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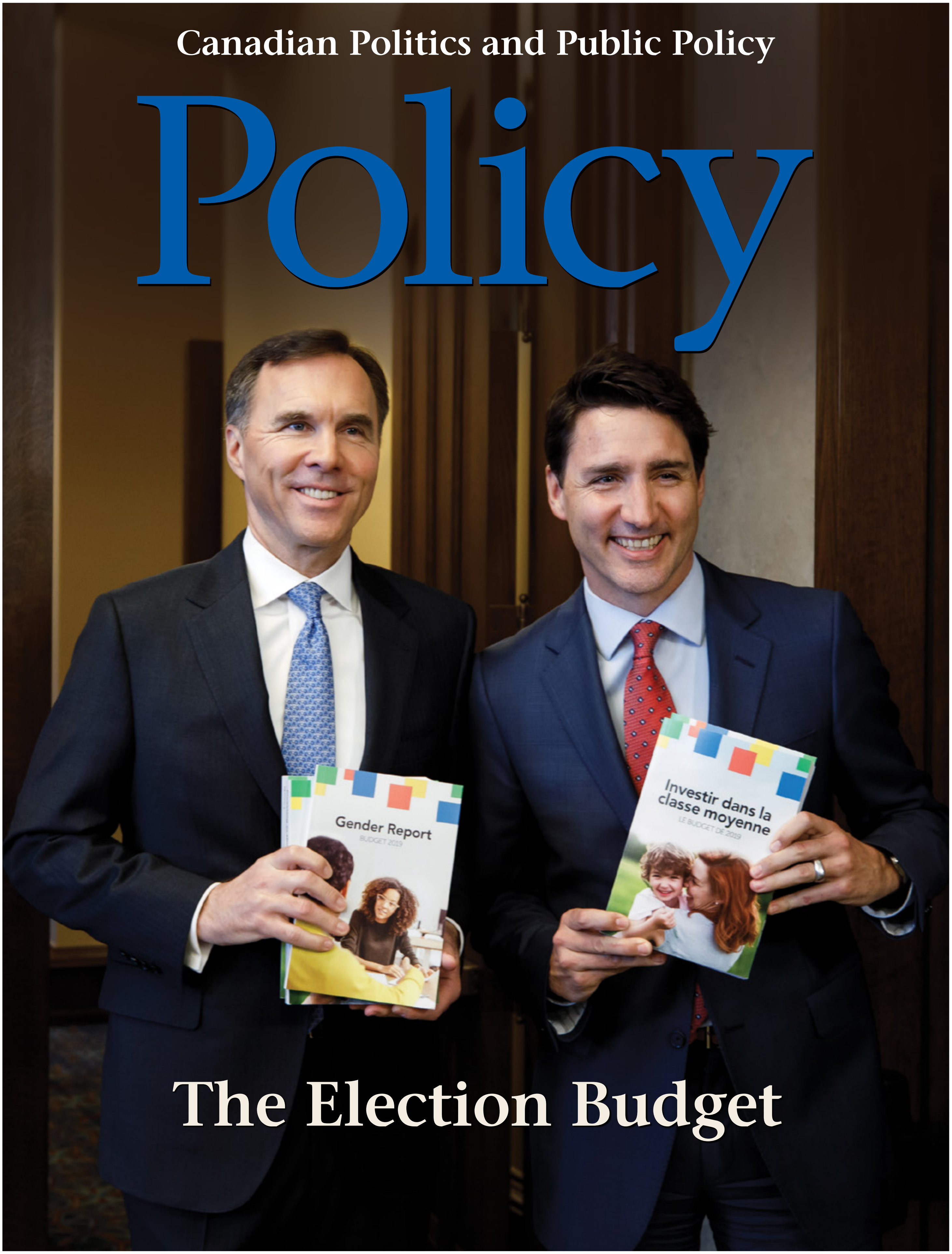
Canadian Politics and Public Policy

Policy



The Election Budget

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Canadian Politics and Public Policy

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Policy

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Cover image: Adam Scotti

Bill Morneau delivers his fourth budget on March 19th, seven months before the October 21st federal election. *Adam Scotti photo*

In This Issue

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From the Editor / L. Ian MacDonald

The Election Budget

Welcome to our special issue on Budget 2019.

For the Liberal government of Prime Minister Justin Trudeau, this year's federal budget offered an opportunity to turn the page on the SNC-Lavalin affair, which dominated the spring news cycle. As tends to happen in politics these days, things got complicated, with the traditional budget rituals from Finance Minister Bill Morneau's speech in the House to the annual post-budget storming of the ridings by MPs selling the government's economic plan—especially important in an election year. Which, it was widely presumed, was a key motive in Conservative Leader Andrew Scheer's decision to keep MPs in Ottawa voting.

For Finance Minister Bill Morneau, the budget was an opportunity to move on from a legacy of broken promises—he pledged $10 billion a year of deficits over four years to balance the books by 2019. Four years later, the projected cumulative deficit from 2016 to 2022 is more than $100 billion, with balance nowhere in sight, not that any government is likely to reduce the deficit going into the "goodie" period of an election.

Our budget package opens with Kevin Page, the former Parliamentary Budget Officer who went on to become founding President and CEO of the Institute of Fiscal Studies and Democracy (IFSD). Few practitioners are in greater demand in budget lockups and Kevin's piece, *Holding the Line in an Uncertain Future*, shows why.

The contributor who shares the distinction with Page of being one of the most sought-after budget analysts in the country, BMO Capital Markets Chief Economist Doug Porter, weighs in with his colleague Robert Kavcic in *Pre-Election Prescription: Another Dose of Spending*.

As the events of budget week this year showed, the federal budget is a political document. But we already knew that from the budget's title, Investing in the Middle Class. Wooing that middle class is a specialty of John Delacourt, former national director of the Liberals during the 2015 election cycle, now a policy consultant and writer in Ottawa, who gave us *Trudeau's Cri de Guerre for the Middle Class*.

Conservative strategist Yaroslav Baran weighs in with a budget critique that provides an insider's notes on the thinking behind the party's strategy of hijacking the budget narrative to swamp the government's message in *Anatomy of a Tactical Budget Response*.

In *Do his Budgets Give Trudeau a Progressive Case?*, former NDP party President Brian Topp surveys Trudeau and Morneau's four budgets and weighs them against the progressive promise of Trudeau's 2015 campaign, when the Liberal leader outflanked the NDP on the left with a pledge of deficit spending.

Green Party Leader Elizabeth May filed us an excellent read after a crazy week, reflecting on the SNC-Lavalin affair, the mood of the country and civility in the House in *The SNC-Lavalin Cloud Over the 2019 Budget*.

From the Institute of Fiscal Studies and Democracy, Director of Governance and Institutions Helaina Gaspard measures the government's new Indigenous Child Welfare bill, C-92, and the budget's provisions for Indigenous Peoples against her own IFSD study of those issues in *Indigenous Child Welfare: Closing the Good Intentions Gap*.

Policy columnist and CBC legend Don Newman offers the counterpoint to Baran's piece on the Tories' budget tactics with *The Downside of Obstruction*.

Canada and the World

In *Canada and the World*, we begin with veteran Canadian diplomat Jeremy Kinsman. A re-awakened China and a post-Soviet-Russia have been flexing their muscles on the world stage, writes Kinsman in *Taking a Breath to Avoid a New Cold War*, yet there are "no solutions without Russian and Chinese cooperation."

Don Johnston followed his years at the Liberal cabinet table with two terms in Paris as secretary-general of the OECD. At the closing of his career, Johnston follows his 2017 book *Missing the Tide: Global Governments in Retreat* with an urgent plea for cooperation in *A Choice for Humanity*.

Kevin Lynch's annual *Letter from Davos* delivers the impressions of the former clerk of the Privy Council as a long-time observer of the annual January forum of ideas.

Finally, political historian David Mitchell, a long-time student of electoral reform, shares his thoughts on why it's so difficult to make anything but first-past-the-post happen in *Is Electoral Reform dead in Canada*.

Enjoy. P

Holding the Line in an Uncertain Future

The 2019 federal budget wasn't like the three previous Trudeau government budgets. If the calendar wasn't enough to tell you it was an election-year budget, the unprecedented political tension, noise and obstruction that surrounded its delivery were dead giveaways. Luckily, we have former Parliamentary Budget Officer Kevin Page to get right to the numbers.

Kevin Page

Finance Minister Bill Morneau tabled his fourth budget on March 19. The political and economic stakes are high. The federal election is scheduled for Monday, October 21. Both political support for the government and economic growth numbers are trending down. The mishandling of the SNC-Lavalin affair and the associated resignation of cabinet ministers and advisors are raising fresh and legitimate questions about the capacity to govern.

In this context, one of the overarching themes of Budget 2019—*Facing an Uncertain Future*—seems appropriate. In the face of growing uncertainty, the budget strategy is largely about holding the line on priorities and fiscal policy. Is this a good strategy?

On fiscal policy, the underlying principle is "smoke 'em if you got 'em" which is slang for "do what you want, if you have the means." The 'means' come largely from squeezing more projected revenues out of a planning framework that does not change very much from the perspective of headline economic numbers or the declining budgetary deficit track. Higher than anticipated revenues and/or lower than anticipated spending have been the major source of funds for new spending over the past three budgets.

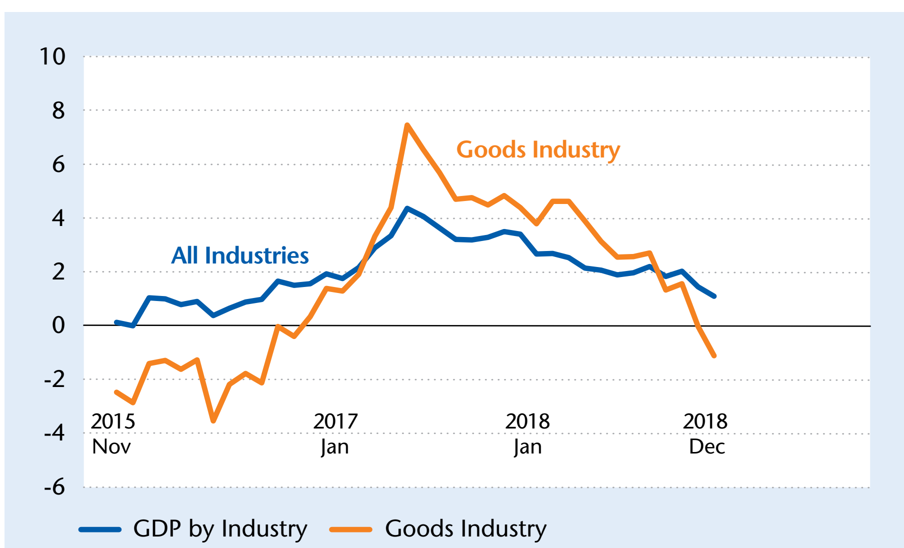
In an environment of relatively low trust in the ability of governments to manage taxpayer dollars, political leaders are reluctant to raise taxes. Is there any genuine fiscal room to maneuver to address big-ticket policy items either now or in the upcoming election?

It has been said that Leonardo da Vinci would look at a problem from at least three different perspectives to improve understanding. While the Budget may lack the ingenuity of da Vinci, it is possible to examine it from an economic and fiscal perspective, policy priorities, and political strategy.

Economic and Fiscal Perspective

Budget strategy and policy evolve to a large degree around the current and projected economic environment. Since the mid-1990s, federal ministers of finance have used an average forecast taken from the private sector. At the very least, this approach removes political bias. The outlook underpinning Budget 2019 says the future will look a lot like the present—growth continues, unemployment rates stay low, inflation rates and exchange rates do not move; and interest rates edge up so very slowly. Much of the economic analysis in the budget is backward-looking. It highlights the record of the Liberal government in growing the economy and jobs and reducing poverty rates. It is a good record.

CHART 1: **Total Industry and Goods Industry Growth**
year-over-year % change



Source: Havers Analytics; IFSD

It can be argued that Budget 2019 plays down rising concerns. Year over year economic growth rates are falling and are looking more akin to the environment the Liberals inherited in the fall of 2015 (Chart 1). Have we come full circle?

Output in the goods sector has declined over the past year due to weakness in mining and manufacturing. Business investment is falling. Both the World Bank and the International Monetary Fund recently raised alarm over rising uncertainty due to trade tensions, the potential for financial market corrections and geopolitical issues. Projected growth rates in the Budget for 2019 (GDP up 1.8 per cent) look strong given the weakness in the latest GDP estimates. Projections for future sales in the Bank of Canada business outlook survey have flatlined.

Have the Liberals misjudged the outlook? What goes up, comes down? Nobody can predict the future. Having said this, there is nothing in the Budget to prepare for a weak economy scenario. Stephen King, the American fiction writer said *"there is no harm in hoping for the best as long as you're prepared for the worst"*. We do not look prepared. The contingency reserve set aside in the fiscal planning framework can easily be eaten up by a relatively modest decline in the growth outlook.

> *"As was the case in recent fall updates and budgets containing measures, internal forecast adjustments generate the fiscal room for budget measures."*

The fiscal framework in Budget 2019 has not changed fundamentally in recent years. The Liberals are holding the line. The relatively modest budgetary deficit of $20 billion in 2019-20 (0.9 per cent of GDP) is cut in half over the next five years ($10 billion or 0.4 per cent of GDP). See Table 1—Summary Statement of Transactions. The federal debt will rise by $76 billion over the next five years to $762 billion in 2023-24. With assumed growth in GDP, the debt-to-GDP ratio will fall by 2 percentage points to 28.6 per cent.

Total policy actions in Budget 2019 (since the 2018 *Fall Economic Statement*) over a six-year period (2018-19 to 2023-24) total about $27 billion. The funds for these actions are generated from internal forecast adjustments. Revenues are higher across the horizon largely driven by strong fiscal results in 2018-19 that are assumed to be carried forward. Similarly, planned spending has been revised down due to an array of factors ranging from fewer-than-expected Employment Insurance (EI) beneficiaries and payouts for senior programs that are also carried forward. These forecast adjustments total about $28 billion over six years.

Once again, as was the case in recent fall updates and budgets containing measures, internal forecast adjustments generate the fiscal room for budget measures (Table 2). Bureaucrats revise the outlook. The Liberals use up all the fiscal room, virtually, down to the last nickel, to move forward on new spending measures.

TABLE 2: **Economic and Fiscal Developments Since the 2018 Fall Economic Update**

Internal forecast adjustments to create fiscal flexibility for new budget measures

$ billions of dollars	2018-19 to 2023-24
Changes in Budgetary Revenues	15
Changes in Program Expenditures	6
Changes in Public Debt Charges	7
Total Economic and Fiscal developments	28

Source: Budget 2019, IFSD

TABLE 1: **Summary Statement of Transactions**

$ billions of dollars	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Budgetary Revenues	**332.2**	**338.8**	**351.4**	**366.7**	**380.7**	**395.5**
Program Expenses	323.5	329.4	339.7	348.3	358.4	369.1
Public Debt Charges	23.6	26.2	28.5	30.2	31.4	33.2
Total Expenses	**347.1**	**355.6**	**368.2**	**378.4**	**389.8**	**402.2**
Adjustment for Risk	0	-3	-3	-3	-3	-3
Final Budgetary Balance	**-14.9**	**-19.8**	**-19.7**	**-14.8**	**-12.1**	**-9.8**
Federal Debt	**685.6**	**705.4**	**725.1**	**739.8**	**751.9**	**761.7**
Percent of GDP						
Budgetary Revenues	14.9	14.7	14.8	14.9	14.8	14.8
Program Expenses	14.6	14.3	14.3	14.1	14	13.8
Public Debt Charges	1.1	1.1	1.2	1.2	1.2	1.2
Budgetary Balance	-0.7	-0.9	-0.8	-0.6	-0.5	-0.4
Federal Debt	30.8	30.7	30.5	30	29.3	28.6

Source: Budget 2019. Note: May not add due to rounding.

A Tale of Two Budgets

The Liberals' commitment to holding the line is exemplified by comparisons with Budget 2016.

Many commentators would likely agree that Budget 2016 was the signature budget over the Liberal mandate. It is the budget that truly addressed their priority to strengthen the middle class with large initiatives that increased the child benefit and lowered the middle tax rate plus a range of initiatives to address policy challenges related to the environment, Indigenous peoples, infrastructure, and more. Total outlays for new initiatives in Budget 2016 ($50 billion) over a six-year period were about twice the amount in Budget 2019 ($27 billion).

Notwithstanding the greater outlays for new initiatives, if one goes back to look at the projections in Budget 2016, they will see that Liberals are not far off that fiscal plan from the perspective of 2019.

TABLE 3: **Projections for 2019**

$ billions of dollars	Budget 2016	Budget 2019
Budgetary Deficit	18	20
Program Spending	314	329
Interest on the debt	33	26
Budgetary Revenues	329	339
Nominal GDP	2313	2298

Source: Budget 2016, Budget 2019, IFSD

The projected deficit for 2018-19 will come in lower than predicted in the 2018 Fall Economic Statement ($14.9 billion vs $18.1 billion) and will include more than $4 billion in new measures related to additional monies for infrastructure for municipalities and comprehensive claims negotiations with Indigenous peoples.

The Liberals can rightfully claim they have been hitting deficit targets since Budget 2016. Hitting annual targets helps to build trust, even if you question the policy merits of budgetary deficits at this stage of the economic cycle.

Policy Priorities

It is a challenge to find an overarching policy narrative in Budget 2019. It is a modest budget in terms of allocation of monies ($27 billion over 6 years) to new measures. However, the number of new measures is not modest—there are more than 140 adjustments to the fiscal planning framework since the 2018 Fall Economic Statement scattered across constituents, sectors, and regions. In an economy where the annual GDP is about $2.3 trillion, the government could be accused of spreading the money too thinly to make much of a difference.

While budget communications remain firmly anchored to *"investing in the middle class"*, the more appropriate narrative driving the plethora of measures appears to be linked to *"facing an uncertain future"*. As the old adage goes, *"when in doubt, do something"*.

There are measures covering the full spectrum of demographics. For the millennials, there are new programs to buy a house and help with student debt. For the middle-aged, there are new programs to help with job training. For seniors, there are new programs to help with income support. There are measures covering a range of sectors—health, culture, science and research, public safety, and international engagement. There are measures to address the needs of veterans and Indigenous peoples. There are measures to help municipalities, rural communities (high speed internet) and people of the North. There are measures to help government strengthen internal services and improve tax compliance.

With some of these proposed measures there will be significant policy challenges. There are genuine question marks about program design for first time home buyers. How will the markets respond? What will be the take-up on the new training benefit given the relatively small government subsidy?

In other cases, new initiatives made only early steps. On pharmacare, the government proposes to introduce a new drug agency and provide future support to improve accessibility to high-cost drugs for rare diseases. It is far short of implementing a national program.

Political Strategy

The British chef Marco Pierre White said *"perfection is a lot of little things done right"*. Budget 2019 will give the Liberals enough to talk about while knocking on doors during the fall campaign. The size and range of measures will make it easier to connect with people. The challenge will be to get as many of these measures passed into legislation before the summer break, just a few months away, so that constituents will reap the benefits.

Budget 2019 is much more a pre-election budget than a platform. There are no signature initiatives. Significant policy space has been vacated for opposition parties. Former Senator Hugh Segal has highlighted the need and opportunity for opposition parties to build strong policy agendas (i.e., to do more than hold the government accountable on the SNC-Lavalin issue). The increases in federal debt and associated interest on the public debt will raise legitimate concerns about the government's capacity as a fiscal manager. If the economy slides into a recession between now and the election, the government will look seriously unprepared.

One of the big questions now facing all parties preparing platforms for the 2019 federal election is the amount of fiscal space available for new initiatives. Have the Liberals used up this space leaving little to no room for major initiatives without raising taxes or cutting spending programs? And, will citizens trust governments enough to raise taxes for big initiatives like a national pharmacare program given the struggle it takes to implement pay systems or procure military hardware?

Let the race begin. P

Kevin Page, former Parliamentary Budget Officer of Canada, is President and CEO of the Institute of Fiscal Studies and Democracy at the University of Ottawa.

Finance Minister Bill Morneau delivering his budget speech on March 19. "A firmer-than-expected revenue backdrop provided a big tailwind for finances," writes Doug Porter, "although that favourable trend has likely just about run its course with economic growth cooling markedly late last year and into early 2019." *Adam Scotti photo*

Pre-Election Prescription: Another Dose of Spending

One of the annual traditions that go with federal budget day—along with the custom of new shoes for the Finance Minister—is the post-lockup question, "What's Doug Porter saying?" Here is the edited version of Porter's post-budget analysis for BMO.

Douglas Porter and Robert Kavcic

The fourth budget of the current federal government has been overshadowed by events, but is quite important in its own right as it will serve double-duty as the pre-election economic document. Stronger-than-expected revenues over the past year provided some fiscal leeway to fund yet another spending boost. Ottawa is again projecting a string of double-digit budget deficits as far as the eye can see, widening to $19.8 billion in the coming fiscal year, while the key debt-to-GDP ratio continues to gradually drift lower—it's pegged at 30.7 per cent in FY19/20. This outlook comes as little surprise, as a fading debt ratio has become the de facto anchor for fiscal policy. The major new measures in the budget document also did not come as a shock, and include moves to address housing affordability, skills training, support for seniors and a wide spattering of spending programs on other priorities.

A firmer-than-expected revenue backdrop provided a big tailwind for finances, although that favourable trend has likely just about run its course with economic growth cooling markedly late last year and into early 2019. While the FY18/19 deficit is tracking $3.2 billion better than what was expected in the 2018 Fall Statement (effectively the now-removed risk adjustment), the upcoming two fiscal years will run with slightly deeper shortfalls. There remains no plan to balance the books, with a $9.8 billion deficit persisting by FY23/24. Beneath the surface, a stronger-than-expected revenue base in FY18/19 has helped lift underlying finances by roughly $5 billion per year through the forecast horizon, but that gain has been almost precisely offset by increased spending across a wide range of initiatives. In other words, Ottawa has chosen to let it flow rather than improving the bottom line, clearly revealing the fiscal priority. This is notable, given that the economic outlook has quickly deteriorated. For example, we now expect this year's real GDP growth to come in 0.5 ppts below the budget assumption, and nominal growth a full percentage point lower.

A contingency of $3 billion per year remains in place through the forecast horizon, but we judge that the current downside risk from the economy carves into the entire FY19/20 reserve. And, we'd just reiterate that we are observing some tell-tale late-cycle conditions in North America, often a period that governments should build fiscal capacity.

Major Policy Measures: Moving from Pot to Pharma

The net fiscal impact of new measures proposed in this year's budget is $4.0 billion (or 0.2 per cent of GDP) for FY19/20, rising to $5.7 billion in the following year—not big by any stretch, but not immaterial either. Here's a recap of some of the many new initiatives:

- **Housing affordability:** The headline measure is the CMHC First-Time Home Buyer Incentive, expected by September 2019. Effectively, CMHC will contribute 5 per cent of the purchase price of an existing home (10 per cent on a new build), to be repaid later on sale of the property (not yet clear is whether CMHC will share in home value changes—both on the way up and down). The program will only apply to those with household income below $120,000, and with a maximum mortgage and incentive amount of 4-times income. As such, the impact will be contained to the lower end of the market below roughly $500,000 and, arguably, that's the level where affordability challenges only really begin. For example, the most acute affordability problems surround larger units or single-detached homes in the GTA and GVA; yet, most of these are beyond the price range covered by this program. The impact, of course, would be broader in other regions, but affordability in many of those cities is historically quite normal. The biggest impact will be in low-priced new builds. More fundamentally, this measure runs counter to the many other recent policy measures to cool housing demand.

TABLE 1: **Fiscal Outlook**

(C$ blns, except where noted)	Est. 18/19	—Forecast— 19/20	20/21	21/22
Revenues	332.2	338.8	351.4	366.7
Expenditures	347.1	355.6	368.2	378.4
ProgramSpending	323.5	329.4	339.7	348.3
Public Debt Charges	23.6	26.2	28.5	30.2
Adjustment for Risk	—	(3.0)	(3.0)	(3.0)
Budget Balance	(14.9)	(19.8)	(19.7)	(14.8)
Federal Debt	685.6	705.4	725.1	739.8
As a percent of GDP:				
Budget Balance	(0.7)	(0.9)	(0.8)	(0.6)
Federal Debt	30.8	30.7	30.5	30.0

Source: Federal Budget ( ) = deficit

TABLE 2: **Economic Assumptions**

(per cent)	—Ottawa— 2018	2019	2020	BMO Capital Markets **2019**	**2020**
GDP Growth					
Real	1.9	1.8	1.6	**1.3**	**1.7**
Nominal	3.8	3.4	3.5	**2.5**	**3.7**
Yields					
3-monthT-Bill	1.4	1.9	2.2	**1.7**	**2.0**
10-year GoC	2.3	2.4	2.7	**2.0**	**2.0**

Ottawa will also modify the Home Buyers' Plan, which allows tax-free withdrawal from an RRSP (repaid over time). The withdrawal limit will rise from $25,000 to $35,000.

- **Pharmacare:** Ottawa will continue to progress toward a national pharmacare program. While the advisory process is still underway, this budget takes three steps: 1) Create a Canadian Drug Agency to negotiate prescription drug prices on behalf of all drug plans, targeting $3 billion per year in long-term savings; 2) Develop a national list of prescribed drugs; and, 3) National strategy for high-cost drugs for rare diseases.
- **Program spending** will rise 1.8 per cent in FY19/20 after a 4.9 per cent jump in FY18/19. A big chunk of the new announcements in this budget ($4.2 billion) will be rolled out before FY18/19 ends. One of the key features is just how wide a range of areas the spending increases have been spread across.
- **Infrastructure spending:** One of the chunkier dollar amounts is an immediate $2.2 billion transfer to municipalities to top up their infrastructure funding (through the Gas Tax Fund), and $1 billion for energy efficiency. These costs were loaded into the fiscal year that ends in March 2019, effectively using up a large portion of the extra revenues for the year. Municipalities will have 12 months to use the money.
- **Support for supply-managed farmers** totalling $3.9 billion in the wake of CETA and CPTPP ratification.
- **Skills training:** The Canada Training Benefit will provide a means-tested tax credit for skills training that accumulates at $250 per year, up to $5,000 over a lifetime. Income support will also be offered through the EI program.
- **Lower interest rate on student loans**, to prime from prime plus 2.5 percentage points (on the much more popular variable rates) and to prime plus 2.0 ppts from prime plus 5.0 ppts (for fixed). This meaningful reduction will cost Ottawa $345 million by FY20/21.
- **GIS** full earnings exemption increase for seniors, from $3,500 to $5,000 and a 50 per cent partial exemption is introduced up to $10,000.
- **Electric vehicle subsidies:** Will provide $5,000 on cars with a purchase price of less than $45,000.
- **Stock option taxation:** Will limit the future benefit of the employee stock option deduction for high-income individuals at mature (i.e., not start-up) firms by applying a $200,000 annual cap—further details pending, as was the case for many measures.

Debt Management Strategy: Red Book

With a string of deficits still looming, government borrowing requirements will remain elevated. Gross marketable bond issuance will total $119 billion in FY19/20, up from $100 billion in FY18/19. After accounting for maturities, buybacks and other adjustments, the net increase in bonds will be $8 billion in FY19/20, versus a $2 billion decline this fiscal year. The stock of Treasury bills is projected to drift up from $131 billion to $151 billion, while the average term to maturity of domestic market debt is expected to remain stable around 5.5-to-6.5 years. Ottawa continues to focus more of its issuance in the 2-, 3- and 5-year sectors than the longer end.

Economic Assumptions

Ottawa's economic assumptions were brought together prior to the sour news on Q4 GDP and, thus, already appear overly optimistic—a rare case when the consensus forecast has shifted significantly just ahead of budget day. In the budget assumptions, Canadian real GDP growth is a moderate 1.8 per cent this year, but the latest consensus has since dropped to just 1.4 per cent growth (and we're at 1.3 per cent). Even last year's initial estimate has been shaved to 1.9 per cent. The assumption for 2020 growth of 1.6 per cent is closer to the current mark (we're actually a tad higher at 1.7 per cent). A key message here is that growth will be modest at best over the next couple of years, limiting any potential upside surprises to the bottom line like we saw in the past year.

Importantly for revenues, the assumption for nominal GDP growth also looks high for 2019—the budget is based on 3.4 per cent this year and 3.5 per cent next (our calls are 2.5 per cent and 3.7 per cent, respectively). This comes alongside expected further gains in oil prices—we see WTI averaging $60 in 2019/20. Some offset for finances will be provided by an even more benign interest rate environment than anticipated just a few short months ago. The budget assumed that three-month interest rates would average 1.9 per cent this year and 2.2 per cent next year; but, we now look for 1.7 per cent in 2019 and just under 2 per cent in 2020. The assumption on 10-year GoC yields of 2.4 per cent this year and 2.7 per cent in 2020 look wildly high, at least at this point, and we are looking for them to average less than 2 per cent over the next two years. It's noteworthy that, aside from a brief period through 2013, much of this cycle has been characterized by lower-than-expected interest rates, leading governments to revise down their debt-service cost estimates in-year. That looks very likely to be the case yet again this year. Even so, the much softer growth backdrop suggests that the risks from an economic perspective look like they will readily consume the contingency reserve in the coming year. P

Douglas Porter is Chief Economist and Robert Kavcic is Senior Economist with BMO Capital Markets.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Trudeau's *Cri de Guerre* for the Middle Class

The conventional wisdom that resides at the confluence of politics and economics has, for the decade since the financial cataclysm, maintained that economic growth and political success hinge on the middle class—at least for progressive governments. Justin Trudeau staked his electoral fate on this bet in 2015 and has rewarded the middle class in four budgets. John Delacourt looks at whether that bargain will hold in the upcoming campaign.

John Delacourt

With the tabling of 2019's federal budget, the Trudeau government has presented its final policy statement on the achievements it can claim for "the middle class and those hoping to join it." The last three and a half years of the Liberal government's mandate have been marked by bold new initiatives to bolster the claim that they have defined their spending priorities by this lodestar. These have included the "middle class tax cut," the changes to the Canada Pension Plan (CPP) and the Guaranteed Income Supplement (GIS) and, most significantly, the new Canada Child Benefit (CCB). The latter's social impact is particularly significant; 278,000 Canadian children have been lifted out of poverty since 2015. The Liberals have introduced an Infrastructure Bank and a national housing strategy because spending on "social infrastructure," a term first heard during the 2015 campaign, can encourage diversity, spur economic growth and increase the real gross domestic product (GDP). All of these initiatives have resonance especially in the larger communities where the aspirational middle class gather to create start-ups and work in the sectors that generate job growth.

Yet the Trudeau government has never really defined the middle class in terms of real income, despite its marked focus on tax policy for this demographic. The closest it has come was in September, 2017. Transport Minister Marc Garneau gave his response to a written question submitted by Conservative MP Kelly Block. The minister provided no income number:

> ***"The middle class could ultimately be defined by whom they are not; those who felt the impact when a new income tax rate of 33 per cent was introduced for individuals who earn more than $200,000 a year in taxable income."***

"The government of Canada defines the middle class using a broad set of characteristics that includes values, lifestyle, and income. Middle-class values are values that are common to most Canadians from all backgrounds, who believe in working hard to get ahead and hope for a better future for their children. Middle-class families also aspire to a lifestyle that typically includes adequate housing and health care, educational opportunities for their children, a secure retirement, job security, and adequate income for modest spending on leisure pursuits, among other characteristics."

One look at the graphics (see Kevin Page's piece in this issue) on income disparity—and whose slice of the economic pie has grown over the last four decades—suggests this government has targeted an important phenomenon. It is one that French economist Thomas Piketty articulated most effectively in his landmark book *Capital in the 21st Century*, back in 2013. The rise of the 1 Percent's income (in Canada, those making over approximately $380, 000) has been dramatic and with it, a polarization effect has emerged in democracies around the world. All the more reason to be precise about the metrics for public policy, especially when you're basing your budgets on such figures as, say, a debt-to-GDP ratio.

Does this kind of precision matter, given that budgets live and die as political documents? It could be argued that what Garneau articulated was a value statement, marked by phrases that appeal to a general understanding of who deserves a sense of long-term income security and prosperity: those "who believe in working hard," whose hope for the basics are "adequate," and who hope to earn enough disposable income for "modest spending" on leisure pursuits. The middle class could ultimately be defined by whom they are not; those who felt the impact when a new income tax rate of 33 per cent was introduced for individuals who earn more than $200,000 a year in taxable income. Yet it's entirely plausible that there are many households with either single-income earnings or combined earnings not markedly above or below that number who feel they are struggling—and even "house poor"—living in Toronto or Vancouver.

Prime Minister Trudeau takes questions during a town hall in St. Catharines. January 15, 2019. *Adam Scotti photo*

Despite the generally strong performance of the economy over the last four years, especially with job growth, this government is suffering from, for want of a better term, a "deliverology challenge." The *Bloomberg Nanos Canadian Consumer Confidence Index* has been trending downward since early 2017, around the time of Garneau's brief speech in the House. That was before the blunder of Morneau's proposed tax measures on small business, before the India trip, before the unfolding, puzzling drama of the SNC-Lavalin affair, related to deliberations around a possible remediation agreement for the company. This last turn in Liberal fortunes has led to the loss of confidence in Trudeau's cabinet by two former high-profile stars within that very chamber. What the mantra of "working hard for the middle class" is addressing, more than it is any metric of prosperity, is the validity of a hope narrative through a period of increasing global uncertainty—when the new NAFTA, Brexit, and the Huawei controversy underscore the circumscribed role the federal government has played with issues of global import over the last four years.

This last budget is a *cri de coeur* for those voters who are finding it hard to be optimistic, all things considered. This is Morneau tabling the last declaration of intent and promise for the strategically amorphous middle class. There's a nod to millennials, a key Liberal demographic, with the reintroduction of a First-Time Home Buyer Incentive, a shared equity mortgage program. There's an enhancement in the Guaranteed Income Supplement earnings exemption for seniors. Seniors' voter intention numbers are trending towards the Conservatives; the Liberals need to win a significant portion of them back. There's also a strong signal that a pharmacare plan might just fill in the gaps for those who struggle with limited coverage and expensive needs. Perhaps most important component for an economy evolving at a faster rate than its workforce is the new Canada Training Benefit which will give employees resources to take time off and access skills retraining. All of these measures amount to one clarion call to those who gave Trudeau and his team a majority mandate back in 2015: we're still there for you, and more than ever, we're going to deliver on what is going to make a difference for your quality of life—and the quality of life for your kids and your parents. Regardless of how complex the challenges have proven to be over the last four years, this government wants to affirm it hasn't lost its focus on the Canadians who not only provide its political base but who act as the country's economic engine.

This is meant to translate on election day, of course. Because not only is the budget a *cri de coeur*, it's a *cri de guerre*. Given that approximately sixty percent of all legislation passed by this government has been amended in the Senate, there is every indication the chamber of sober second thought might be less than co-operative rubber stamping every new expenditure. With nine short weeks before the House of Commons rises for the last time before election day, the commitments in this budget could become the basis for the first draft of a campaign platform. There could be worse outcomes, given that Trudeau has proven himself a highly charismatic and effective campaigner. A significant number of worker bees from Kathleen Wynne's 2014 campaign team are now working for Trudeau. Many of them are proven ground game operatives who pulled off an impressive victory for the premier when her approval numbers also took a huge hit (but they remained in Ottawa, working for Trudeau, during the last provincial campaign). This team might just need to get the Prime Minister in the right rooms—the banquet halls in the outer reaches of the GTA and the 905, the community halls in the lower mainland and in suburban Montreal—to reconnect with that middle class this budget has so urgently attempted to speak to once again. There are no big-ticket items in the Liberals' last budget, no commitments that have the flash of a change narrative. Yet there might be enough, sprinkled across the demographic spectrum that still hope to believe in Trudeau, to carry the day on the hustings. P

John Delacourt, Vice President of Ensight Canada in Ottawa, is a former director of communications for the Liberal Research Bureau and the author of two books, including a mystery novel.

Anatomy of a Tactical Budget Response

As was apparent even before Finance Minister Bill Morneau tabled the budget in a stealth counter-offensive move against Conservative obstruction tactics on March 19, the political stagecraft that accompanied the federal budget this year was overwhelmingly defined by its pre-election context. Conservative strategist Yaroslav Baran provides a rebuttal to the criticism of how the Official Opposition managed its 2019 budget response.

Yaroslav Baran

Budget 2019 is not just a policy document—it is a political document. In fact, politics, rather than policy, is a budget's chief function.

What we call "the budget"—the thing Finance Minister Bill Morneau tabled on March 19th—has little to do with the actual budgeting and financial administration of government. That is accomplished through a series of separate processes: the thrice- yearly adoption of spending "estimates", expenditure authorization through the passage of "supply" or "appropriation" bills; and tax changes through the adoption of "ways and means" motions and corresponding legislation, giving government the ability to raise new funds.

The big annual event we call the federal budget is in fact a political statement. It is a policy signal of where the government wants to go, how it wants to position itself, and, in an election year, it is the first step in the fashioning of the government's re-election brand.

As a political tool, budgets often contain traps and inverse poison pills. The NDP votes against Budget 2019, and the Liberals can accuse them of being against the enhanced gas tax transfer to cities, or against step one in building universal pharmacare. The Conservatives vote against it, and the Liberals can take the high ground on skills training, or on housing affordability.

> ***"The big annual event we call the federal budget is in fact a political statement. It is a policy signal of where the government wants to go, how it wants to position itself, and, in an election year, it is the first step in the fashioning of the government's re-election brand."***

So, there is a political stagecraft in responding to budgets—and in an election year, the stakes are higher. And the audience is not the vote-tallying clerks in the House of Commons—it is the voting public.

The Opposition parties have been given a gift this year. Ordinarily, the federal budget sucks all political attention for weeks with an irresistible centripetal force, as budget day is followed by regional thematic re-announcements by an army of travelling cabinet ministers, an avalanche of board of trade luncheons, and a barrage of coast-to-coast stakeholder photo-op grip-n-grins. This year, however, Finance Minister Morneau's *opus magnum* was virtually overshadowed the day after it was unveiled.

Competing on launch day with a high-drama Alberta election call, and, more importantly, the House of Commons Justice Committee decision to abort its study of the biggest political controversy to have rocked this government and the opposition reaction to that decision, the finance minister was already fighting for coverage in a crowded news cycle.

But to have the prime minister's former parliamentary secretary—a well-respected MP, star candidate and community activist—quit caucus the next day? A definitive channel changer. By question period, the Opposition had already left the budget behind, electing to till the more fertile political soil of controversy and scandal. Why debate the finer points of enriched exemptions to the Guaranteed Income Supplement when they could accuse the government of a cover-up on the issue of highest-level government interference in a criminal prosecution of corporate corruption and bribery involving a company with close ties to the governing party? If they could decry his "fake feminist" credentials, as they have been saying. If they could re-energize the controversy that simply refuses to go away.

The SNC-Lavalin scandal has already claimed five major casualties: two senior cabinet ministers, the PM's former parliamentary secretary, his top political advisor and strategic brain, and the country's chief public servant. And if that were not enough, one of the departing ministers made it her business to lob another grenade toward the end of budget week through an exclusive interview saying there is far more on this scandal that has yet to be made public.

It hardly gets better for opposition parties. They can avoid the usual smug government retorts in Parliament about opposing this beautiful measure or that. The Opposition keeps screaming scandal. They government keeps stepping on rakes in the middle of a mine field.

And the $26.7 billion dollars in spending that was supposed to underpin the government's pre-election branding? Poof. Gone. Nobody is noticing. Yesterday's news—if it even was.

But there is one remaining hazard the Opposition needs to navigate: How to vote? Nobody genuinely expects opposition parties to support a government budget. It's not done, unless actively propping up a minority or coalition government. Opposing a government budget is a table-stakes manoeuvre for opposition parties. The predictable howls of "You voted against this" or "But you opposed that"—given the measures' omnibus provenance—are usually taken with a large dose of iodized sea salt. And as for the potential need to one-up the Liberals on things like help for first-time homebuyers? The Tories were likely to do so in their election platform anyway—while also speaking to the virtues of a return to fiscal balance.

But what about those inverse poison pills? A better metaphor is perhaps a "dead-man switch". Every budget has at least one measure where, if a particular party votes against it, it could

"There is a political stagecraft in responding to budgets," writes Yarolsav Baran, "and in an election year, the stakes are higher." *Wikipedia photo*

blow up in their face. While too politically distracted to load this budget up with many such measures, the government did manage to sneak in one hazard that stands apart for the Conservatives: the proposed $45 million anti-racism strategy because the Liberals' Hail-Mary pass for 2019 is to try to paint Andrew Scheer as an alt-right white supremacist, a threat to diversity and minority rights. Everything Team Scheer does going forward must remain cognizant of this Liberal plan.

There are two options that allow the Conservatives to sidestep the anti-racism trap. One is to stage another walk-out over the SNC-Lavalin scandal when it's voting time. Turn a defensive move into a public relations virtue by demonstrating moral outrage over sustained government cover-ups. Side-step the vote trap whilst screaming *#LetHerSpeak!* Another approach would be to address the trap head on, publicly, and to use procedural tools to carve it out of the overall budget for a separate (positive) vote. There are no tools to do so for the main budget document per se, but this can be done—or at least publicly attempted—with the Budget Implementation bill that follows. Isolate it, try to pull it out, demand a separate vote for this virtuous measure, and when you fail, at least you are seen to have tried.

Much as the Liberals did with their manoeuvre of tabling the budget early and getting ahead of Opposition filibuster plans on budget day, one of the hallmarks of superior political tradecraft is to anticipate the opponent's strategy. Foresee the plan, predict the tactics and inoculate accordingly: pre-position the strategy with the media as expected and predictable, and take preventative steps to deprive these manoeuvres of success.

The Liberals have spent the last two months stepping on land mines. If he wants to capitalize on this state of affairs as we head toward the October election, Mr. Scheer will have to be clever and careful not to step on any of his own. P

Yaroslav Baran is an Ottawa-based crisis communications advisor and parliamentary specialist. He is a partner with the Earnscliffe Strategy Group in Ottawa.

The SNC-Lavalin Cloud Over the 2019 Budget

In the rumpus of Canadian politics, Elizabeth May occupies a unique position. Leader of a national party but unconstrained by the same rhetorical calculations as her male counterparts fronting the governing and Official Opposition parties and liberated, to a point, by her role as the political conscience of Parliament, May has a reputation for honesty. Her report here on events surrounding this year's budget is no exception.

Elizabeth May

No matter where you sit on the political spectrum, the 2019 budget was all about spin.

From the viewpoint of the Liberals, the main focus of this budget was not fiscal; it was political. They desperately want to divert attention from whatever the SNC-Lavalin turmoil and the loss of two strong Cabinet ministers might communicate to Canadians.

For the Conservatives, with equal determination and less emotional control, they want to increase public dissatisfaction with whatever the prime minister may, or may not, be hiding.

For Jagmeet Singh, he needed to be noticed.

Budgets ceased to be primarily about sound management of the country's finances a long time ago. Our former Parliamentary Budget Officer, Kevin Page, has lamented that the foundational principle that parliament controls the public purse is an anachronism. Parliamentarians never see budget details before the budget is passed, which in a majority parliament is a rubber-stamping of decisions taken elsewhere. While hardly a novel observation, the standards of budgetary information continue to slide. We really should call it The Big Fat Spring Brochure.

In 2019, the stakes are particularly high for the largest two political parties. With a fall election looming, everything matters with hyper-partisan intensity.

> **"While hardly a novel observation, the standards of budgetary information continue to slide. We really should call it The Big Fat Spring Brochure."**

The Conservatives under Andrew Scheer's leadership have been running behind, even though the Liberals' brand has been tarnished. Conservative Leader Andrew Scheer's failure to keep his nearest leadership race rival, Maxime Bernier, inside the Conservative party has opened up a split in the right-wing vote.

The SNC-Lavalin matter has given Andrew Scheer his first sense of blood in the water. Scheer's message is that Justin Trudeau is corrupt, is muzzling his former attorney general, and should be removed from office without benefit of election.

It is hard to know what the public actually makes of the furour. Through the first two weeks of March, by rail and bus, I held open town halls from British Columbia to Manitoba, listening to public concerns in a dozen towns and cities from Ashcroft, BC (population 1400) to Calgary and Winnipeg. With over an hour and a half to raise issues, in all those sessions only one question pertained to SNC-Lavalin. Sure, people wanted to ask me over coffee what I thought of all the drama. My sense is that Canadians are riveted by the relationship issues, like a soap opera. But it is not a scandal that matters in the sense it could affect their vote.

For my part, the SNC-Lavalin affair really does matter, but not in the way Scheer thinks it does. It matters to uncover exactly how much a large multinational, whether based in Canada or not, is able to pull the strings. Leaning on our attorney general was massively inappropriate. We may yet discover that it was criminal, if it meets the standard of obstruction of justice. Of course, Jody Wilson-Raybould did not allow the pressure to lead her into error. She ensured the prosecutor, Kathleen Roussel, director of public prosecutions, was insulated from most, but not all, of the pressure.

It matters to know how much of this would have been any different under Stephen Harper. Not a bit, I would wager, except that Harper would have more effectively done SNC-Lavalin's bidding without anyone being the wiser. Harper would never have put an independent person, willing to place personal integrity above political ambition, in his cabinet. Only Michael Chong has that distinction and he didn't last long. It is the culture of the inner bureaucracy and political elites that matters. I remain unconvinced that Trudeau was calling the shots. It is a complicated tale of an attempt to avoid a trial for serious corruption. It must be heard in open court.

> *During moments of the all-night voting protests of budget week, I became more deeply concerned than ever in the loss of civility.*

Meanwhile, Scheer's reactions have been over the top. He is desperate to keep the SNC-Lavalin matter front and centre. As leader of another political party, and as a parliamentarian who loves and respects our traditions, I think Scheer has appeared a little too desperate. It is certainly appalling that someone who once held the role of Speaker of the House of Commons is so willing to smash codes of conduct through flagrant contempt for our rules. The banging of desks and shouting through the Finance Minister's attempts to belatedly read the budget speech, having tabled it through a hit-and-run point of order, was a serious violation. If Conservatives were to form government, what would the next Official Opposition find a step too far once such mob-like conduct had been advanced by Scheer?

During moments of the all-night voting protests of budget week, I became more deeply concerned than ever in the loss of civility. Even the melee that unfolded in May 2016, when NDP members blocked the aisle to prevent the house leaders from reaching the speaker to start the vote, was not as unnerving as the flashing of hatreds and shouting of March 21, 2019. I had a flash of worry that we would see fisticuffs like the Italian or South Korean parliaments. We need to pull back and ensure our children can watch parliamentary proceedings without shame.

Elizabeth May hopes for a minority Parliament that will bring out the best in everyone: "A girl can dream, can't she?" *Green Party of Canada photo*

Still, the Liberals have courted protest. It was quite wrong to shut down the justice committee investigation without allowing Jody Wilson-Raybould the opportunity to completely address the issues of concern. I am in total sympathy with the Conservatives' goals, as is the NDP. We just dislike the tactics.

The budget does need a serious analysis. It is a pre-election budget with the traditional "something for everyone." Every interest group will find a measure long advocated. For students: a reduction in the interest rate for student loans. For those clamouring for universal pharmacare: the beginnings of something that might get there. For first time home buyers: a partnership-subsidy on the down payment through CMHC. For pensioners: a vague promise to protect pension rights in bankruptcy. For veterans: a step toward removing the clause in the Superannuation Act that denies survivor benefits to people who marry after age 60. On climate: measures that were popular under former Prime Minister Paul Martin, ignored by the Trudeau Liberals since gaining power in 2015, such as rebates for the purchase of electric vehicles and eco-energy retrofits for homes. This commitment is particularly weird. It is a one-time only $1 billion for energy efficiency delivered through the Federation of Canadian Municipalities—which runs out at the end of the 2018-19 fiscal year. These good policies require multi-year stable funding as well as a serious expansion of reach.

The limitations on the pretty package are transparent. Most of the measures, including the $2.2 billion gas tax transfer to municipalities, require legislative changes. The budget requires 35 separate pieces of legislation before implementation. Given that parliament has not yet seen these at first reading, getting them through House and Senate before the end of June is highly unlikely. The warm and friendly measures are then held hostage, pending Liberals being re-elected.

The best of the climate measures are still woefully short of what is urgently required for Canada to begin to do our fair share of the heavy lifting to ensure the survival of human civilization. Our target for GHG emissions remains unchanged from Harper's target. It is the weakest in the industrialized world. Even the United States under Trump is reducing emissions faster than we are. Humanity is on a collective path to extinction. Canada could still play a role of global leadership, but we have abdicated responsibility, if not rhetoric.

And so, I look forward to the 2019 election. Green MPs, ethical and hardworking, are collaborative. My hope is for a minority Parliament that brings out the best in all of us. A girl can dream, can't she? P

Elizabeth May is leader of the Green Party of Canada.

Do His Budgets Give Trudeau a Progressive Case?

Justin Trudeau's breakout political gamble of the 2015 election campaign was to switch fiscal lanes with the NDP by eschewing restraint for deficit spending. It paid off. Now that all four of his government's budgets are history, are his progressive credentials intact, or can Jagmeet Singh reclaim the NDP's traditional territory? Former NDP party president and long-time strategist Brian Topp explores the policy particulars.

Brian Topp

Justin Trudeau earned a respectable majority in 2015 because of both who he was and who he was not, and the progressive change he promised. But he won't be able to run that campaign again. In that campaign, Trudeau wasn't his opponents—two older men proposing to stick with Mr. Harper's old, unpopular austerity policies. But both are now gone.

In 2015, Trudeau was relatively young, positive and exciting—down to his thematic novelty socks—all of which represented welcome change and striking contrast. But as was the case with the Trudeaumania that propelled his father in 1968, celebrity excitement about a political figure has a short shelf-life. This year's controversy over the prosecution of SNC-Lavalin reminds us how the business of governing (and the serious mistakes associated with it) inevitably tarnishes celebrity political appeal. Which leaves the Trudeau government's progressive policies, and whether or not sufficient groundwork has been laid for the classic re-election campaign of a first-term government: Much has been done, but much is left to do; send us back to finish the job.

What progress has been made? The key initiative the Trudeau government took on these issues was Finance Minister Bill Morneau's substantial reinvestments in Canada's child tax credit. That is a program with a fairly long history. The federal government has been giving families a helping hand for a long time. The Federal Family Allowance was legislated in 1944, making payments by highly visible cheque to all women with children under the age of 16 who attended school. Austerity budgets during the late Trudeau-the-Elder and Mulroney years shrunk the program. But it got a second look in 1998, re-emerging in its modern, much less visible tax credit clothing as the Canada Child Benefit Initiative. This program, which re-packaged and topped up existing tax credits, launched with a budget of $6 billion.

It proved to be highly resilient. Prime Minister Harper rarely spoke about inequality or new national social programs. But he made a reformulated Universal Child Care Benefit the centrepiece of his own social policy work (along with a laudable emphasis on "housing first" in efforts to combat poverty)—steadily reinvesting in it, side-by-side with a plethora of regressive tax expenditures. And then, to their credit, Prime Minister Trudeau 2.0 and Finance Minister Morneau built on that work. In his 2016 and 2018 budgets, Morneau reformed and substantially reinvested in the rebranded Canada Child Benefit—now a $23 billion program. Mr. Morneau spelled out the results in his fall 2018 economic statement. The Canada Child Benefit, Morneau argued, has lifted over 500,000 people out of poverty, including 300,000 children—dropping the number of Canadians living in poverty from over 12 per cent in 2015 to a bit more than 9 per cent in 2019.

That is a 25 per cent cut in the poverty rate.

Mr. Morneau's 2019 budget, astonishingly, was titled "Investing in the Middle Class". Without a doubt, its most important and welcome move was about $1.5 billion more a year to improve indigenous services—an incremental increase on spending increases announced last year.

Otherwise, the government wanted to underline its commitment to addressing inequality—within its help-the-middle-class frame—by speaking to the justified concerns of first-time housing buyers about affordability, and concerns that seniors have about their income levels in retirement. So, to make a long story short, lower- and middle-income first-time home buyers got help with their down-payments—particularly those remarkable unicorn buyers who combine low incomes with large RRSP savings they can now borrow more from. Seniors benefited from some tweaking to the Guaranteed Income Supplement rules.

Jagmeet Singh and his NDP caucus attacked the 2019 budget for its omissions: no real progress towards universal public pharmacare; no action on tax evasion and tax havens; no protection for workers' pensions in bankruptcies; no tax fairness from internet giants; no action to increase the supply of housing (the only real way to make housing more affordable); nothing on childcare.

So, after four years of help being on the way for the middle class, most of it focused on building the Canada Child Benefit:

Are these good efforts? Yes, they are.

Are they a roadmap to a fundamentally more equal (dare we say "just") society in Canada?

No, they're not.

We would be in a worse way today without the Canada Child Tax Credit. But the hard facts of wealth distribution in Canada since the 1980s—when Canada chose to join the era of Reagan-Thatcher regressive taxation and austerity—remain. Consider this chart, from the paper *Haves and Have-Nots: Deep and Persistent Wealth Inequality in Canada* by the Broadbent Institute (I'm a member of their board, full disclosure):

The top 10 per cent of Canada's population own almost 60 per cent of Canada's wealth, excluding pensions, which are deferred income most people will draw in sip cups (it's 50 per cent if you price in pensions). Meanwhile, 60 per cent of the population of Canada own, comparatively, nothing. This is an abstract way to talk about lives lived from paycheque to paycheque; of kiting between credit cards; of working multiple precarious jobs—the daily experience of far too many Canadians. "Progressive policies" that are about nibbling at the poverty rate haven't changed this reality of inequality in Canada in any fundamental way.

To use the Liberal frame—the middle class is still under siege.

Social democrats would argue that what we need is a return to true progressive taxes and a wealth tax in Canada—and an appropriate redistribution to the poor and the working poor. And also a decisive enhancement of public pensions in an economy in which a generation of workers is nearing retirement on precarious defined contribution plans, with a generation following behind them with no private pensions at all. And also a hard, determined run at racialized poverty—which in Canada centres on First Nations, Métis and Innu people. And also, some determined federal-provincial work to roll back precarious employment in all of its forms—that blight on the lives of young and immigrant workers, especially women.

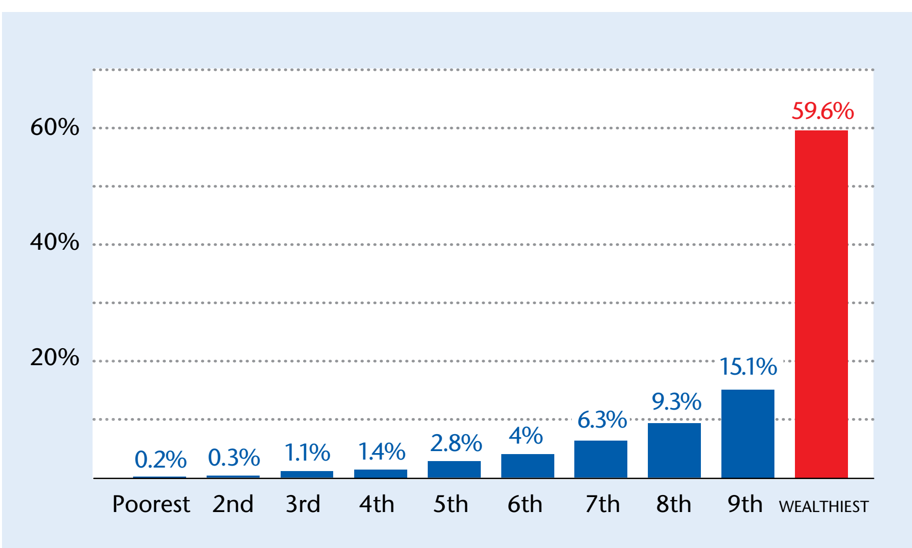
After four years of self-defined progressive government, we remain in a reverse-Robin Hood fiscal regime that transfers wealth from the poor to the rich, in part through public debt, who owns it, and who pays it off in a regressive tax system. We are standing by and watching while the private pension system phases itself out. We are largely standing by and watching while multi-generational poverty besieges Canada's first peoples. And we are standing by and watching while the future of work promises our children less—possibly much less—prosperous lives than their parents enjoyed. Hardly a formula for reinforcing the middle class.

Four progressive budgets later, the social and political consequences of these facts give the Conservative Party its opportunity. Mr. Scheer, his party, his provincial co-religionists, and his third-party allies are creeping towards the same vicious rightwing populism blighting the politics of Europe and America. Their audience is the army of the dispossessed you see in those charts. People who see no benefit in big-government tinkering with the status quo. The same people who were looking for hope in 2015, and found it in Mr. Trudeau's talk about inequality and the reinforcement of the middle class.

Just possibly, Jagmeet Singh (in the very first months of his elected federal career) will do to Mr. Trudeau what Mr. Trudeau did to Mr. Singh's predecessor, and judo-throw him into third party status, replacing him at the head of Canada's progressive majority. Otherwise Mr. Trudeau might be needing one bull moose of a new offer in 2019 to ward off the populist right, and the deeply regrettable opening that still lies before it. P

Brian Topp is a former President of the New Democratic Party of Canada. He served as Jack Layton's national campaign director in 2006 and 2008. He was director of research and deputy chief of staff to Saskatchewan Premier Roy Romanow, and was chief of staff to Alberta Premier Rachel Notley.

Distribution of Financial Assets (Excluding Pensions) by Decile, 2012



Source: Broadbent Institute

Indigenous Child Welfare: Closing the Good Intentions Gap

Just days before newly-named Minister of Indigenous Services Seamus O'Regan unveiled the Trudeau government's Indigenous child welfare legislation, Bill C-92, in late February, the Institute of Fiscal Studies and Democracy produced its study on the same issue. The author of that study, Helaina Gaspard, writes that there's room for improvement before the bill reaches royal assent.

Helaina Gaspard

Sound budgeting ensures that a country is fiscally solvent and on a sustainable track, aligns spending to declared priorities, and demonstrates results from previous spending. While the Trudeau government has increased both our debt load and program spending, Canada remains in a fiscally sustainable situation (barring major economic shocks).

For this government—especially its prime minister – rebuilding relationships with Canada's Indigenous Peoples has been a defining priority. To this end, there have been several actions indicating an alignment of resources (both financial and human) to priorities. Consider, for instance, Budget 2019's announced $4.5 billion over five years to close the gap between Indigenous and non-Indigenous communities, the Indigenous languages bill, the talk of 10-year grants and new fiscal relationships with First Nations, investments in water infrastructure on-reserve and First Nations early learning and child care. But what about their results? Notwithstanding some significant efforts, progress towards better outcomes must lie ahead.

The recently tabled bill on First Nations, Inuit and Métis children, youth and families (bill C-92) is a step in the direction of change but falls short of a structural shift to alter incentives. The bill does recognize disparities in context and the need for a focus on prevention. It also recognizes jurisdiction for First Nations in child welfare as well as culturally-focused approaches to care for children in their home communities. But there are important gaps. The bill presupposes that funding relationships will be defined with exchanges between the responsible minister and communities seeking jurisdiction. Legislation guarantees a minimum standard. But while there is a requirement for negotiation, there is no clear indication of baseline components of funding, leaving the nature of committed resources up for debate. This offers the potential to negotiate resources to meet community needs but subject to political will and the capacity of the stakeholders negotiating both sides of the agreement. Beyond the allocation of resources, issues such as the duration of the agreement, mechanisms to account for adjustments such as population and inflation and reporting requirements, among others, would be issues to consider when negotiating.

Consistent with the government's other well-intentioned actions on Indigenous affairs, C-92 contains insufficient linkage among investment, performance and outcomes. Current outcomes are all too well-known: Canada's Indigenous Peoples have lower life expectancies, higher rates of infant mortality, suicide, chronic disease, alcohol and tobacco use, and also have lower rates of educational attainment and employment. Canada's Indigenous population is young and fast growing. First Nations populations on-reserve are also projected to grow into the next decade. How will Canada and Indigenous Peoples measure well-being?

> ***"The recently tabled bill on First Nations, Inuit and Métis children, youth and families (bill C-92) is a step in the direction of change but falls short of a structural shift to alter incentives."***

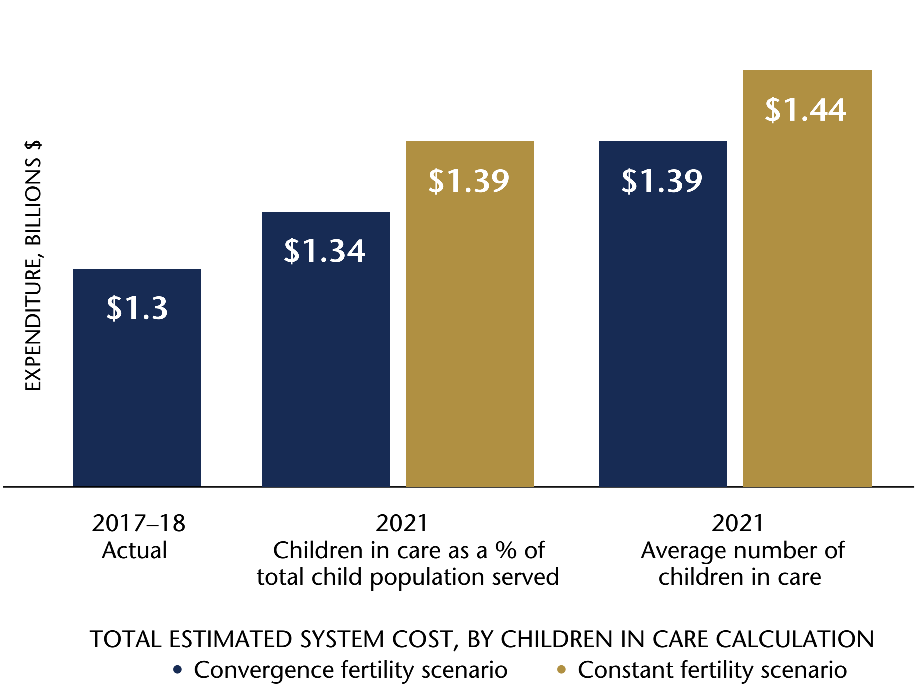
Following the Canadian Human Rights Tribunal's (CHRT) rulings that found the federal government's approach to Indigenous child welfare to be discriminatory, the issue has benefitted from greater investment and attention. The Institute of Fiscal Studies and Democracy (IFSD) released its report on First Nations child welfare (undertaken at the request of the Assembly of First Nations (AFN), the National Advisory Committee (NAC) and the First Nations Child and Family Caring Society), in response to elements of the CHRT's 2018 ruling. The bottom line of IFSD's report is that the cost of the program is growing but it's not delivering results for children. IFSD estimates that current spending on First Nations child and family services (FNCFS) is $1.3 billion. Under a no-policy change assumption, inflation and population alone would drive a total system cost increase of between $40 million and $140 million by 2021, depending on the population scenario assumptions used. To address underlying challenges, structural change is needed.

> *"Indicators such as achieving age-appropriate development targets, learning Indigenous languages, having access to community programming, and a sense of belonging are examples of what should be measured to better understand how children are really doing."*

A program that focuses on results for children is within reach, but it's not about throwing money at a problem. In Budget 2016, $634.8 million over five years was committed to the reform and strengthening of the FNCFS program and an additional $1.4 billion was committed in Budget 2018 over six years. The FNCFS program is currently being funded at its actual cost, although this is meant to be a temporary measure until the federal government reforms the funding structure (note: Budget 2019 funded Jordan's Principle at $1.4 billion over five years, but did not announce new funding for FNCFS). Yet, the number of children in care grows, with a system designed to incentivize the placement of children in care to unlock funding. There can be no expected change in results without a structural change to the way the program is funded.

There are three things the government can do to make meaningful structural change, designed for progress. First, connect funding to outcomes. If the goal of the FNCFS program is thriving children, allocate funding in blocks to agencies and communities so that they can respond to the needs of the people. Block funding also requires accountability for all stakeholders (government, agencies and communities) to report on and deliver results.

Estimated FNCFS System Costs in 2021



Source: Institute of Fiscal Studies and Democracy

Second, measure what matters and be comfortable adjusting in real-time. Thriving children means considering a holistic picture of their health and well-being. Indicators such as achieving age-appropriate development targets, learning Indigenous languages, having access to community programming, and a sense of belonging are examples of what should be measured to better understand how children are really doing and the results existing programs are generating. There should be annual reports to show progress; a five-year reporting requirement is too far into the future to make a difference. To get it right, there should be flexibility to determine what indicators matter and whether they're useful.

Third, recognize that challenges in FNCFS are connected to a host of contextual factors such as poverty, unemployment and housing that won't vanish in a generation. Different communities will have different points of departure. Instead of a single approach, meet stakeholders where they are and work with them to move ahead.

Budgeting in public finance is about more than adding and subtracting; it's about setting a course for action and outcomes. The current government has framed its approach and stated its priorities, they now have an opportunity to demonstrate how they can deliver results. P

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Column / Don Newman

The Downside of Obstruction

The budget tabled on March 19th was designed to change the channel away from the SNC-Lavalin controversy and onto the Trudeau government's plans and promises leading to October's general election.

To further make sure that would happen, on the morning of budget day the Liberals used their majority on the justice committee to shut down hearings and prevent former Justice Minister and Attorney General Jody Wilson-Raybould from returning for a second appearance as a witness critical of the Trudeau government.

But instead of drawing a line under the affair with their heavy-handed maneuvering, the Liberals so enraged the Conservatives that when it came time for the budget presentation the Conservatives devolved into an unruly mob on the floor of the House of Commons. They brought chaos to the Commons to both protest the committee being shut down and also to show their anger at being out-maneuvered by the Liberals so the budget could be tabled.

At the centre of all this objectionable behaviour was the SNC-Lavalin affair. The Liberal majority on the justice committee on the morning of March 19th shut down the committee hearings into allegations by Wilson-Raybould that she was inappropriately pressured by the prime minister and others in his office and government to allow SNC-Lavalin to escape criminal prosecution on bribery charges and instead admit its guilt in a Deferred Prosecution Agreement (DPA). The DPA would allow the company to admit guilt, pay a fine, but still compete for government contracts. Conviction on criminal charges would carry a ten-year ban on competing for government business.

The Conservatives had planned to protest the committee shutdown by delaying the tabling of the budget with procedural tactics. But the Liberals outsmarted them. Knowing the Conservative plans, the Liberals had Finance Minister Bill Morneau quickly table his budget earlier than expected, then leave the chamber. Realizing they had been outsmarted, as Morneau returned an hour later and finally rose to read his budget, the Conservative MPs broke into choruses of catcalls, desk-banging and other disruption that made it impossible for Morneau to be heard. That lasted for about half an hour until Conservative leader Andrew Scheer led most the Members out of the House and Morneau continued with his speech.

The day after the budget was tabled, an "opposition day", the Conservatives triggered a voting marathon, with Liberal MPs and cabinet ministers who would normally have been selling the budget to their constituents and special interest groups by then tethered instead to the House, voting on every single line of the government's spending plans.

The Conservatives obviously thought their strategy to cause a massive disruption followed by a walkout was a winning one. Otherwise, why would they have done it. But both the initial reaction and the history of similar disturbances indicate they could be wrong.

In October 1990, the Senate was considering the legislation introduced by the Brian Mulroney Conservative Government to bring in the Goods and Services Tax (GST). The tax was unpopular and controversial, the Liberals had a majority in the Senate, and on the evening of October 4th, amid heckling and recrimination between the two parties, the Liberal Senators suddenly started parading around the Senate playing kazoos, bringing the proceedings to a halt. At the time, the Liberals thought they had been very clever, but that is not the way the public saw it. Unpopular as the GST was, the childish parading and kazoo playing was even more publicly unpopular. The Liberal Senators were chastened.

And earlier, in March 1982, the Conservatives in Opposition kept the division bells in the House of Commons that call MPs for a vote blaring continuously day and night, stopping the business of the House, deafening anyone nearby and creating a Parliamentary crisis that would take two weeks to resolve. At first, the bell ringing was something of a curiosity. But it quickly became a symbol of time wasting, and public indignation that Members of Parliament were skipping out of work.

The immediate reaction to the Conservative budget meltdown and walkout was similar. Even people who agreed with the Conservatives opposed to the justice committee shutdown thought disrupting and missing out on what arguably is the most important parliamentary day of the year was childish and foolish. As leader of the party and leader of the Opposition, Scheer has been unable to positively connect with Canadians who are not already Conservative Party supporters. This may not help. P

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With both China and Russia newly empowered by Donald Trump's evacuation of American leadership, writes Jeremy Kinsman, Canada needs to help coax both back onto the axis of global cooperation. *Wikipedia photo*

Taking a Breath to Avoid a New Cold War

While much of the world's attention is monopolized by the geopolitical shiny object of Donald Trump, the two players who warrant equally careful consideration are Vladimir Putin and Xi Jinping, whose evolving countries have more in common than many Western caricatures capture. Veteran Canadian diplomat Jeremy Kinsman deftly lays out their crucial similarities and differences, and how the West can move past suspicion to collaboration.

Jeremy Kinsman

Each February, heavy-hitters in international security from both sides of the Atlantic, mostly ex-cold warriors and the guardians of foreign policy conventional wisdom—once dubbed "the blob" by former Obama advisor Ben Rhodes—convene at Munich's venerable Hotel Bayerischer Hof to rake over trends and threats.

After 9/11, concern veered to the long war with jihadists, and chaos in the Middle East. But now the blob's angst is reverting to the old foes of the Euro-Atlantic order: a resentful and reawakened post-Soviet Russia; and a spectacularly risen China, embarked on a transformational competition for global power.

Worry over Russia and China is deepened by anguish over the evacuation of American leadership.

Vice President Mike Pence's talking points put America forward as the staunch leader of the "free world." Traditional allies, bruised by Trump's lying, disruption, and defection from defining international cooperation agreements, sat in stony dismissive silence.

German Chancellor Angela Merkel, who, despite having booked retirement for 2021, remains the West's leadership voice, stood up for the essential vision and practice of global cooperation that Trump's proxies were trashing. Like-minded democracies including Canada are game for her defence of multilateralism and democracy, to push back against populist nationalism.

For Americans, Russia and China are the main adversaries. Though very different, they share some attitudes, notably a coolness to liberal internationalism that reflects resentment that their own interests and revived stature get sparse recognition under U.S.-made rules set decades ago without their influence.

Both exploit competition for global primacy as U.S. domination recedes. In the late 1940s, the U.S. accounted for 50 per cent of the world's GDP. Today, it is about 22 per cent, nearly equaled by China's GDP, which has multiplied 80 times since reforms began in 1978.

Russia is not in China's economic league, but has certainly made a comeback as an international security spoiler.

Of course, the U.S. remains the dominant military force by metrics of hard power assets deployed over multiple strategic platforms around the world. But such hard power is undercut by cheaper and arguably more powerful cyberweaponry that both Russia and China have adroitly deployed at a fraction of the cost.

> ***"Strategic competition is increasingly defined by vastly accelerated 5-G computing capabilities driving the next generation of technological advance. By means fair and arguably unfair, China has caught up enough to challenge American tech primacy."***

Strategic competition is increasingly defined by vastly accelerated 5-G computing capabilities driving the next generation of technological advance. By means fair and arguably unfair, China has caught up enough to challenge American tech primacy.

Backed up by economic and political leverage, the U.S. government proselytizes against the security risks of letting major Chinese telecom competitor Huawei consolidate footholds in western and developing economies.

A negative view of China's rivalry may be the only policy thrust both U.S. political parties agree on. Anti-Russian sentiment rides even higher, though with highly partisan slants because of a split in appraising Russia's influence on the 2016 election. Far from ducking their adversarial roles, Chinese and Russian leaders vaunt them at home, as popular payback for dismissive treatment by the West in the past.

A communications war has prompted phobic narratives to take hold. Scholars and commentators who search for objective truth and understanding amid competing historical narratives, perceptions, and national purposes have been derided even in Canada, as agents of (Russian or Chinese) influence.

We need to recover perspective through a more balanced understanding of respective histories and to develop strategic relationships that can advance the rules of the road, within which wrongdoing on human rights and intimidation of neighbours can be challenged without a megaphone.

Historically, Russia and China experienced seismic communist revolutions that produced totalitarian nightmares, and differing counter-revolutions. Russia's counter-revolution in the 1980s and 90s was unprecedented in the scale and complexity of the task of displacing 70 years of police state control with the openness of *glasnost*. Gorbachev's moral choice was to reform the country's political structures as a first priority, before restructuring the economy.

Reformers undid the communist system but under-estimated the challenge of developing democratic norms and behaviour. The Russian economy contracted by a third—more than the U.S. economy did in the 1930s Great Depression—aggravated by clueless advice on austerity and privatization and inadequate support from the West, ultimately depleting Russian public support for reformers.

Soviet statehood collapsed. A superpower of 500 million, of whom only 50 per cent were Russian, was replaced by 15 ethno-centric republics, stranding 20 million Russians outside the Russian Republic. The relatively peaceful break-up indicated the extent of alienation from the Soviet communist regime, and the strength of revived ethnic nationalism.

That Gorbachev ended the Cold War and ideological competition is not regretted in Russia. But the thought that Russians were the "losers" and Americans the "winners" remains a bitter pill, deepened by belief that NATO countries (with the exception of Germany) discounted the interests of Russians, seeming to consign them to a "failing state" international outbox.

In 2000, disappointment, exhaustion from chaotic "reforms" and increasing violence enabled Putin's inaugural bargain with Russians to set aside civic dispute in return for security and stability. He subtracted newly-acquired democratic space but administered a popular stabilizing economic recovery.

China's overall reform priority had been the opposite of Russia's moral but unmanageable choice of politics before economics. When Deng Xiaoping unleashed economic reforms in 1978 he kept the reins of political control tightly in the hands of the Communist Party, and further tightened them after the Tiananmen protests in 1989. China's subsequent, unprecedented economic rise lifted more than half a billion citizens out of poverty. Now, both economies face problems. Economically, Russia is overly dependent on natural resources. China has massive debt. Growth is slowing in both as the welfare needs of aging populations swell. In both countries, wide income disparities galvanize the toxic issue of unfairness, sharpened by the perception of widespread corruption, though XI has launched a popular if selective anti-corruption drive.

Politically, the triumphalism of both Putin and Xi is more muted. They both invoke worry about internal stability, referencing past violent upheaval to justify tightening controls on dissent, rationalizing that freedoms still exist to a degree unthinkable under totalitarian communism.

But suppression of dissent on open media risks resentment over abuse of power. In both Russia and China, disaffection from professional and urban elites is joined by local protests from citizens frustrated with top-down over-centralization, official corruption, and environmental degradation. Russia still does polling: Putin's approval rating has dropped into the 30s. Both concoct or amplify external threats to boost nationalistic support, appealing to collective memory of historic vulnerability to invasion to rationalize the need for neutralized buffer zones.

Their respective global ambitions are different in scale. Russia wants the respect and influence due a great country. China's grander, epochal vision includes recovering the historic position as a regional hegemon that preceded what it considers the anomaly of European and then American preeminence of the mere last few hundred years. Both refuse to go along with a self-awarded U.S. exclusivity on the international use of force. They are vibrantly hostile to perceived interference and criticism from "hypocritical" democracies they accuse of "missionary" subversion of sovereign rights, including via "colour revolutions" they see as Western-sponsored attempts to weaken them. As nationalists, their view of institutionalized globalism is wary of political bias favouring Western competitors. But they work to enhance their rewards from the system, and reject the American notion they have been "free riders."

> ***"Both countries seem over-extended by risky moves—Russian election interference and the Skripal affair; China's political hostage-taking over the Huawei drama and intimidation of overseas diasporas. Confidence levels may be jarred."***

Overall, China's challenge to American primacy is the greatest geopolitical drama of our age. Though advanced primarily through economics, its military dimension centres on its aggressive claim of a vast territorial sea off its 3,000-mile southern coastline adjacent to vital shipping lanes, buttressed by military deployments meant to deny American access to waters the U.S. Navy has considered since 1945 to be akin to a vast "American lake."

Both countries seem over-extended by risky moves—Russian election interference and the Skripal affair; China's political hostage-taking over the Huawei drama and intimidation of overseas diasporas. Confidence levels may be jarred. Putin and Xi might be chuffed by a recent Gallup world poll showing both are more trusted internationally than the U.S. But they have to factor in the costs of growing public animosity in Europe and North America. Can we foresee some moderation? If so, how does the internationalist West engage with them?

We need candid discussion with and about Russia and China. They know the score and know they aren't making the gains they were a few years ago. While both sought advantageous transactional deals with the U.S., they basically rely on an interdependent and predictably stable world institutional system, which is our aim as well. We need to lower the temperature and hope for the moderation of phobic and defensive public opinion on all sides.

Canada's recent loss of productive relationships with both Russia and China is their loss, ours, and the international community's since there are no solutions to multiple international stalemates without Russian and Chinese cooperation, including the conflict with Ukraine. So, when the blob returns to Munich next February, and in discussion everywhere between now and then, the dominant challenges will be how to mute the nationalist static now in the world's ears, and how to coax the world community, including Russia and China, back onto the axis of essential global cooperation. P

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A Choice for Humanity

Donald Johnston followed a successful political career in the upper echelons of Liberal governments in Canada with an equally successful career as a senior member of the international economic policy community as secretary general of the OECD. Two years after the publication of his book Missing the Tide: Global Governments in Retreat, Johnston presents a clarifying choice at a time of global disruption.

Donald Johnston

In 2003, the distinguished British scientist Sir Martin Rees published his seminal work, *Our Final Century: Will the Human Race Survive the Twenty-First Century?*

In it, Rees lists the many ways by which humankind could engineer self-destruction. Nuclear conflict is one, but in an increasing number of areas, such as uncontrolled technologies, there are others. He suggested that civilization had a 50-50 chance of surviving into the 22nd century. Coming from one of the most respected scientists of his generation, it is not surprising that his conclusions had a shocking impact on many of us. In his 2018 book, *On the Future: Prospects for Humanity*, while not discounting the prospect of catastrophic events of our own creation, Rees concludes on a more optimistic note:

"Now is the time for an optimistic vision of life's destiny—in this world, and perhaps far beyond it. We need to think globally, we need to think rationally, we need to think long-term—empowered by twenty-first-century technology but guided by values that science alone can't provide."

In 2003, I was skeptical of Rees's doomsday prediction; I am much less so today as we complete the sec ond year of the Trump administration. In 2017, I published a book titled *Missing the Tide: Global Governments in Retreat.*

> ***“In the 1990s, it was difficult not to be optimistic in almost every area of economic and social concern, including climate change, which we saw on the road to resolution with the Kyoto Protocol of 1997. How wrong we were.”***

I wrote the book because during my decade-long tenure (1996-2006) as Secretary General of the Organisation for Economic Cooperation and Development (OECD), which straddled the turn of the millennium, I began to see the world suddenly denying itself the wonderful opportunities offered by the extraordinary multilateral architecture carefully constructed by enlightened and visionary world leadership in the wake of World War Two. But the history of this century since the 1990s is littered with failures to seize those opportunities. They run the gamut from securing global peace and close cooperation after the collapse of the Soviet Union to resolving the seemingly intractable challenges of the Middle East with the initial promise of the Arab spring to combating climate change and increasing global growth through the benefits of globalization in trade and investment while fighting poverty by bringing the developing world into the mainstream of international commerce.

In the 1990s, it was difficult not to be optimistic in almost every area of economic and social concern, including climate change, which we saw on the road to resolution with the Kyoto Protocol of 1997. How wrong we were. The pessimistic views I expressed may have been controversial when I wrote the book because we had not yet witnessed the destructive impact of Donald Trump. A bull in a global china shop, Trump is attempting to destroy institutions whose reasons for existence and importance he clearly does not understand and which he may never have heard of before he entered the White House.

David Ignatius, the respected national security columnist for the *Washington Post*, wrote this blurb for my book's cover which captured the essence of my concerns in 2017:
"Don Johnston has written what he rightly calls the 'true but tragic story' of how the United States and its allies squandered their chance to build a better world in the 1990s. Published as Donald Trump takes office, this compelling memoir by the former Secretary General of the Organization for Economic Co-operation and Development will be painful reading. It's a story of bungled opportunities to draw Russia, Turkey, and other problem nations of the twenty first century closer to the West. Most of all Missing the Tide is the sad story of how the United States lost its luster as a true superpower, 'magnanimous and fair'. All the wisdom that Johnston accumulated in his ten years of running the OECD is

shared in this book to help leaders catch the tide if it ever returns."

As concerned as I was when I wrote the book, the potential scenarios now imaginable under the erratic, incoherent U.S. leadership of Trump have driven me to despair over our collective future. This future is revealing itself as much more dangerous, even potentially apocalyptic. Will generations to come enjoy the benefits of the better civilization we have dreamt of? I am doubtful. I see the world today much like my country fireplace loaded with kindling waiting to be lit. All it takes is a match. There are many matches out there. Many more than when I wrote my book. Look at just one area:

The world is witnessing a revival of the Cold War, with the West increasingly pitted against China and Russia. From a military point of view, the U.S. may have already lost its military superiority according to a high-level U.S. internal expert report. The management of the world is falling into the hands of "strong men" with democracy under attack across the globe. The U.S. under President Trump is facilitating that dangerous trend by saluting tyrants for their autocratic tactics while withdrawing the U.S. from its global leadership role. The World Trade Organization, the United Nations, perhaps NATO and the Bretton Woods institutions—the International Monetary Fund and the World bank—are said to be on his short list for elimination or neutering. This is being warmly welcomed by China and Russia, who see themselves replacing the U.S. both militarily and economically.

"I have listened to informed representatives of both China and Russia expressing satisfaction with this weakening of U.S. global power and influence. The implications for such a transfer of geopolitical power to non-democracies are colossal."

China will soon be the world's largest economy. While its per capita GDP will not match that of the U.S.—or of most OECD members—for some decades, as the largest economy it will begin to dictate the rules of the game in trade, investment and financial services regulation. These were areas traditionally dominated in the post-industrialized world first by Britain, then, for most of the 20th century, the U.S.

The world is witnessing a revival of the Cold War, writes Donald Johnston, partly facilitated by Donald Trump's leadership in the United States. *Adam Scotti photo*

I have listened to informed representatives of both China and Russia expressing satisfaction with this weakening of U.S. global power and influence. The implications for such a transfer of geopolitical power to non-democracies are colossal. At a time when we are dealing with such existential threats to humanity as climate change and the potential for nuclear weapons to fall into the hands of terrorists, the cost of a shift away from multilateralism and the rules-based international order toward an unaccountable, dangerously opaque replacement could be incalculable.

The world urgently needs to address threats to democratic governments and to constructive capitalism. We need to tackle the menace of corruption, contagious epidemics and other global problems I spent a decade dealing with in coordination with the heads of other multilateral institutions and the frontline diplomats, researchers, doctors, lawyers, economists, peacekeepers, volunteers and other experts whose work on behalf of humanity they support and defend.

We have a choice to make between the dystopian warning Martin Rees issued in 2003 and the more optimistic, values-driven clarion call he delivered last year. And while that choice is an either/or proposition, that it must be made at all is a challenge for generations to come. P

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Letter from Davos, 2019: Trade, Trust and Trump

Every year, global thought leaders gather in the Swiss Alps to address the world's most pressing problems. This year, the unprecedented connectedness, complication and consequence of recent global disruption registered at Davos in the form of no-shows and a consensus deficit. In what has become an annual Policy tradition, former Clerk of the Privy Council Kevin Lynch filed this dispatch from Davos to break it all down.

Kevin Lynch

What a difference a year can make. Last year, a buoyant, synchronized global expansion set an optimistic mood at Davos, President Emmanuel Macron of France was confident that the battle against populism was turning, Britain was expected to muddle through on Brexit, President Donald Trump's speech gave some hope that his tweet was worse than his bite, and China was still basking in the glow of President Xi Jinping's 2017 Davos address in which he assumed the mantle of self-described protector of globalization.

This year, Davos was searching for how to bring order to a suddenly disorderly world. The slowing of global growth, the rise of economic risks, the possibility of a U.S.-China trade war, the utter folly of Brexit, and perceived inaction on climate change shaped a much gloomier mood. "Globalization 4.0" was the nominal theme this year but, given today's global disruptions and uncertainty the annual gathering in the Swiss Alps had limited success in developing a compelling narrative and concrete path forward.

While Davos 2018 was notable for its parade of political leaders, the pickings were slimmer this year. These absences were unfortunate because a splintering world needs dialogue, not isolation. But it was the year for a greater diversity of voices, including business and civil society, who tackled a range of issues such as: the environment; the corporation's role in society; disruptive technology's impact on work and workers; and the treatment of data, fuel of the digital world. A sense of urgency around climate change and the environment was evident in the 2019 survey of Global Risks. Of the top 5 global risks identified, three related to environmental concerns (extreme weather, failure of climate change mitigation, and natural disasters) and two related to data concerns (data theft and cyber-attacks).

While Trump was not in Davos, his tweets, words and deeds were never far from the chatter of those who were. American foreign policy was described as "more unilateral than bilateral, more bilateral than multilateral, and more transactional than strategic." Many voices argued that, while President Trump may not understand the benefits of global trade for American prosperity (the biggest winners from globalization in recent decades have arguably been American consumers and Chinese workers) and for U.S. security, he does grasp what drives populism and votes. Picking up this theme, Edelman CEO Richard Edelman argued that powerlessness ("the power is where you are not"), fear ("someone or something (robot) taking your job) and economic pessimism (only 1 in 5 Americans believe "the system is working for them")—are all powerful fodder for populist politicians.

The push back against infotech continued again this year, with the underlying concerns—around data privacy and usage, the virtual monopolies these digital tech platforms provide to infotech giants, and the potential for systemic abuse through data manipulation—continuing to fester. Broadening the debate, new voices argued that income inequality is an under-appreciated risk from tech-driven growth, while others stressed the risks of digital inequality. Davos, like stock markets, was lukewarm on the infotech titans this year.

The enthusiasm of previous years around the potential of the Fourth Industrial Revolution is being tempered by the angst it is generating about the future of work and workers according to Rana Foroohar of the *Financial Times*. She presented a fascinating statistic: that 68 per cent of children currently in kindergarten will work in jobs that don't exist today. On the increasingly urgent issue of workforce reskilling, the "war for talent" has moved from the C-suite to the entire workforce.

How did Davos 2019 do in tackling its objective of shaping a new global architecture in the disruptive age of the Fourth Industrial Revolution? While progress was unsurprisingly modest, the four days of speeches, discussions and debate did surface fresh perspectives on a number of pivotal issues. To highlight just a few:

Slowing global economy: The International Monetary Fund (IMF) unveiled its updated World Economic Outlook, with Christine Lagarde delivering a “slowing but still growing” economic message to the Davos faithful. Trade activity, business sentiment and corporate investment plans have all softened, combined with a fading U.S. fiscal boost and headwinds in China. Chances of a recession in 2019 are viewed as limited, but risks to the global economy have escalated. Paradoxically, the key economic risk was identified as politics—a U.S.-China trade war, a no-deal Brexit, a sharper-than-expected slowdown in China, and rising geopolitical tensions.

Across Western countries, according to the IMF, the above-trend cyclical growth of the last several years will fall back to potential growth rates, and that potential has declined in most countries including Canada for structural reasons. Canadian growth is expected to fall from 3 per cent in 2017 to 1.9 per cent this year and next, with risks to the downside. In the U.S., economic growth is pegged at 2.5 per cent this year and only 1.8 per cent next as the 2018 stimulus wears off and stock buybacks substitute for capital investments. Eurozone growth will manage a tepid 1.6 per cent while the U.K will be lucky to achieve 1.5 per cent, with downside risks to both in the case of a messy Brexit. Even the global growth engine, China, is expected to expand by 6.2 per cent—huge by Western standards but anxiety-inducing for both Chinese leaders and global capital markets.

Trust issues: Trust is the soft infrastructure of effective economies and successful societies. Trust has been on the decline for some time but the financial crisis of 2008 marked a turning point, prompting a sharp rise in distrust. In 2018, a majority of Western countries, including Canada, registered trust deficits—less than 50 per cent of the population expressing trust in government, business, media and civil society.

The 2019 edition of the *Edelman Global Trust Barometer* was a fixture of many Davos discussions. The good news is that there was a modest rise in trust in 2019 across the 27 countries that Edelman surveys, and Canada shifted out of the trust deficit group: 54 per cent of Canadians now trust our core institutions. Digging deeper into the 2019 results, the trust gap between elites and the general population is at record levels. There is also a worrisome economic pessimism in Western countries: the percentage of the general population who believe they and their families will be better off in 5 years was only 34 per cent in Canada, under 30 per cent in the U.K., Germany and France. While the media is still distrusted, there is a split emerging: trust is rising for traditional media (65per cent) but plummeting for social media (34 per cent).

For the corporate sector, a majority (56 per cent) now trust business and, not unrelated to the Davos dialogues this year, a sizeable majority (76 per cent) are looking for leadership from corporate CEOs in tackling societal problems and communicating about the values of their firms.

Globalization 4.0: trade, technology and protectionism: Trade growth has been flagging since the 2008 financial crisis while broad-based trade liberalization stalled after the Uruguay Round (1994) and China’s accession to the World Trade Organization in 2001. Regional trade agreements kept up some momentum until Trump pulled the plug on Trans-Pacific Partnership and demanded the renegotiation of NAFTA. The real game changer has been that U.S. shift to outright protectionism.

The U.S.-China trade dispute is playing out on various levels, hampered by misreadings on both sides. The U.S. underestimated how committed President Xi was to China asserting its global leadership in many fields. Vice President Wang Qishan made it clear at Davos that innovation-driven growth is China’s strategy to improve living standards and competitiveness, and globalization 4.0 must allow technology to move freely across countries without walls.

The Brexit fiasco played out in real time in Davos, with Brits in disarray and Europeans clearly tired of the whole thing. The FT’s Martin Wolf, ubiquitous at Davos, quipped that the only winner from Brexit is President Putin.

What does all of this mean for the global trading system? There was a broad consensus at Davos that the WTO needs reform urgently to become more responsive and effective. Japan offered to play a leading role in WTO reform, with the clear support of Germany.

Corporate purpose: Global business leaders such as BlackRock’s Larry Fink headlined many discussions re-examining the role of the corporation today with respect to employees, to communities in which they operate, to the environment and to tackling climate change. Fink certainly believes that corporate purpose should be thought of as broad, not narrow. European business leaders were more united in their view of an expanded role and purpose for corporations compared to their American counterparts. One CEO, attempting to drive to some conclusion, channeled Nike: “Just do it!”

Davos 2019 reflected the conflicting forces at play in today’s fractured world. The slowing but still growing global economy suffers from weak productivity, aging demographics, rising inequalities in income, wealth and opportunity and a worsening global environment—all of which limit its sustainability. The corrosive forces of nationalism, protectionism and populism are still alive, and need to be tackled going forward. Opposition to globalization has moved from the fringes to become a driving force of populism, and supporters of globalization have to make it work better for those it disrupts.

A key part of creating a shared future in an interdependent world is establishing the rules of the game for how globalization will work in a multi-polar world in the midst of a technological revolution. At last year’s Davos, a frequently employed metaphor attributed to John Kennedy was “the time to repair the roof is when the sun is shining.” A year has passed, clouds are gathering and few repairs have yet to be undertaken. P

Contributing writer Kevin Lynch, vice chair of BMO Financial Group, is a former clerk of the Privy Council and a former deputy minister of Finance.

Is Electoral Reform Dead in Canada?

After attempts at both the federal and provincial levels to replace Canada's first-past-the-post electoral system with a more democratically representative alternative, electoral reform may have exhausted its momentum. As former B.C. MLA David Mitchell writes, Prince Edward Island's referendum in April may be the last chance for a breakthrough.

David Mitchell

After the Trudeau government abandoned an effort to overhaul Canada's electoral system in 2017, reform advocates turned their sights to British Columbia. In the wake of last fall's referendum, which produced a 61.3 per cent result in favour of the current first-past-the-post system, it's quite possible that the dream of changing the voting system in Canada is dead, at least for the foreseeable future.

Electoral reform has long been a cause among some policy aficionados, especially in parliamentary democracies with multi-party systems. The impetus for change springs mostly from a desire for fairness. After all, why shouldn't our elected bodies be represented according to the expressed wishes of the electorate? Why are Canadian governments routinely elected with less than a majority of votes? How are majority governments sometimes formed in our parliaments and legislatures with fewer than 40 per cent of the popular vote? And why is it that parties winning the most votes don't always have the right to govern?

These questions understandably give rise to efforts to change our system. Proponents of reform advocate for methods used in other jurisdictions that seek to elect representatives in a manner proportional to the votes cast by the electorate. Sounds reasonable, right? In Canada, however, it turns out to be easier said than done.

For more than a generation, partisans, academics and activists have advocated, sometimes stridently, in favour of reform. Several national and provincial organizations have also promoted the idea of fairer voting in Canada. Opponents of reform have argued that the status quo has long served Canadians well by providing generally stable government. In addition, some have insisted that such a fundamental change to our democratic franchise should first require public approval in the form of a referendum. Some claim that such a referendum needs a super-majority of 60 per cent approval in order to legitimize changes to our voting system.

British Columbia was the first to succumb to this unfounded notion. In 2005, a referendum was held in conjunction with a provincial election to determine whether or not to adopt a single transferable vote system. This had been recommended by a specially-convened Citizens' Assembly on Electoral Reform. Although none of the political parties campaigned in favour of the change, the referendum garnered strong support, with almost 58 per cent of British Columbians voting in favour. This fell just short of the 60 per cent approval target.

As it turns out, the 2005 B.C. referendum would be the highest indication of support yet seen for electoral reform in Canada. If not for the supermajority requirement, viewed by many as unfair and unnecessary, B.C. could have become the modern Canadian test-case for reforming voting systems. Instead, in the aftermath of the narrow defeat, the provincial Liberal government promised a second referendum on electoral reform. This took place four years later at the time of the next provincial election in 2009 and resulted in bitter disappointment for advocates of change, with fewer than 40 per cent of voters this time in favour of reform.

So far, two other Canadian provinces—the smallest, Prince Edward Island, and the largest, Ontario—have flirted with electoral reform via referendum. P.E.I.'s first referendum was held in 2005, garnering only 36 per cent approval. In 2016, a nonbinding plebiscite resulted in a vote of 52 per cent in favour of changing the voting system to mixed-member proportional representation. However, primarily due to low voter turnout, the plebiscite was not considered to be a clear expression of the will of the populace. The government of P.E.I has now committed itself to another referendum on the matter, with the question on the ballot of the provincial election to be held on April 23 this year.

The province of Ontario followed the referendum route on electoral reform in 2007. This was preceded by the formation of a Citizens' Assembly, similar to the one convened in B.C., which recommended a mixed-member proportional system of voting for the province. The ensuing referendum campaign was chaotic with a paucity of clear information on the proposed new system and confusion or indifference from the major political parties. Not surprisingly, the recommended change received the support of fewer than 37 per cent of Ontario voters.

Perhaps thankfully, the federal government never got to the stage of what might have resulted in a national referendum on electoral reform, as the consultation process on the promised reform was flawed and the parliamentary committee reviewing the matter was dysfunctional. In spite of the fact that following the last federal election, Prime Minister Justin Trudeau had declared that "2015 will be the last election under first-past-the-post", this major policy commitment was ultimately abandoned. The official reason, provided in the Prime Minister's mandate letter to his then new minister of democratic institutions, Karina Gould, in February 2017, was that "A clear preference for a new electoral system, let alone a consensus, has not emerged."

So where did that lead us? Back to B.C.

The May 2017 B.C. provincial election resulted in an extraordinarily polarized legislature, with an alliance between the NDP and Green Party narrowly securing an opportunity to form a government. Both parties had campaigned in favour of electoral reform, by then a seeming staple in B.C. politics. The two leaders signed an agreement to cooperate, including a commitment to put the question of electoral reform to yet another referendum. And the agreement stipulated that, contrary to past practice, both parties would actively campaign in favour of changing the voting system to proportional representation.

Following a controversial campaign, the actual voting took place by mail-in ballot between October 22 and December 7, 2018, with an additional week extension because of a Canada Post labour dispute. While more than 40 per cent of eligible B.C. voters cast ballots in the referendum, that seemed like a less-than-inspiring turnout for what was presented as significant democratic reform. But those in favour of maintaining the status quo triumphed decisively, with 61.3 vs. 38.7 per cent support.

For the third time, British Columbians have now voted by referendum to maintain the first-past-the-post system for provincial elections. And no one appears to have the appetite to try again. Surely this represents a stake in the heart of electoral reform.

> ***"Quebec's new CAQ government, led by Premier Francois Legault, has also promised to reform that province's electoral system. However, given the experience of other Canadian jurisdictions to date, it would be unwise to expect too much from such a pledge."***

It's worth noting that Quebec's new CAQ government, led by Premier Francois Legault, has also promised to reform that province's electoral system. However, given the experience of other Canadian jurisdictions to date, it would be unwise to expect too much from such a pledge.

Of course, there's always the possibility that P.E.I.'s forthcoming referendum might deliver a different outcome. And maybe it would be appropriate for a smaller province to succeed where others have failed. In fact, reform at the local government level appears more plausible than in larger jurisdictions and at senior levels of government, which are more complex by their nature. For example, the Ontario provincial government has passed legislation allowing municipalities to change their own electoral systems, with some experimentation already taking place—and without any requirement for referendums.

Indeed, this is the real moral of the story: an effective way to kill any proposed reform of our electoral system is to argue that a referendum is necessary to approve such a change. The forces of resistance, conservative defenders of the status quo and various assorted mischief-makers can be counted upon to vigorously oppose almost any initiative emanating from governments today. It's an unfortunate legacy of the so-called "direct democracy" that first emerged in Canada in the 1980s, based on a distrust of institutions of governance, including elected representatives. The impulse still lingers in our politics and doesn't serve us well.

What most people don't realize is that electoral systems can and have been modified without resorting to a referendum. This is the case in several countries that have moved toward different forms of proportional representation. It's far from perfect, but that's how our system of governance is actually designed to work. **P**

David Mitchell is a political historian, former B.C. MLA and currently serves as President & CEO of the Calgary Chamber of Voluntary Organizations.

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Ottawa ⟷ Québec	Jusqu'à 8	482 km	**5 h 39 min**	4 h 47 min	510 $	**48 $**	462 $
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* Donnée issue d'une application de voyage en date du 22 mars 2019, à 17 h.

** Le coût du voyage en voiture est calculé selon la formule suivante : coût en $ du voyage en voiture (taux de 0,58 $/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 en $ du voyage en voiture – coût en $ du voyage en train = économies en $ pour le contribuable.

Before the Bell
SIXTH ESTATE

THE REVIEW

MAR-APR 2019 VOL 2 ISSUE 2

Finding solutions to ocean plastic

It's all about the environment

Building bridges in trade

Gearing up for an election in 2019

SENDING OUT AN S.O.S

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FROM THE EDITOR

I forgive you if you mistook the cover to reflect the current state of politics in Canada. And while you may construe this as an S.O.S. from the government, this edition of The Review covers ocean plastics, climate change and shifts in the geo-political landscape.

Dealing with climate change and the environment is a key issue for Canadians. An Abacus Data poll shows that 74% feel this is very important or important to them. And this transcends party lines.

So with that we begin with coverage of a Before the Bell Spotlight session on plastic waste. Dale Smith highlights the issue and its importance in Breaking the Mold: Getting to Zero Plastic Waste.

Staying on the same theme, we examine broader impacts on the environment and climate change. Featured on Before the Bell on what actions to take were an array of opinions that included Elizabeth May MP leader of the Green Party of Canada. Dale Smith gives us a full account of those opinions in Before the Bell Talks Climate Change and the Environment.

Next, Bob Masterson, president and CEO of the Chemistry Industry Association of Canada, argues that chemistry has an important role to play in addressing climate change.

Shifting the discussion to international trade Before the Bell looked at all the changing rules. A panel of government and trade experts shared their thoughts on the matter. Read Dale Smith's piece called International Trade: New Sandbox Rules.

Finally, Joy Nott a partner with KPMG and international trade expert, gets into a little more depth on the challenges being faced by companies. Read her piece called New Trade Rules in the Sandbox.

Canadians worry about these issues. They see the impacts and are demanding action from government. And despite the current political challenges Prime Minister Trudeau faces today, these issues will be front and centre in the upcoming election. And we hope the political leadership of all parties read this bottled message and can hear the S.O.S. Canadians are sending out.

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Breaking the mold:
Getting to Zero Plastic Waste

BY DALE SMITH
Sixth Estate

With the recent attention being paid to the issue of single-use plastics and pollution, the federal government has been turning its attention to their reduction and eventual banning. Industry figures say that nearly 80 percent of post-consumer plastics go to landfills, and it is estimated that by 2050, there could be more plastic in the ocean by weight than fish. At a Sixth Estate Spotlight event, host Catherine Clark led a discussion with stakeholders about the changing landscape when it comes to plastics.

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Isabelle Des Chênes, executive vice-president of the Chemistry Industry Association of Canada, noted that the public has rightly been concerned about the issue, and pointed to this year's G7 process that resulted in the Oceans Plastics Charter, as well as a recent unanimous vote in the House of Commons on plastic pollution in aquatic environments.

Des Chênes said that her organization conducted a survey of 1500 Canadians over the summer to gauge their perceptions on plastics, and nearly nine in ten Canadians feel that plastics are the worst possible materials for the environment.

"As manufacturers of plastic resin and plastics, we find this incredibly alarming, and it speaks to how much we have to educate the public as an industry, and to work with governments on that education to let people know about the benefits of plastics to society and to the environment," said Des Chênes.

During the panel discussion, Christopher Hilkene, CEO of Pollution Probe, said that while much of the attention has been focused on ocean plastics, leading people to believe it's a developing world issue, the concentration of microplastics found in parts of the Great Lakes is significantly higher than in oceans.

"We resist the temptation to turn a complex issue into a bumper sticker, so we reached out to NOVA Chemicals and the governments, other environmental groups and academics, and we started these forums about the problem," says Hilkene. "There's a lot of tools on the table — bans are one of them, but whatever you do, you have to have them properly constructed and framed to get them right."

Hilkene says the solution is to create a "circular" economy that is large enough to have a market and value for post-consumer plastics so that they can be recycled indifferent ways.

Ken Faulkner, director of government relations for NOVA Chemicals, says that trying to make products like stand-up pouches recyclable, because they are layered plastics, is more difficult than it may seem.

"It sounds really simple, but it's not," says Faulkner. "It takes a lot of effort, it takes a lot of money. We have about 250 researchers in Northeast Calgary who work on issues like this on a daily basis, and it is something that is very difficult to crack as a solution, but that is one example of where we're trying to make a contribution to ensure that our products are designed sustainably."

80%

of post-consumer plastics go to landfills, and it is estimated that by 2050, there could be more plastic in the ocean by weight than fish.

Faulkner added that they are trying to also establish a "circular" economy in countries like Indonesia.

Ryan L'Abbe, vice-president of operations at GreenMantra Technologies, said that their catalyticde-polymerization technology breaks down plastics into smaller components that can be turned into things like asphalt roofing shingles and road materials in countries that don't have access to their own fresh asphalt.

"We believe that we're making a significant change in the world because we're finding an end-use for plastics," said L'Abbe. "You need to have demand for recycled plastics for the entire circular economy to survive, and we need to focus most of our time to creating that demand."

L'Abbe added that the changes in China and shutting down the low-value plastic market will create a reckoning in North America's recycling industry.

Sean Fraser, MP for Central Nova, NS, and Parliamentary Secretary to the Minister of Environment and Climate Change, said that the issue is one that has captured the attention of the public, which is why it's become a non-partisan issue. He added that the value of an international agreement like the Oceans Plastics Charter is that it creates standards that other countries can get behind.

"It's essential that we recognize that we can't expect everyone else to behave the way we hope to if we don't have our own house in order," said Fraser. "The federal government has committed to reducing by 2030 its use of single-use plastics by75 percent. This is a signal to the rest of the world that if we're going to demand behaviour of you, we're going to do our best show you that we're going to be with you every step of the way."

Fraser said the government's next step is to develop an action plan to create consistency across the country, and to help create a demand for post-consumer plastics, which will include public consultation.

Before the Bell talks Climate Change and the Environment

BY DALE SMITH
Sixth Estate

Jan 31, Before the Bell live from the NAC . Pictured: Host Catherine Clark, Rachel Curran, Dale Marshall, Velma McColl, David Akin

With extreme weather events making headlines and the longer-term impacts of climate change on all aspects of our lives from agriculture to health to tourism to energy becoming more apparent every day, the question of how to stop the planet from overheating will definitely be an issue in the upcoming federal election campaign. According to Abacus Data, a Sixth Estate foundational sponsor, some 90 per cent of Canadians are hopeful that a scientific or technological breakthrough will accelerate progress in the fight against a warming planet. A further 87 per cent are hopeful about a shift from fossil fuels to renewable energy. Before the Bell assembled stakeholders to discuss whether Canada's public policy direction is sufficient to meet those expectations.

David Coletto, CEO of Abacus and adjunct professor at the Arthur Kroeger College of Public Affairs at Carleton University, said that polling has shown that four out of ten Canadians think that climate change is an extremely big problem. He added it is now close to the top concern for most people, although the political divide is very real on the issue.

During the Pulse segment, hosted by Global News Chief Political Correspondent David Akin, Velma McColl, managing principal at Earnscliffe Strategy Group, pointed to the success of British Columbia's carbon tax as a world leader. It not only led to behavioural changes and carbon reductions, but an explosion in clean tech investment in the province.

"They see that as an economic development strategy — it's not just the minister of environment who cares about this file, it's the minister of economic development, and trade," said McColl. "There's a much bigger story here."

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Dale Marshall, national program manager at Environmental Defence, said that public policy needs to seriously plan a transition away from fossil fuels over time, but that it can't be done overnight.

"There are all kinds of alternatives in every sector," said Marshall. "There are options to move towards, and we need to be embracing those — managed, and over time."

Rachel Curran, principal at Harper and Associates, said that when it comes to creating environmental policy in line with the United States, the action needs to be driven at the sub-national level.

"Canada represents 1.6 percent of global emissions, so we could shut down our oil and gas industry tomorrow entirely, and we would have no impact on global emissions or the direction of climate change," said Curran. "We need to keep that in mind when we're talking about if we match or work in lockstep with other countries. We really have to."

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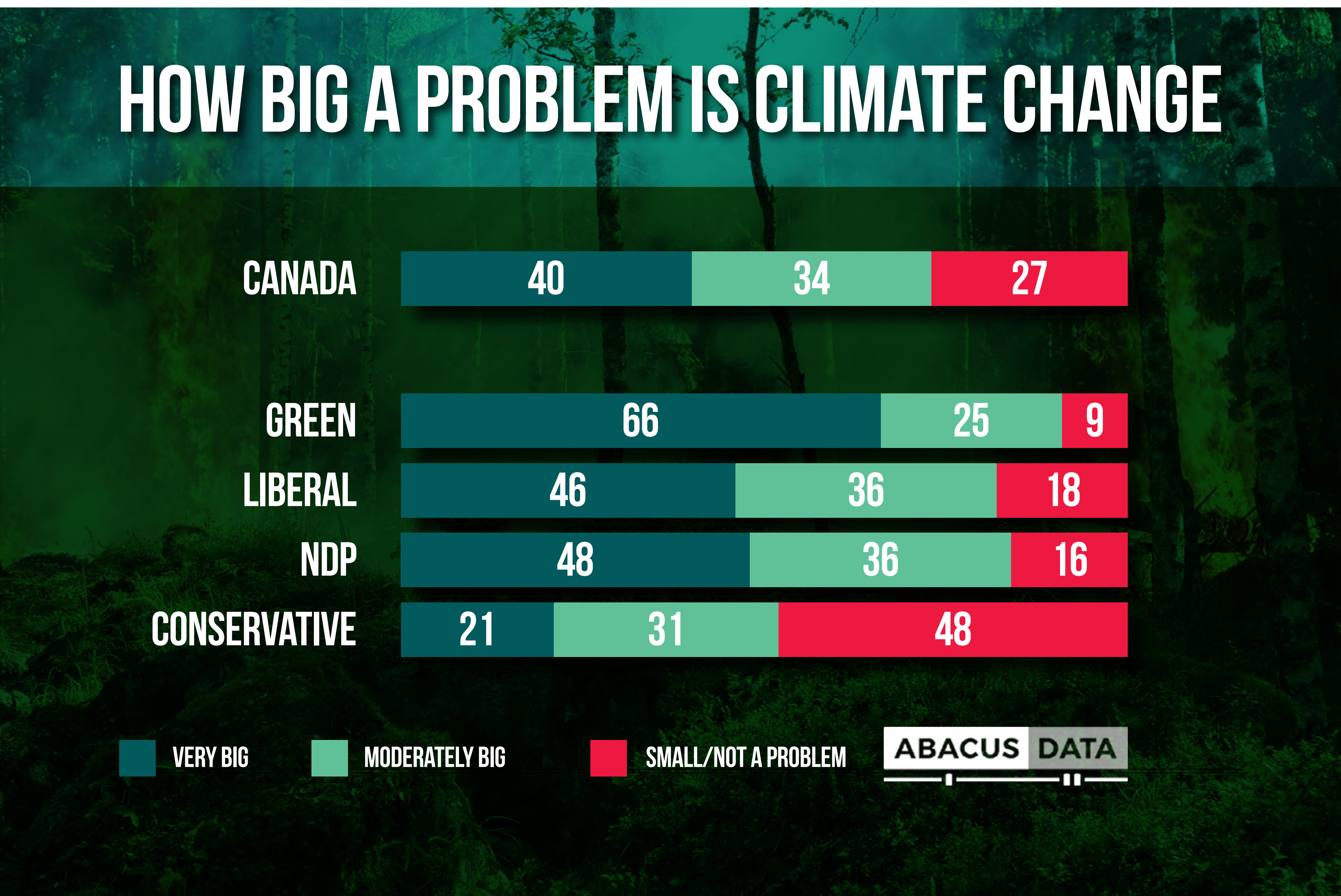

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During the Policy segment, hosted by Catherine Clark, Bob Masterson, president & CEO of the Chemistry Industry Association of Canada, said that while the chemistry sector consumes about ten percent of global power, and produces about seven percent of GHG emissions, the solutions to climate change are nevertheless found in chemistry.

"It's a complex relationship," said Masterson, but adds that Canada is very carbon-advantaged in chemical production.

"We have access to very low-carbon energy sources," said Masterson. "We have large quantities of relatively low-carbon natural gas. In Western Canada, we have natural gas liquids as a raw material that comes into the process. As an example, a key chemical in the world is methanol. In Canada, we go from natural gas to methanol, which is one-eighth of greenhouse gas emissions than from going from coal to methanol in China."

Craig Stewart, vice-president of federal affairs for the Insurance Bureau of Canada, said that climate change is a bottom-line issue for insurers, given that a big wildfire or a flood can mean the difference between a decent year and a bad year.

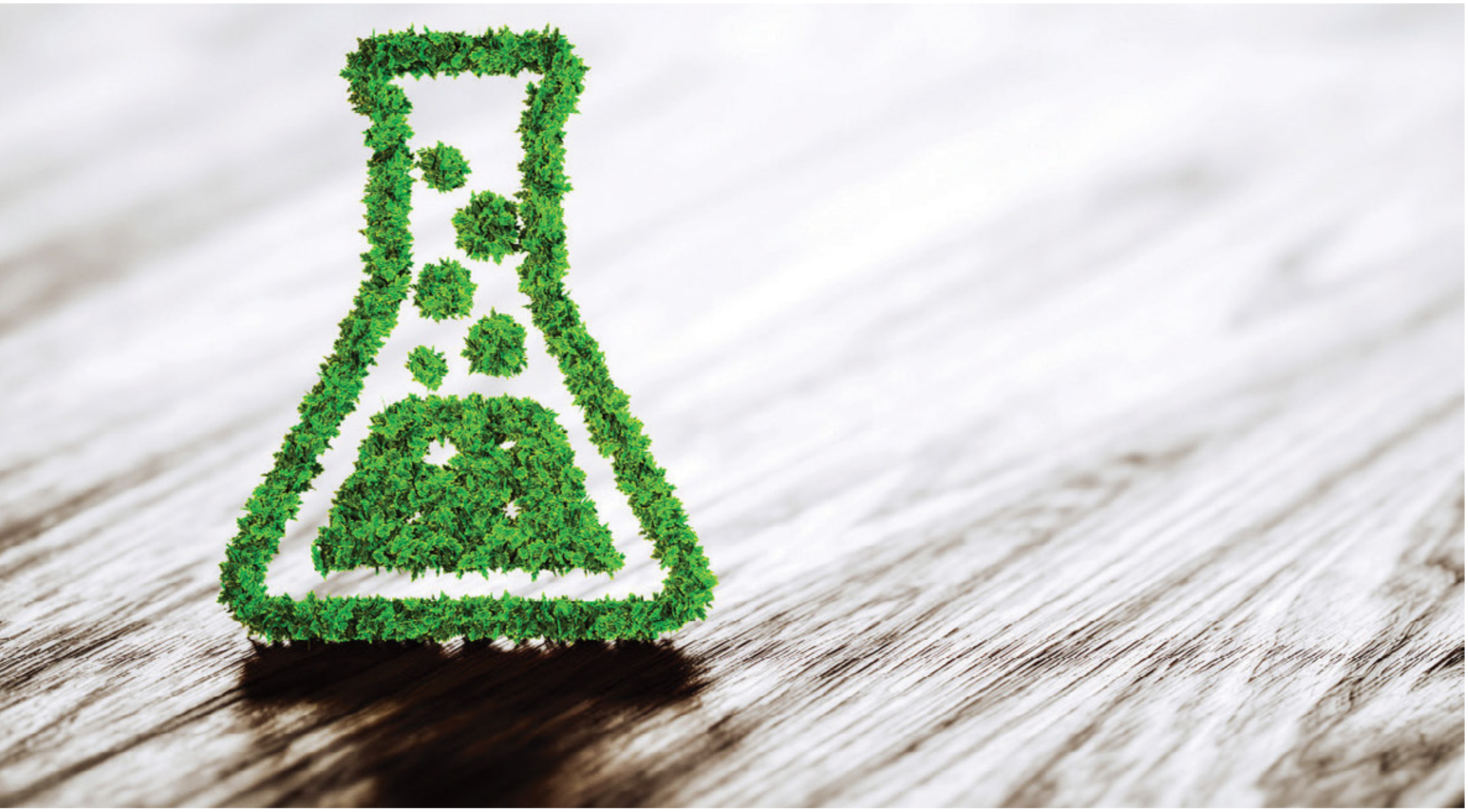
"Last year, insured losses without any big event ran to $1.8 billion," said Stewart. "What we're seeing as insurers is an escalation. It's more than just more people living in Canada and property values going up — if you factor those out, we're still seeing an incredible rise in insured losses."

Green Party Leader Elizabeth May, MP for Saanich-Gulf Islands, said that while the current government is using the right language around climate change, it's decades too late.

"The language I want to inject into this conversation is 'climate emergency'," said May. "If we could engage in Canadians in an all-hands-on-deck call — we don't have enough workers to do the work that needs doing, to retrofit our buildings, bring in energy-efficient furnaces, bringing in those heat pumps."

Sean Fraser, MP for Central Nova and the parliamentary secretary to Environment and Climate Change Minister Catherine McKenna, said that not acting to address climate change is irresponsible.

"It's cheaper to take action than ignore the problem," said Fraser. "There's an efficiency here, and the great failure of our political debates around climate change is we always talk about the challenge of the fight against climate change. This is a massive opportunity that is already putting people to work."



Bob Masterson
PRESIDENT AND CEO OF THE CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

CHEMISTRY: Essential to Canada's transition to a low carbon

The global chemistry industry has a complex relationship with climate change. Global chemical production accounts for 10 per cent of total energy demand, and seven per cent of GHGs. Yet, chemistry is a key input to 95 per cent of all manufactured products and is an essential solutions provider for climate challenged sectors such as buildings, transportation and agriculture.

Canada's building sector is responsible for 40 per cent of emissions. Foam-based insulation, however, can address heat loss and cooling demand. Their use avoids over 200 tonnes of buildings emissions for every tonne released during manufacture. Similarly, chemistry is delivering new refrigerants that keep buildings cool at a fraction of the emissions associated with historical refrigerants. Through the UN Kigali Accord, taking affect in 2019, these new refrigerants will avoid 0.5C of global temperature increases, making them the single largest contributor to addressing climate change to date.

> *Global emissions from uneaten food represent over **three billion tonnes** annually*

Since 1992, GHGs from Canada's transportation sector have increased by 33 per cent. Chemistry is developing and producing alternative fuels, lighter-weight and safer vehicles, and batteries for electric vehicles. Plastics and composite materials now make up 50 per cent of today's cars by volume – but only 10 per cent by weight, resulting in improved mileage and lower emissions.

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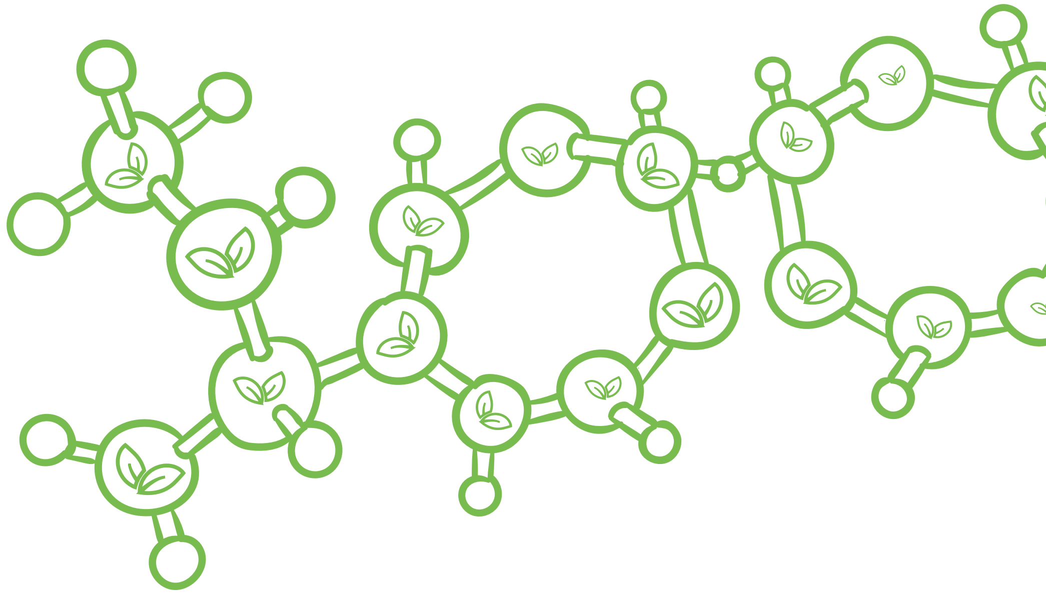

Global emissions from uneaten food represent over three billion tonnes annually. If food waste were a country, it would be the third-largest geographic source of GHGs on the planet. Advanced packaging reduces food waste and can cut emissions from food waste in half.

While these are just a few examples, research from the International Energy Agency shows that for every tonne of GHGs emitted as part of chemical manufacturing, more than three tonnes are avoided during the product life cycle.

Canada is especially carbon-advantaged when it comes to chemicals production. We have access to abundant and low-cost natural gas; an electricity system that is very low-carbon intensive and trending towards zero carbon in the coming years; and access to low-carbon chemical feedstocks which give Canadian chemistry a carbon advantage over its competitors.

These advantages have allowed Canada's chemistry sector to achieve a 67 per cent reduction in absolute GHG since 1992 (including 10 per cent since 2005) through investments in energy efficiency, fuel and raw materials substitution, carbon capture and process and product changes. Despite this progress, achieving Canada and the world's climate objectives will be challenging. Nevertheless, it would be impossible without the innovation of the chemistry sector. For more, please see Chemistry: Essential to Canada's Transition to a Low-Carbon Energy Future.

INTERNATIONAL TRADE:
New Sandbox Rules

BY DALE SMITH
Sixth Estate

With the new United States-Mexico-Canada Agreement (USMCA) signed and awaiting ratification, the rules around international trade are shifting for Canada. Before the Bell engaged with stakeholders and experts to discuss how Canadians can capitalize on the USCMA, what it means for our industries, and what global opportunities remain for the government's progressive internationalism agenda.

During the Pulse segment, hosted by Susan Delacourt, the questions of whether the USMCA was a success and where trade was headed for Canada were up for discussion.

"I think the answer to that, at least for now, is more managed trade and less free trade."
Sarah Goldfeder, principal, Earnscliffe Strategy Group

Rachel Curran, principal at Harper and Associates, said that the government succeeded in limiting the damage that Donald Trump planned to do to the trading relationship between Canada and the U.S.

"Given what we were working with, it was a worse agreement for sure, but it's probably not as bad as it might have been," said Curran. "We didn't do a bad job, all in all, in the end."

Sarah Goldfeder, principal at Earnscliffe Strategy Group, said that in the current era, Canada is moving more toward managed trade than free trade, not just because of the United States, but also what was achieved with the Trans Pacific Partnership (TPP).

"What we have in the world right now is one very large player, playing by their own set of rules, and imposing the goods and services that come out of that country under this separate set of rules upon the rest of the world at a much lower cost,"said Goldfeder, referring to China.

Goldfeder said that all industrial economies are figuring out how to deal with China, and how to trade with it in a way that makes sense for their own economies. "I think the answer to that, at least for now, is more managed trade and less free trade."

André Plourde, dean of the faculty of public affairs at Carleton University, said that in a world with more managed trade, and the complexity that it brings in terms of rules, it's less likely that we'll see more bilateral deals than multilateral ones.

"I'm hoping that the next round is more multilateral, more like the Trans Pacific Partnership," said Plourde.

He also noted that the two major trade agreements outstanding are with China and India. "Are we really close to being ready as a country to doing trade agreements on a bilateral basis

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with these two countries?" Plourde asked. "It's not clear to me that's the case."

During the Policy segment with Catherine Clark, Mark Agnew, director of international policy with the Canadian Chamber of Commerce, said that work remains to be done on USMCA, particularly during the congressional ratification process in Washington.

He also cited challenges for dealing with China, which faces not only tariff barriers but also a number of non-tariff barriers.

"There are [Chamber] members who have concerns about the role of state-owned enterprises, and the fact that the Chinese state is able to back their companies in a way that isn't a reality for companies here," said Agnew. "Also with some of the conditions that exist when you're trying to do business there, be it around intellectual property protection issues, forced technology transfers — it's not an easy market to do business in."

Joy Nott, partner in trade and customs at KPMG, said that the lack of certainty during the USMCA negotiation process was crucial for her clients to navigate.

"We've moved from a game of checkers to three-dimensional chess," said Nott. "You used to think about one particular market, the geo-politics, regulatory and trade opportunities in that market, and you made your strategy. Now, everything is inso much flux."

Nott says that clients are looking to minimize the changes that they need to make, but she is concerned that they are missing opportunities to be bold and reconsider their strategies.

Peter Hall, vice president and chief economist at Export Development Canada, said that the uncertainty isn't inhibiting trade, it's inhibiting investment.

"It's a strange paradox that they're in at the moment because they don't know where to invest, but they need to invest," said Hall. "They need to invest is because the economy is red hot, and they're running up against capacity constraints that are being furnished by an economy that is in ramp-up mode right now."

Hon. Andrew Leslie, MP for Ottawa Orleans and the Parliamentary Secretary to the Minister of Foreign Affairs, agreed with the notion that most Canadian firms had become too comfortable relying only on the U.S. for trade.

"Now there's a forcing function, which is encouraging us to go elsewhere, and now we have the instruments to get it done," said Leslie. "We collectively should be focusing our attention, while preserving our good relationships with the United States; let's go somewhere else and find new opportunities as well."

Leslie added that one of the biggest risks in the coming year is around getting Canadian products to market, not just the U.S. but elsewhere, as well as increased attacks on the rule of law.

Joy Nott
PARTNER, TRADE AND CUSTOMS
KPMG IN CANADA

New Trade Rules in the Sandbox

Being involved in a relatively stable trade environment for the past 25 years or so has allowed Canadian businesses to become settled and comfortable. Existing in a duty free/low duty environment for years has allowed companies to operate in an environment of certainty. That world no longer exists, and businesses are struggling because nothing makes a company more uncomfortable than uncertainty.

Today, the international trade environment is one of constant flux, where every aspect of business is interconnected to another aspect. Tax strategy is connected to supply chain strategy, which is connected to the customers' strategies, which are all impacted by trade wars and geopolitical tensions. Businesses have moved from playing checkers to playing 3D chess. Nothing is linear, and the sand is constantly shifting.

Canadians have always been hyper focused on the US. Trade with Americans and it was easy – we shared the same language, a similar culture, and they were the largest international market that just happened to be right next door. This has led to a level of complacency that will cost us dearly if we do not diversify away from the US. Protectionism, nationalism, and instability within the political environment in the US have made it imperative for Canadian businesses to look beyond North America if they are to remain competitive. We need to get used to being uncomfortable.

Many traditional Canadian business models had companies sourcing parts in China, assembling products in places such as Mexico or other low labour cost countries, for final sale in the US. But trade restrictions and increased tariff and non-tariff trade barriers have made that model more challenging. Many businesses are trying to figure out how to 'game the system', enabling them to still sell to the US. This short-sighted thinking is a dead end strategy and will not allow businesses to compete in the new global trade environment.

There are fundamental shifts happening that are both directly and indirectly impacting global trade. Businesses need to acknowledge this and begin establishing strategies for the new game. Canada needs to decide, both at the political and the business level, on the role we want to play in the 21st century. We have many things in our favour: Canada is one of the few countries that has trade agreements in place with both Asia and the EU, through CPTPP and CETA; we have a stable economy and society; we have an abundance of natural resources; and we continue to develop a solid infrastructure to support trade. It's time to be bold, take advantage of our strengths and the opportunities brought about by the shifts in international trade, and grow beyond the shadow of the US.

Canada is well positioned to win, if we are bold enough to take the risks that will allow us to excel in this new era of global trade.


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