP) voting system. It was part of the Liberal platform and was confirmed in the Speech from the Throne.

The NDP also promised to get rid of FPTP, as did the Green Party. So while FPTP delivered, once again, a "false majority"—a majority for the Liberals with 39 per cent of the popular vote—nearly 65 per cent of Canadians voted for a candidate running on a platform for electoral reform. On this issue, as on climate change and our healthcare system, among a handful of others, Prime Minister Justin Trudeau can claim support from two Canadians in three.

Trudeau's reforms do not end with changing the way we vote. He has executed the most sweeping reforms of the exercise of prime ministerial powers since his father started the process of accumulating them. He is the first prime minister since Lester B. Pearson ↑to recognize that being prime minister is not a full-time job. Like most pre-1970 Canadian prime ministers, he has retained portfolios for himself. He has sent clear signals, such as through the unprecedented publication of ministerial mandate letters, that we are returning to true government-by-cabinet.

Ministers are to be responsible for their departments—and for their own conduct and performance. We are back to respecting the principle of ministerial accountability. And committees are to be liberated. We are told that parliamentary secretaries will not whip votes in committees. The mandate letter to House Leader Dominic LeBlanc is full of welcome news—fewer whipped votes, no more omnibus budget bills, more decorum and respect in the House. In other words, the total top-down control from the PMO is ending.

And here is where the two big reforms collide. It will be the real test of the commitment to ministerial control over departments and the liberation of parliamentary committees if electoral reform leads to proportional representation (PR).

Minister for Democratic Institutions Maryam Monsef is off to an impressive start. She has already fulfilled item one of her mandate letter—creation of an arm's length, blue-ribbon advisory board for recommendations for Senate appointments.

For electoral reform, she has promised broad and open national consultations. Proportional representation is on the table as an option. But so, too, is a move to ranked or preferential ballots.

We know the Liberal caucus is split on the issue. When the NDP used one if its opposition days in the last Parliament to advance a motion favouring mixed-member proportional (MMP) voting, the Liberal MPs were split pretty much right down the middle. Foreign Affairs Minister Stéphane Dion is an enthusiastic proponent of proportional representation, having proposed his own hybrid version to accommodate Canada's regional particularities. But in that split vote, we know how our future PM voted. Trudeau is personally against proportional representation and he favours another form of majoritarian voting. A ranked ballot may seem an improvement, but its advantages are illusory. As polling analyst Eric Grenier concluded for CBC News, the Liberals, with 39 per cent of the vote in 2015, would have won even more seats with ranked ballots.

Ranked ballots are no real reform at all. Virtually every pundit predicts the fix is in; that Trudeau will tell Monsef what he wants and Liberal MPs on committee will vote as instructed.

I am going to go out on a limb here and disagree with the cynics. I predict we will get an open and honest national consultation. I predict Liberal MPs will be encouraged by the minister and her Parliamentary Secretary, Mark Holland, to provide their own best advice. I believe we have a real chance to move to the fairest voting system, likely a hybrid, such as what Dion has proposed.

I am prepared to suspend disbelief and accept that Trudeau means what he says. After all, that Liberal vote in the House in the last Parliament was allowed to be a free vote. The support for PR was strong, even if the anti-PR votes in the Liberal caucus edged out the pro-MMP MPs. How can I accept that there is any chance the Liberal MPs will choose a system that is fairer but will disadvantage their own party?

Because to believe otherwise is to assume Trudeau means none of what he says. A rigged process moving in the direction of enshrining Liberal power forever will make everything else Trudeau claims to embrace not sunny ways but a trick of the light—a transitory non-reform.

Electoral reform will be the ultimate test of the new prime minister's credibility. P

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International Trade Minister Chrystia Freeland at a World Trade Organization ministerial conference in Nairobi. With little prospect that TPP will pass the US Congress before a new president takes office next year, Freeland and the Liberals have time as an ally in parliamentary ratification of TPP. WTO photo

Canada's TPP'ing Point

Jack Hughes

The last time Canadians engaged in a national debate about free trade, the Soviet Union still existed and mobile phones were the size of mukluks. The Trans-Pacific Partnership has not been as controversial as the Canada-US Free Trade Agreement or NAFTA, in large part because Canada is seen to have benefitted from North American trade liberalization. The Trudeau government has much to consider as it navigates the TPP ratification process.

If the Trans-Pacific Partnership (TPP) trade deal comes into force, I am certain that Canada will be a part of it. The economic and geopolitical forces compelling Prime Minister Justin Trudeau toward ratification are simply too powerful, and no different than those faced by Stephen Harper.

Trudeau—like Harper before him—clearly understands this, and surely recognizes that the TPP can help him achieve his stated goal of enhanced collaboration with the United States in relation to the economy, the environment, and energy.

For these reasons, and contrary to the conventional wisdom, the Liberal

government's approach to the TPP should be properly viewed as the continuation—not the repudiation—of the carefully nuanced position adopted by its Conservative predecessors.

Despite substantial and substantive differences in their respective worldviews, the Harper and Trudeau governments have been remarkably consistent in terms of the priority they assign to increased trade and investment with key Asian markets.

With that in common, one might expect that both would be zealously bullish about being part of a 12-nation Pacific trade agreement that includes such significant Asian economies as Japan, Vietnam and Malaysia. And, yet, it has never been that simple.

From the outset, Canada's posture in relation to the TPP has been tactfully taciturn. Harper was always adamant that Canada should be part of the negotiations, but seemed at times ambivalent about whether those negotiations should succeed.

Harper was exceedingly cautious in noting that multilateral negotiations are inherently problematic; that Canada had other bilateral options with Japan and India; and that he would never sign a deal that wasn't squarely in our national interests.

To that end, he consistently reiterated that being part of any trade agreement only made sense for Canada when the benefits were greater than the concessions we were asked to make—something that wasn't initially apparent with the TPP.

When Canada was invited to the TPP negotiations, Japan had temporarily demurred. This meant the two most important markets for Canada among the TPP cohort were the United States and Mexico—both of whom were already our NAFTA partners.

Canada also had existing free trade agreements with two other TPP countries—Chile and Peru—and a third, Singapore, only applied import tariffs on certain specified goods. All of this meant the potential upside was, at best, uncertain.

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The price of admission, however, had been made abundantly clear. To join the TPP talks, Canada was asked to put "everything on the table" including possible concessions in the area of agricultural supply management—especially for the dairy sector.

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This was a noteworthy precondition insofar as none of Canada's earlier trade agreements had offered significant concessions on supply management. (In a characteristically Canadian compromise, we merely allowed that we had taken nothing "off the table.")

In short, Canada was being asked to join complex 11-party negotiations—which had begun without us and whose earlier progress we had to accept without reservation—in exchange for the potentially limited possibility of accessing a handful of new markets.

Even when Japan joined the TPP talks, Canada continued to hedge its bets by maintaining separate bilateral negotiations with them toward a proposed Canada-Japan trade deal. This ensured that even if the TPP failed we would still be well-positioned.

Consequently, the TPP would only really make sense to Canada if it was objectively a good deal and the U.S. and Japan were part of it. This assessment was, and remains, the common foundation for both the Harper and Trudeau government's positions.

When the prospects for such an agreement seemed initially elusive, the Harper government assiduously avoided expending political capital on it—focusing instead on concluding and promoting bilateral deals with the European Union and Korea.

By managing expectations, Harper was able to create a win/win scenario no matter the outcome. If the TPP talks failed, Canadians had been warned that they were a long shot. But, if they succeeded, his government would get the credit.

To be clear, neither the Harper government nor Canada's negotiators—led by the formidable Kirsten Hillman—ever sought to be spoilers in the TPP talks. They negotiated deftly, even masterfully, and at all times in absolute good faith.

As a result, when the TPP negotiations were successfully concluded, they were able to achieve an agreement that offered significant benefits to Canadians while, in the eyes of many, requiring little in the way of costly concessions.

Remarkably, given the importance that had been assigned to it, Canada's supply management regime for dairy remained virtually intact. (Even the Dairy Farmers of Canada issued a 'cautiously supportive' note on the day the agreement was announced.)

Of course, the TPP is not without its passionate and prominent critics—including BlackBerry co-founder Jim Balsillie and Ford Canada CEO Dianne Craig—who insist the deal, if implemented, could hurt Canada's tech and auto sectors.

Moreover, the political calculus is complicated by the fact that according to a series of recent polls a majority of Canadians are either opposed to the TPP deal or do not have a sufficient understanding of it to hold an informed opinion.

For these reasons, the TPP may be the most unwieldy inheritance bequeathed to Justin Trudeau by Stephen Harper: An historic and comprehensive Pacific trade deal with the potential to transform our economy, but which lacks a critical mass of support.

To cut this Gordian knot, Prime Minister Trudeau has wisely borrowed a page from Harper's playbook. He is approaching the TPP with astute neutrality, mindful that time is on his side and that the entire debate could ultimately be moot.

The provisions of the final TPP text give each member country up to two years to undertake their own domestic ratification processes. While some countries may do so immediately, Canada would not be alone in using more of the allotted time.

Although U.S. President Barack Obama supports the deal, and has secured "fast track" trade promotion authority from Congress, few now expect the United States to ratify the agreement before the next president takes office.

In fact, the question of whether the U.S. will ratify the deal has become more pressing than when it will do so, since the leading candidates for both the Republican and Democratic presidential nominations are currently opposed to it.

If that were not sufficient cause for concern, some of the most influential Congressional leaders—from both parties—have expressed strong reservations about supporting the deal, citing a number of the specific terms the U.S. was forced to accept.

Canadian proponents, including Canadian Chamber of Commerce President Perrin Beatty, have argued that it is inconceivable that Canada would not ratify the deal if the U.S. did so. This is entirely true, but it may not be inconceivable that the U.S. could refuse to do so—and that would be fatal.

The TPP final text further provides that the deal will not come into force unless it is ratified by at least six member countries representing 85 per cent of the total combined GDP of all 12 counties—something which is impossible without both the U.S. and Japan.

> ***"If the U.S. doesn't ratify the TPP, it doesn't matter whether Canada does. Without the United States, there is no TPP. Once we accept this, the question for Canada becomes whether to be active or passive in the U.S. debate."***

Put another way, if the U.S. doesn't ratify the TPP, it doesn't matter whether Canada does. Without the United States, there is no TPP. Once we accept this, the question for Canada becomes whether to be active or passive in the U.S. debate.

This, then, is the actual strategic dilemma facing the Trudeau government: Should it make a decision on ratification quickly and encourage the U.S. to do the same, or should it prolong its consultations until the fate of ratification in the U.S. becomes clearer?

Canadians are fortunate that the Prime Minister has delegated this challenging question to two of the shrewdest minds in the Liberal caucus—International Trade Minister Chrystia Freeland and her parliamentary secretary, David Lametti.

Freeland, an internationally respected financial journalist and author before she ran for Parliament, and Lametti, co-founder of the McGill Centre for Intellectual Property, are globally recognized experts in their respective fields, who have in the past expressed their own personal qualms about the TPP. As such, they are perfectly cast to play honest brokers.

To them falls the delicate task of assuaging the concerns of both domestic stakeholders and foreign governments. They must manage the TPP consultations in Canada, while carefully monitoring the contentious debate in the United States.

Of course, the ongoing consultations can neither be nor be seen as a sham, sideshow or stall tactic. They must rigorously evaluate the outcomes, both positive and negative, that could potentially result if Canada and the U.S. implement the deal.

Yet, these findings must be balanced against the negative ramifications that would necessarily and inevitably result if Canada failed to implement an agreement ratified by the United States—including how such a decision would jeopardize NAFTA.

In the end, Trudeau knows, as Harper did, that he must contend with an irrefutable reality: While Canada may have the luxury of being ambivalent about whether TPP is implemented, it simply cannot afford to be excluded if it is. P

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The Arab Spring proved to be a fleeting season of hope of the MIddle East. Here, in February 2011, protesters put their lives on the line by sitting around tanks in Cairo's Tahrir Square. Flickr photo

From Failed States to a Failed Region: The Middle East in Crisis

Jeremy Kinsman

Why have Arab states failed? Within borders drawn by outsiders in their own imperial interests, most are institutionally weak, archaic, corrupt and inert, riven by sectarian hostilities. The epicenter of failure is Syria, from whose calamitous collapse refugees are piling into the European Union, already reeling from terrorist attacks by the murderous Islamic State. The ability of the international community to ease the crisis depends on whether the US and Russia can work together to force a cease-fire in Syria's civil war and decisive military action against ISIL. Staunching the disaster will also require regional players, notably Saudi Arabia, Iran, and Turkey to temper their competitive pursuit of national advantages.

It is sad to remember that only a quarter-century ago, there was an abundance of reconciliation and shared purpose in the Middle East. Saddam Hussein's invasion of Kuwait in 1990 united almost all Arabs—and Iran—behind an inclusive US-led international coalition of 34 countries, the largest military alliance since the Second World War, authorized by the UN Security Council with support from even the newly liberalizing Soviet Union.

Half a million US military personnel and almost as many from allies, including 4,500 from Canada (and 100,000 from Syria), defeated Iraq's million-man army, the world's fourth

largest, in only six weeks. On February 28, 1991, I sat with Foreign Affairs Minister State Joe Clark watching CNN's unprecedented images of the destruction of the huge Iraqi column withdrawing across the desert from Kuwait. Canadian CF-18s were among the attackers of the exposed and by-then helpless Iraqis. He called his counterpart, US Secretary of State James Baker, who said President Bush was breaking off the pursuit; carrying the fight to Baghdad had no support from the allies, nor from the UN.

Diplomacy succeeded war. We headed immediately to the region, joining an effort to convert the unprecedented cooperation into a building block for lasting peace for the Middle East, including tackling the Israeli-Palestinian conflict, a tacit promise made to Arab coalition allies.

First stop was Saudi Arabia—the main military staging platform, the principal financial backer of the war (paying $36 billion of the $60 billion cost), and the bedrock ally of the US.

Our host for dinner was my university classmate, Prince Saud al-Faisal, Saudi Arabia's long-serving pro-Western Foreign Minister, a champion of the Saudi-US strategic oil and security alliance.

A few other foreign ministers who had flown right in—notably Baker from the US and the dapper foreign minister of France, Roland Dumas, joined us. Operation Desert Storm's Commander, Gen. Norman Schwarzkopf, tossed aside my congratulations for the victory. "That was easy compared to surviving two months in Saudi Arabia with a few hundred thousand horny and thirsty American post-adolescent men and women without a single incident!"

By the end of 1991, the Madrid Peace Conference, co-chaired by the US and the USSR, produced a sketchy roadmap for reconciling Israel with its Arab neighbours and with Palestinians.

But the Oslo Peace process that followed would collapse. Israel proved unwilling to halt its expansionist policy of settlements, and Palestinians to abandon their historic claims. Confidence-building was routed by renewed violence from the intifada and from the narcissism of extremists. Prime Minister Yitzhak Rabin was felled by a rabid settler's bullet.

Meanwhile, a Saudi fundamentalist rebel sworn to avenge Saudi Arabia's sin of admitting the US Army to the land that held custody of Islam's most holy shrines, declared *jihad* against America. On September 11, 2001, 16 of 19 terrorist hijackers of three American planes were Saudis.

The hubris and pain-driven US quest to avenge the attack on the twin towers and the Pentagon and punish enemies led in a perverted train of false and falsified logic to the invasion and botched occupation of Iraq. This catastrophic blunder accelerated the mindless blood war between Islamic sects of Sunni and Shia and Iraq's collapse as a country. Jihadists worse even than Osama bin Laden poured into the vacuum.

Western countries looked for security to other ossified and corrupt dictatorial regimes of the Middle East, kingly and secular. Believing they were stable was a delusion that a harassed Tunisian vegetable vendor blew apart in 2010, setting off the Arab Spring that swiftly turfed out despots in Tunisia, Libya, and Egypt, and rattled the absolutists in power in Riyadh and other monarchies. Hundreds of thousands of protesters poured into the streets of Syria.

While the Arab Spring was a momentary euphoric experience for the region's isolated youth, and all those fed up with generations of humiliating unfairness from greedy and parasitic regimes, it was short-lived. Its reversal in sophisticated Egypt and provincial Libya demonstrated how much easier it is to topple a dictator than to enable a democratic replacement.

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Democracy can't be exported. It isn't an "app" to download or a technique to transfer. It is behavioural, has to be learned and lived, and needs a civil society with prior experience of compromise and inclusivity, sadly lacking in Egypt.

The threat of mass atrocity in Libya mobilized the international community to intervene from the air. But, burned by the insane costs of the blunder in Iraq and the over-staked investment in unreformable Afghanistan, we ducked the responsibility to support a secure transition. Gangs of thugs financed from the Gulf made an easy prey of unprepared Libyan would-be democrats.

Meanwhile, spooked by the Arab Spring's winds of change, the increasingly repressive Saudis intervened in Bahrain to smother protest and save the minority Sunni regime of the Khalifa family from revolution.

In Syria, a relatively modern and educated society, multi-sectarian and tolerant, but ruled as a secular police state by the iron hand of minority Shia Alawites, the Arab Spring's contagion had propelled massive non-violent protests that initially destabilized the regime. Expecting President Bashar al-Assad to fall, the US State Department set up in Jordan and Turkey training workshops for dissidents meant to return as mayors and community organizers. But the Syrian opposition and exile community abroad couldn't agree on much more than getting rid of Assad.

And Assad wasn't going. We all fatefully underestimated his regime's determination to defend itself with brutal force. Sniper attacks on protests caused the opposition to arm itself in self-defence. As violence escalated, the non-violent

movement was hijacked by violent militants supported by Saudi Arabia and Turkey. They couldn't, however, out-violence the regime. The country plunged into an unwinnable civil war of chaos and destruction. Today, 400,000 civilian deaths later, with eleven million chased from their homes, many of whom are refugees outside Syria, few Syrians would not willingly go back to five years ago.

The chaos in Syria and Iraq spawned a new and more frightful enemy. The so-called Islamic State surpassed Al Qaeda by succeeding in conquering and occupying territory from which to pursue war against Iraq and Syria, propel terrorist attacks in Europe and elsewhere, and lure tens of thousands of aimless and alienated young Muslims to join their dystopic fantasy.

ISIL's defeat is an overwhelming imperative in the region and for the international community. But the clarity of the mission is obscured by the confusing and contradictory welter of conflicting interests of regional and outside players.

Sunni Saudi Arabia cares more about its rivalry with Shia Iran and about deposing Iran's Shia ally, Assad, than about ISIL's Sunni fundamentalists, many of whose militants have been radicalized by Saudi-supported Wahhabi mosques.

Turkey is more concerned with thwarting the Iraqi and Syrian Kurdish thrust for a state of their own that would metastasize to Kurds in Turkey.

The US was caught between the political wish of seeing Assad removed and the increasingly mandatory military objective of defeating ISIL.

Defeating ISIL requires a Muslim ground force. ISIL's most potent foe is Assad's Syrian Army, but it was tied up in the stalemated Syrian civil war, enabling ISIL to make significant territorial gains. Washington began to see that a much worse scenario to Assad staying would be ISIL walking into Damascus.

But first, the US would need to suppress its instinct that Russia is always up to no good. Though Russia's intervention last autumn to provide close combat air support to Syrian ground troops changed the military paradigm, permitting the Assad government to push ISIL back, the US was reluctant to cheer, insisting Russian planes were mainly bombing "moderate" anti-Assad forces supported by the US, though it is unclear there are many left and in any case, that would hardly account for the Syrian success against ISIL. In any event, the intensified conflict aggravated an already calamitous humanitarian situation, spewing yet more refugees towards a destabilized Europe, and making a cessation of hostilities in the Syrian civil war imperative.

Washington circles fulminate over Putin, whose motives are multiple. No doubt he wants to break the US habitual temptation to seek regime changes in other peoples' countries. He does want to project Russia again as a decisive world player in a region and country where the USSR had a lot of sway. His muscular profile is popular in Russia. It distracts Putin's subjects from the economic downturn that is caused in part by sanctions from a Ukraine adventure that is increasingly costly.

But it isn't all about positioning. After multiple terrorist attacks on Russian planes, trains, schools, theatres, and apartment buildings, Russia views jihadism as a mortal enemy. Thousands of Chechens have joined ISIL's ranks.

The case for a joint US and Russian effort to stop the civil war in Syria to permit an all-out assault against ISIL is irrefutable. Secretary of State John Kerry sees no alternative: "If it doesn't work.....Syria will be utterly destroyed." The US needs to acknowledge Assad would endure for some time in some form of shared transitional government. To keep its side of the unfolding sets of bargains, Russia needs to control Assad who, as Russian UN Ambassador Churkin put it, should "follow Russia's leadership in settling this crisis." Painstaking confidence building between Russia and the US will be needed in what will no doubt be a wobbly cessation of hostilities in the civil war.

Then, the hard-power work to break ISIL as a threat, in the Iraq-Syria theatre and in Libya, where 5,000 fighters hold 150 miles of Mediterranean coastline, will fall to Muslim troops; Syrian, Iraqi, Kurdish, and possibly Jordanian and others—who need robust support such as Canadian ground training upgrades.

Additionally, through robust and intelligent soft power, the international community needs to smother the financing of ISIL and counter the extremists' radicalization of youth.

Who knows if, after a long and painful reconstruction, enabling refugees to come home, Iraq and Syria can survive as unitary states, or in another defeat for pluralism, break into ethnic and sectarian parts?

Will the region ever recover from its fissures and feuds? Saudi Arabia and Iran seem to be trending in opposite ways, the Saudis doubling down on repressing human rights and pursuing national interests in oil strategy, while in Iran, moderates committed to a more positive internationalism are working their way to greater influence on the country's direction. Ultimately, only dilution of the all-powerful monopolistic religious authorities in both countries can abate the antique and absurd hostility of Shia and Sunni Muslims that disables the region.

It's up to the people. They will not accept being condemned forever to authoritarian rule. Whether the old-line regimes and skeptical outside backers, such as Putin, like it or not, the Arab Spring was a sign of what's to come. Like the great revolution in Europe of 1848, it initially failed. But a generation later, Europeans evolved toward democracy. There is no reason to believe that Arab youth (60 per cent of populations are under 25), having fleetingly experienced agency, will settle for less. But it's for them to make their own history, not for outsiders.

They will determine if a new Middle East can still emerge from today's ashes, and join the world as a productive partner. P

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Eight provinces share a border with the U.S. and 11 states share a border with Canada," writes Cheryl Camillo. That's an opportunity for a cross border conversation on innovative health care. Shutterstock photo

Next on the Agenda for the Health Ministers: Meeting With their American Counterparts?

Cheryl A. Camillo

The renewed dialogue about provincial health systems should not stop at the Canadian border. More than ever, provincial health ministers could benefit from an exchange of ideas with their American counterparts who, pursuant to the Affordable Care Act (ObamaCare), are in the midst of implementing unprecedented state-level reforms to improve healthcare access and quality while lowering costs. State health leaders would likely welcome such an exchange as provinces and states face common challenges.

Since the election of the new Liberal government, there has been renewed dialogue about provincial health system reforms. In late January in Vancouver, the health ministers agreed to work collaboratively to continue transforming and strengthening Canada's 13 healthcare systems. Provincial and territorial ministers can build on this progress by forging open dialogue with their American counterparts.

With the implementation of the Af-

fordable Care Act (the ACA or ObamaCare), states have assumed greater responsibility for the provision of health coverage to their residents, which has prompted many to view themselves as health systems stewards similar to provincial governments. There is a growing recognition in the United States that, as the U.S. National Academy of Medicine President Victor Dzau (a McGill grad) recently put it, "Leadership at the state level provides an essential fulcrum for meaningful health progress."

A review of health policy discussions on both sides of the border shows that provinces and states are seeking solutions to essentially the same set of health system problems: how to stem increases in prescription drug prices; how to finance medical care to produce the highest quality, accessible care at the lowest reasonable cost; how to integrate care delivery; how to move care to the community; how to reduce persistent disparities that have harmful personal and economic consequences; how to enhance performance measurement and analytics; how to improve population health by addressing its social determinants; and, how to organize with regional and local interests to accomplish these objectives.

In introducing Ontario's *Patient First: Action Plan for Healthcare* in December, Health Minister Eric Hoskins wrote "Too often, healthcare services can be fragmented, uncoordinated and unevenly distributed across the province. For patients, that means they may have difficulty navigating the system or that not all Ontarians have equitable access to services. Too often our system is not delivering the right kind of care to patients who need it most." Just a few years earlier, in its multi-year action plan to transform the state's Medicaid health insurance program, the New York State Department of Health declared "In order for New York to ultimately control healthcare costs, it must ensure that better care is provided, including proven-effective prevention initiatives resulting in improvements in overall health status and reductions in health disparities. In particular, the biggest problem with the state's healthcare system is that it is not successful in ensuring that complex, high-cost populations obtain the coordinated care they require."

"A review of health policy discussions on both sides of the border shows that provinces and states are seeking solutions to essentially the same set of health system problems."

"Like a rainbow bridging the Horseshoe and American Falls, an uninterrupted connection across the Ontario-New York border, or across the border separating any province and state, can lead to health system gold—tried and tested policy ideas."

Like a rainbow bridging the Horseshoe and American Falls, an uninterrupted connection across the Ontario-New York border, or across the border separating any province and state, can lead to health system gold—tried and tested policy ideas. Among the ideas that New York could share with Ontario are its "Health Home" model, in which care managers oversee and provide access to all of the services that individuals with complex medical, behavioral, and long term care needs require to stay out of the emergency room/hospital. This model has shown early promise.

Evidence shows that both states and provinces can spread policy innovations. States have a long history of testing policy innovations in their public health insurance programs, especially Medicaid and the Children's Health Insurance Program (CHIP), and sharing them with others. According to the Centers for Medicare & Medicaid Services, the agency that oversees both programs, more than half of the states currently have waiver authority to test new or existing ways to finance and deliver publicly-funded healthcare. They transfer their learning in a number of well-established ways, formal and informal, including through presentations at national Medicaid and health policy conferences arranged expressly for that purpose. Recent research reveals that geographical proximity/contiguity contribute to policy diffusion, but are not the only factors. North of the border, Saskatchewan opened Collaborative Emergency Centres (CEC) to address the challenges of providing healthcare in rural communities after visiting the first CEC introduced by Nova Scotia in 2011. And, according to a recent editorial in *Healthcare Policy*, there is anecdotal evidence that Canada has moved beyond being "a country of perpetual healthcare pilot projects," as it was once deemed.

Yet, in recent years there has been little sustained, systematized, formal, institutionalized exchange of health system reform ideas between provinces and states other than the participation of Canadian representatives in the Reforming States Group, a voluntary group of state health policy leaders convened a few times a year on an invitation-only basis by the Millbank Memorial Fund to share information and work on solutions to pressing health policy problems. There had

been a steady swap of expertise in the decades leading up to the establishment of the modern Canadian and Americans healthcare systems in the mid-1960s. But since then, exchange between the two countries has been sporadic, occurring predominantly when health has risen to the top of the agenda in Washington and policy officials/scholars have sought ideas for national reform, or when Canadians have sought to determine whether discrete features of the U.S. system, such as managed care and private funding, could fill gaps in medicare. In the late 1980s and early 1990s, as the call for national reform in the U.S. grew louder, Senator Jay Rockefeller, as chair of the Bipartisan Commission on Comprehensive Healthcare (the Pepper Commission), delegated the Families USA Foundation to convene a "Looking North for Health" forum to hear from Canadian experts on the country's health and long-term care systems. Almost two decades earlier, the Sun Valley Forum on National Health had organized a conference to identify "lessons the United States can learn from the Canadian experience as the United States moves toward the adoption of some form of national health program." Notably, there were no such efforts to draw lessons from Canada during the lengthy debate preceding the enactment of Obamacare. And, in Canada, the last major review of the health system, the 2001-2002 Commission on the Future of Healthcare in Canada, solicited presentations on cost-drivers in the U.S., but concluded that Canada's healthcare system as a whole had more in common with European systems, suggesting that Canadians should look overseas for reform ideas.

However, the conditions are now right for building permanent Can-Am health system reform bridges—potential supports are in place. Recognizing the increasing interconnectedness of North America's nations, the National Governors Association (NGA) recently hosted the first ever Summit of North American Governors and Premiers to promote and advance economic cooperation by state, provincial and territorial leaders in the U.S., Canada and Mexico. Also last fall, the NGA launched a new initiative *States: Finding Solutions, Improving Lives* to highlight state solutions and share best practices across states. Plus, the Council of the Federation's Healthcare Innovation Working Group, which focuses on enhancing provincial and territorial capacity to better meet existing and emerging challenges, will continue its work until at least July 2016. Given that healthcare expenditures consume a significant percentage of gross domestic product in both the U.S. and Canada, it is plausible that a future North American summit could focus on healthcare and build connections between premiers' ministers of health and governors' secretaries of health.

> ***"As Canadians know well, eight provinces share a land border with the U.S. and 11 states share a land border with Canada. Many of the 11 states that border Canada are amongst the most innovative when it comes to health policy."***

There are many other foundations to build lasting structures upon. The Canada—United States Pan Border Public Health Preparedness Council, comprised of provincial ministry and state health department representatives, facilitates regional pan-border public health preparedness. The Pacific NorthWest Economic Region, a non-profit organization that brings together northwestern states, provinces and territories, has had a healthcare working group. The U.S. organizations the Council of State Governments and National Conference of State Legislatures have consulted with Canadian officials about health policies in the past. Each of these organizations, plus others like the National Academy for State Health Policy, could link provincial and state health systems leaders.

Initially, interested provinces and states, especially neighbors with a strong history of economic and cultural exchange like Ontario and New York, could pair with one another.

As Canadians know well, eight provinces share a land border with the U.S. and 11 states share a land border with Canada. Many of the 11 states that border Canada are amongst the most innovative when it comes to health policy. Nine have expanded eligibility for Medicaid pursuant to the ACA and another is actively considering options for doing so. One of the expansion states, Vermont, is vigorously exploring ways to finance and implement a universal, publicly-funded healthcare program similar to a provincial health system.

Strong connections would be reflected in panels and roundtables formed for the purpose of exchanging health system reform ideas and, ultimately, by successful policy diffusion. P

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Investing in Shortline Railways Means Investing in Green Infrastructure

Michael Bourque

Shortline railways are the "special teams" of Canada's freight rail supply chain. But despite their economic importance, these smaller operators face challenges that threaten their viability. As Railway Association of Canada President Michael Bourque explains, investing in shortline railway infrastructure would put our country on track for sustainable prosperity.

In August 2015, the Liberal party vowed to grow Canada's economy by making historic investments in infrastructure. Announcing his party's plans at a campaign stop in Oakville, Ontario, party leader Justin Trudeau said, "Canada's economic growth was made possible by building ambitiously. We must do so again if we are to transform our transit and transportation systems, create more liveable communities, and ensure that we adapt to a changing climate."

Now backed by a strong majority government, the Liberals are well-placed to act on this pledge, which would dedicate funding for green infrastructure and prioritize investments in transportation, among other areas.

From the railway industry's perspective, this is the perfect opportunity for Canada to invest in its shortline rail infrastructure. In doing so, the government would strengthen its ability to meet its goals related to economic growth, transportation and climate change.

How the government will direct future investments remains to be seen. Canada's primary infrastructure funding envelope, the New Building Canada Plan, and its predecessor, the Building Canada Plan, has generally focused on provincially or municipally-owned infrastructure. Investments have typically supported road and highway construction, and the development of other public infrastructure such as transit, wastewater facilities and hockey arenas. To date, the government hasn't made significant investments in the infrastructure of growth-generating industries, including the shortline railway sector.

Canada's shortline railway industry consists of more than 50 operators and plays an essential role in supporting our country's economy. These railways are the "special teams" of the freight rail supply chain, providing important first-mile and last-mile transportation for thousands of shippers. In fact, nearly 20 per cent of all railway traffic in Canada begins on a shortline railway.

Moreover, Canada's Class 1 freight railways, CN and CP, depend on shortlines to move more than 115 million tonnes of freight to and from their continental networks each year.

If it weren't for shortline railways, many industries operating in remote communities would not have access to a safe, efficient and low-cost transportation option to move their products to market.

Despite their economic importance, shortline railways face challenges that threaten their sustainability and ability to serve their customers in sectors such as mining, forestry, agriculture and manufacturing.

First, shortline railways compete directly with a subsidized trucking sector. While trucks benefit from publically subsidized roads and highways, shortline railways build, maintain and replace their own infrastructure. This disparity creates an uneven playing field for the two sectors and limits shippers' ability to move their products by rail. In Ontario, for example, nearly half of the province's $3.8 billion transportation infrastructure budget is spent on roads, while less than four per cent is allocated to freight rail.

Second, the costs of operating a shortline railway in the post-Lac-Mégantic era are increasing. New regulatory measures require railways to carry minimum third-party liability insurance coverage, resulting in increased premiums. In addition, the new federal *Grade Crossings Regulations* require railways to improve level crossings across their networks. These upgrades will cost tens of thousands of dollars, and shortlines will struggle to qualify for funding from the federal Grade Crossing Improvement Program.

Shortlines can't simply pass these costs on to their customers. These operators find it challenging to generate the capital they need to improve their capacity and expand their networks. Shortlines typically maintain an operating ratio—a measure of operating

Short line railways are essential to small and remote communities moving their products to market. Shutterstock photo

expenses as a percentage of operating revenue—in the 90th percentile. As a result, they are limited in their ability to invest back into their networks, especially when compared to their Class 1 peers. CN and CP reinvest approximately 20 per cent of their revenues into their infrastructure each year. By comparison, shortlines' capital investments are about 12 per cent annually.

Shortlines are also rarely able to acquire loans from banks by borrowing against their assets (such as track and land), which further underscores the need for alternative funding sources to support their viability. Historically, however, there have been very few government funding programs available to shortline railways in Canada.

Despite their eligibility under Canada's infrastructure funding programs past and present, shortline projects rarely receive government support. In fact, between 2007 and 2012, shortlines received just 0.07 per cent of available funding under the Building Canada Plan, and to date no money has been allocated to a shortline under the New Building Canada Fund. Only the Government of Saskatchewan has a small, grant-based program in place specifically for shortline railways.

There are numerous benefits to investing in shortline rail, several of which support the government's objectives to make Canada a climate change leader and to reduce greenhouse gas (GHG) emissions to 30 per cent below 2005 levels by 2030.

With dedicated programs and management strategies to improve fuel efficiency and reduce emissions—including a memorandum of understanding with the federal government that has been in place since 1995—rail is an extremely green mode of transportation. In Canada, railways can move one tonne of goods more than 200 kilometres on a single litre of fuel, and produce three times fewer emissions than trucks. In addition, a single freight train can remove some 300 trucks from Canada's congested network of highways and roads.

Investment in shortline rail infrastructure will also encourage shippers to choose the safest mode of transportation. Between 2004 and 2014, the shortline sector's accident rate—accidents in relation to workload—fell by 86 per cent, even as these railways transported 72 per cent more goods. Currently, Canada's shortlines have fewer than two accidents per billion gross ton-miles.

The current economic climate, and the federal government's commitment to supporting infrastructure development, underscores the need to invest in freight rail.

Canada should look to the United States for inspiration. In the U.S., shortlines have access to multiple federal and state-level initiatives including grants, low-cost lending programs and tax credits. In many cases, funding comes from a dedicated shortline initiative, highlighting that U.S. governments recognize the sector's unique characteristics and its economic significance. More than half of U.S. states have an assistance program in place for shortline railways.

Canada should follow this lead and introduce a financial support plan for shortline railways. A dedicated funding envelope of $300 million over seven years—accessible through a tax credit mechanism—would stimulate infrastructure improvements, highlight the sector's willingness to invest, and match the government's contribution through a unique public-private partnership.

This funding would inevitably help shortlines to invest in their infrastructure and meet new regulatory requirements, and thus accommodate heavier traffic, improve efficiency and attract new customers. In doing so, the federal government would once again build with ambition, and support a transportation system that enables economic competitiveness, improves safety and reduces emissions. P

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Michael Gerson on Donald Trump's hostile takeover bid: "Some things like nativism and protectionism can't be incorporated into a centre right party without bringing it to ruin." Photo by Peter Stockland, Cardus

Verbatim/Whither American Conservatives?

Michael Gerson

The Washington Post *columnist and former chief speechwriter to President George W. Bush delivered the Cardus Hill Family Lecture at the Manning Centre Conference in Ottawa. He spoke of Donald Trump's candidacy for the Republican presidential nomination as the attempted hostile takeover of a great political party, one that could result in its ruin. As for Trump's foreign policy, Gerson said it was "not easy to discern in the collective tweets of Donald Trump." Trumpism, he said, "is Putinism by another name."*

It has been a strange election season in America. This will be remembered as the Twilight Zone year in which Donald Trump is the Republican front runner and got into a two-way global insult war with the pope. My intention is to address the most extraordinary development of my political lifetime, a rising populism that could massively change conservatism in America and possibly break the Republican Party as an institution.

I could hardly speak to you at a more confusing time for an American political commentator. I have been so wrong for

so long about the political appeal of Donald Trump that I am tempted to sit down now, but I will press ahead.

There is one great story on the Republican side of this election: the return of ethno-nationalism to the centre stage of American politics.

Many of my Republican and even Democratic friends just can't believe that Donald Trump can possibly mean what he says. They think, as Mark Twain said of Wagner's music, that it cannot be as bad as it sounds. It must somehow be part of the show. The assumption of hidden rationality is baseless. Trump has shown a remarkable consistency in this campaign. He said he would build a wall across the continent and compel Mexico to pay for it; that he will conduct the forced expulsion of 11 million undocumented workers, which would require an immense new apparatus of enforcement and internment camps; that he would ban the immigration of Muslims to America and send Syrian refugees back into a war zone.

This is not—as many liberals in the United States try to argue—the natural outworking of conservatism. It is the corruption of conservatism. It is not the inevitable outcome of populism. It is the use of populism as a poison. This approach is closest to the type of right-wing anti-immigrant populism that we are seeing rising across Europe in Hungary, Denmark, Sweden, Poland, Greece the United Kingdom, and France.

In my *Washington Post* column I've called attention to the foreign policy implications of Trump's versions of American nationalism. It's not an easy thing to discern a foreign policy in the collective tweets of Donald Trump. But he generally views Japan, South Korea, and our European allies as freeloaders who should defend themselves or pay their own way. He believes Mexico is a scheming enemy, and he proposes a destabilizing trade war with China. He believes that Vladimir Putin should be given a free hand in the Middle East, surrendering a leading U.S. role in the region, and he proposes fighting the war on terrorism by purposefully targeting the families of terrorists on the theory that toughness is demonstrated through war crimes. I won't dwell on this topic; suffice to say that Trump would be a president who cannot reliably tell the difference between America's enemies and its friends. The world sometimes complains about American moralism, about America's lecturing. Wait until they see the immense power of America unconstrained by the great ideals of America. On foreign policy, Trumpism is Putinism by another name. The world does not need more than one Putin, if that.

"It's not an easy thing to discern a foreign policy in the collective tweets of Donald Trump. But he generally views Japan, South Korea, and our European allies as freeloaders who should defend themselves or pay their own way. He believes Mexico is a scheming enemy, and he proposes a destabilizing trade war with China."

"The world sometimes complains about American moralism, about America's lecturing. Wait until they see the immense power of America unconstrained by the great ideals of America. On foreign policy, Trumpism is Putinism by another name. The world does not need more than one Putin, if that."

Let me focus a bit on domestic and economic policies. Some things like nativism and protectionism can't be incorporated into a centre-right party without bringing it to ruin. But conservatism is also about necessary adaptation, and the economic populism of our time has lessons to teach.

For those of us who criticize populist candidates, it is doubly important to understand and address the causes of popular discontent: the way of life in which increased productivity resulted in higher wages and a realistic shot at economic advancement is now fragile in some places. For many people, work is now a series of part-time, temporary, and contract jobs. The old promotion pathways are more rare; life can have instability, worry, and toxic stress at its core. The current political divide emerges from how this challenge is explained. Some argue that the old economic certainties were stolen. It may have been bankers and speculators at fault, or it may be Mexican immigrants or the Chinese, but larceny is involved. As economic analysis this is wrong or partial, but it is the political consequences that concern me.

According to Trump or Jeremy Corbyn, if our economic opportunity has been stolen, the purpose of politics is not to solve this or that problem—it is to fight and defeat enemies. This is a politics characterized by anger, retribution, and enmity. It has the chemical advantage of lighting up the limbic system, but there are many problems with it. The worst is misdiagnosis, because it undermines the possibility of productive change.

The old economic certainties have not been stolen. They have been undermined by a vast economic transmission that has placed workers in competition with talented workers around the world. This has resulted in a consistent downward pressure on wages and a ruthless demand for higher skills. This has happened at the same time that family structures,

humanizing communities, and important social norms have weakened.

In the context of economic populism, conservatives who are identified with the status quo are likely to be run over. Conservatives who are a pale version of liberalism will be unnecessary. More is needed than a critique of Keynesianism—conservatives need a governing vision applying conservative and free-market ideas to the task of giving people the skills and human capital to succeed in a modern economy, a conservatism of the *common good*.

There should be—there can be—distinctly conservative proposals that improve skills and increase the rewards of work and encourage economic mobility; proposals to reform immigration in productive ways, make entitlements more modern and sustainable, and shape a growth-oriented tax system; proposals that provide conservative approaches to maternal and child and newborn health, and market-oriented methods to address the threat of climate disruption. A distinctly conservative vision of the common good will encourage decentralization, the strength of family and community, the importance of religious education and religious liberty, and the health of a civil society where human beings gain the values that make a life of success and meaning possible.

Others can offer anger and envy. Conservatives should be known for common purpose and respect and civic pride and voluntary associations and personal responsibility and a generous, inclusive spirit. These are not just the foundations of a free economy, they are the substance of a democratic way of life.

I'll conclude by saying that conservatives should also be known for a passionate, moral commitment to human dignity. This is one of the great roles of religion in a democracy, as one route, one basis, for *personalism*: the belief that everyone matters, that everyone counts, that no insignificant person was ever born. In every way that matters to God, human beings are completely equal and completely loved. They matter more than any cause; they *are* the cause.

Those who question the association of conservatism with this ideal haven't been paying attention for the last 300 years or so. It was Wilberforce's fight for the abolition of the British slave trade and Burke's defence of the rights of Catholics, prosecution of abuses of power in India and defence of the rights of Americans; Lincoln's emancipation of American slaves and Lord Shaftesbury's care for the victims of the Industrial Revolution; Churchill's deep concern for European Jews. And yes, I am biased, but I would include the leadership of George W. Bush, who helped save so many lives from AIDS and malaria in Africa. During the 20th century, in government offices in Berlin, Moscow, and Beijing, decisions were made to take the lives of millions. I got to sit in the Oval Office and watch President Bush make decisions that saved the lives of millions through PEPFAR and the President's Malaria Initiative and other initiatives. That was a broad bipartisan achievement across two administrations, but it began with a fully conservative belief in the priority of the person.

I suspect during the coming weeks of this campaign a lot of Republicans are preparing to identify with Dick Tuck. Tuck lost a California state senate election in 1966. In his concession speech he took the stage and said, "The people have spoken, the bastards."

It is at moments like this that conservatives turn to history for consolation. It is the great power of historical texts that they speak to us differently in different times. We read certain speeches and documents again and again, but then in a new context, in a new light, they speak across the years as close as a voice over your shoulder.

Last night I looked at George Washington's letter to the Hebrew congregation at Newport, Rhode Island. President Washington made a trip to Rhode Island in 1790 after it finally ratified the Constitution. Moses Seixas, the warden of the local Jewish congregation, was on the reception committee and read a letter thanking Washington for his service. Rhode Island had the new country's largest Jewish community for a reason: because other states were not the best places to be Jewish or Quaker or Baptist or Catholic. Four days later Washington responded:

The citizens of the United States of America have a right to applaud themselves for having given to mankind examples of an enlarged and liberal policy: a policy worthy of imitation. All possess alike liberty of conscience and immunities of citizenship. It is now no more that toleration is spoken of, as if it was by the indulgence of one class of people that another enjoyed the exercise of their inherent natural rights. For happily the Government of the United States, which gives to bigotry no sanction, to persecution no assistance, requires only that they who live under its protection, should demean themselves as good citizens. . . . May the Children of the Stock of Abraham, who dwell in this land, continue to merit and enjoy the good will of the other inhabitants, while everyone shall sit under his own vine and fig tree, and there shall be none to make him afraid.

This is the proper conservative response to anger and division, a belief in inherent rights held equally by all the children of Abraham and everyone else. When my country comes back to itself, as it always does, there shall be none to make them afraid. P

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Liaison	Nombre de départs par jour	Distance	Temps productif en train	Temps non productif en voiture*	Coût du voyage en voiture**	Coût du voyage en train (à partir de seulement)	Économies pour le contribuable (voyage en train)***
Ottawa ⟷ Toronto	Jusqu'à 16	450 km	**4 h 01 min**	4 h 34 min	467 $	**44 $**[1]	423 $
Ottawa ⟷ Montréal	Jusqu'à 12	198 km	**1 h 47 min**	2 h 27 min	227 $	**33 $**[1]	194 $
Ottawa ⟷ Québec	2	482 km	**5 h 23 min**	4 h 39 min	488 $	**49 $**[1]	439 $
Toronto ⟷ Montréal	Jusqu'à 17	541 km	**4 h 34 min**	5 h 30 min	562 $	**44 $**[1]	518 $

[1] **Les employés du gouvernement du Canada peuvent profiter de tarifs spéciaux pour leurs voyages d'affaires réservés par l'entremise des Services de voyage partagés. Les employés du gouvernement du Canada sont aussi admissibles à un rabais de 10 % sur leurs voyages personnels réservés auprès de VIA Rail.**

* 30 minutes ont été ajoutées à la durée totale du voyage en voiture afin d'inclure les retards dus au trafic et au mauvais temps.

** Le coût du voyage en voiture est calculé selon la formule suivante : coût en $ du voyage en voiture (taux de 0,55 $/km établi par le Conseil du trésor pour l'Ontario pour une voiture conduite par un employé du gouvernement X distance parcourue) + frais en $ d'employé gouvernemental (taux horaire moyen d'un employé gouvernemental de 48 $/h selon un salaire de 100 000 $ par année, y compris les avantages sociaux X durée du voyage) = coût total en $ pour le contribuable.

*** L'économie pour le contribuable associée aux voyages en train est calculée selon la formule suivante : coût du voyage en voiture – coût du voyage en train = économies pour le contribuable.