THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

INSIDE POLICY

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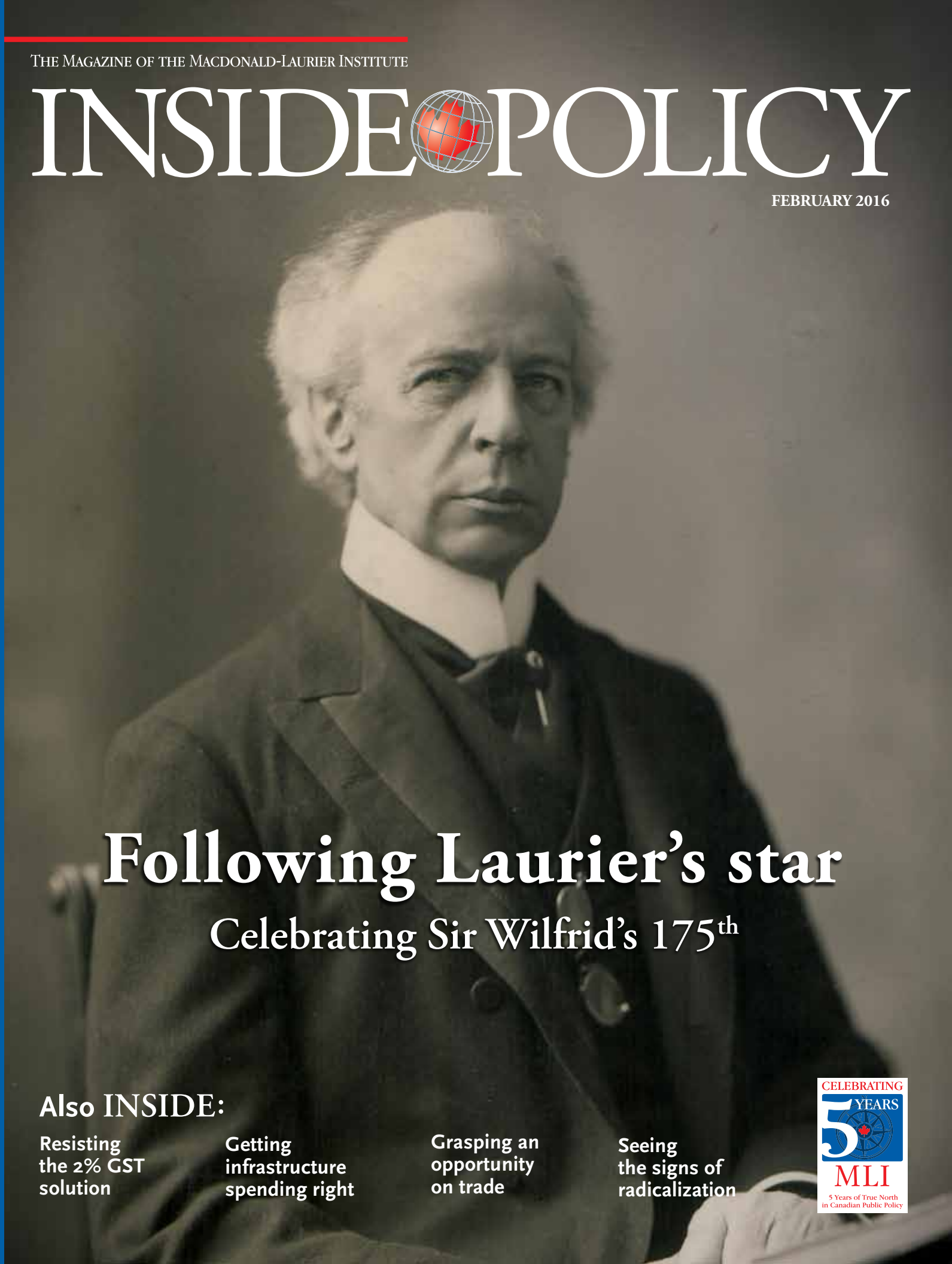

Following Laurier's star

Celebrating Sir Wilfrid's 175th

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Resisting the 2% GST solution

Getting infrastructure spending right

Grasping an opportunity on trade

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Inside Policy

The Magazine of the Macdonald-Laurier Institute

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From the editors

A great Canadian milestone will be passed in 2016, but it's one that hasn't yet been much remarked on. This November we will mark the 175th birthday of that great prime minister, Sir Wilfrid Laurier. Last year, MLI celebrated the 200th birthday of our other namesake, Canada's founding prime minister, Sir John A. Macdonald, but as we explore in this issue of *Inside Policy*, we owe Laurier a great debt as well. His plan for a prosperous Canada has much to teach us today.

MLI Senior Fellow **Sean Speer** writes that we should see Laurier as a "classical liberal", meaning he believed that "wealth is best created by the mutual cooperation of individuals through the spontaneous order of the free-market economy and that property, trade, and markets are the foundations" of economic growth. And as MLI Managing Director **Brian Lee Crowley** and the co-authors of his influential book *The Canadian Century* explain, it is because Canada lost touch with the values of Laurier that we never quite achieved his vision that the 20th Century would be "filled by Canada". However, by rediscovering Laurier there is still hope that the 21st Century will be.

Historian **Patrice Dutil** writes that Laurier's popularity in Quebec was no sure thing, despite his being Canada's first French-Canadian prime minister. As Dutil recounts, Laurier stood in the crossfire of debates over language, culture and war, and while he finally won the hearts of Quebecers in 1917, he suffered plenty of political wounds along the way.

In addition to celebrating Laurier, this is our pre-budget issue. And so we bring you an edition of Speer's ambitious series of MLI papers titled "From a Mandate for Change to a Plan to Govern", which tackles a new federal government priority each week, from the Throne Speech to the budget. In this installment, Speer and transportation policy expert **Brian Flemming** explain how best to reap the long-term benefits of increased infrastructure spending. As well, **Stanley Hartt** argues that while new revenues might be tempting, the Liberals should preserve the Harper government's cuts to the GST.

Also in this issue, MLI Senior Fellow **Dwight Newman** writes that the fate of the Energy East pipeline project is up to Ottawa, not mayors and premiers, CapX author **Victoria Bateman** says we can't assume the West will always remain on top, **Crowley** explains the value of mergers and acquisitions in terms of trade, **Richard Owens** says the Trans-Pacific Partnership will benefit, not harm, e-commerce in Canada, former CSIS analyst **Phil Gurski** writes on how to identify and stop domestic radicalization, and in another column, **Crowley** writes that the Liberals have been handed a gift with the TPP. Finally, CapX contributor **Nicolas Bouzou** argues that the world has never been safer, despite all the scary headlines, and MLI Senior Fellow **Benjamin Perrin** writes that a little dissent in the Supreme Court is a good thing.

We hope you'll find our latest edition to be an informative, enlightening and reassuring read.

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My VAT runneth over: The temptation of the 2 percent GST solution

A hike to Canada's much-debated Value Added Tax, the GST, could help solve the Liberal government's budget woes, but they would be wise to retain the Harper cuts.

Stanley H. Hartt

On the morning during the 2006 federal election campaign when the Conservative Party of Canada was to announce its policy priorities, including a two percentage-point cut in the GST, I got a telephone call from Party headquarters. "We know you are a big supporter of the GST, so we would appreciate it if we did not hear any criticism from you of this plank in our platform," the voice said.

Caught off guard by the concept and the timing (I was in the bathroom shaving), I thought fast. I had been the Deputy Minister of Finance when the GST was first presented as part of the comprehensive Tax Reform proposed by Minister Michael Wilson, and I was Chief of Staff to the Prime Minister as the debate raged over this modernization of our consumption tax regime. I remembered the controversy and the childish manoeuvres by the Liberal majority in the Senate who employed noisemakers, normally seen at a fifth birthday party or a particularly enthusiastic New Year's Eve celebration, to attempt to block a vote in the Upper Chamber.

"I have three reasons why you don't have to worry about that," I replied. "First of all, the Liberals made sure with their antics that the scarlet letters "GST" were emblazoned on Tory foreheads, so there is no reason Conservatives shouldn't take an opportunity to turn the tables and do something popular on this issue. Second, if I knew someone who was a dope addict, I would like to be able to take the drugs out of their hands. So, if this means there will be less money for the policy development apparatus to spend, good show. Finally, if you cut it, no one will ever be able to raise it again".

Well, I was right on at least two counts. However well-designed and well-intentioned, the GST was massively unpopular. Seen as a new tax rather than as a replacement for an existing levy, it was fiercely opposed by the Liberal Opposition, and by the Canadian Federation of Independent Business (who foolishly thought their members could somehow deflect shopper outrage and stimulate

sales by constantly reminding customers of the 7 percent by posting signs that read "Don't Blame Me for the GST"). When the Senate vote was impeded by infantile interruptions, the Prime Minister was forced to resort to the little-known provisions of Section 26 of the Constitution Act, allowing him to appoint 8 supernumerary Senators to give him the predominance in the Upper Chamber needed to pass this measure.

The Goods and Services Tax, or GST had been had been conceived as a reform to our outmoded and inefficient Manufacturers Sales Tax. It employed the classic design of a value-added tax which is common in dozens of countries all over the world (and is a condition of entry into the European Union because it is the form of consumption tax most compatible with the rules of free trade). Our leaky MST, on the other hand, was experiencing declining revenues even in the midst of a prolonged economic expansion. And it was easy to plan around, largely because it had been designed for an earlier, simpler era where manufacturers bought inputs only from producers of raw materials or other manufacturers, and then sold to distributors, wholesalers or retailers.

The GST had been conceived as a reform to our outmoded and inefficient Manufacturers Sales Tax.

The MST's system of credits (manufacturer to manufacturer) created an unintended tax on inputs which could not be removed when our goods crossed international borders, while imports were taxed as they entered the country, and before all of the inbound transportation, warehousing, insurance, and marketing expenses were incurred. As a result, our MST penalized domestic producers and favoured imports, a dumb position for a country then embarking upon a Free Trade Agreement with the United States.

As a result, the design of the GST was seen as attractive by most economists and tax experts because of its efficiency as a revenue-producing mechanism, its encouragement of saving and investment, and its consistency with free-trade obligations because it couldn't disguise subsidies by favouring certain products and services.

But politicians were receiving a quite different perception from their constituents. During the 1987 Christmas adjournment of the House of Commons, Tory MPs were reporting back to the policy makers in Ottawa that the initial proposal to tax food (and keep the GST rate at 5 percent) was being greeted with derision. As a result, the original design was altered to exempt food (and create the classic laugher where a doughnut purchased at a coffee shop was a restaurant meal, but if an enterprising customer organized the next six people in line to pool their orders, they could avoid the tax because the six doughnuts had now become food).

Less well known is the fact that when Wilson held his annual pre-budget briefing with his provincial colleagues and informed them of the change, there was a long period of silence, with Ministers staring at their shoes. Then Mel Couvelier, Finance Minister of BC and Chair of the group, ventured, "Well, Michael, I suppose that we really don't have the right to comment, since none of us was brave enough to join the federal government and create a national sales tax, but you can tell from the reaction you just got that we collectively think you're making a mistake".

The higher rate of 7 percent, mitigated by the food exemption, together with exempting resale housing and a low income credit managed to make the GST modestly progressive. But you would never know that from the political feedback. Jean Chrétien led the country to believe he would repeal the GST (and cancel NAFTA) if elected in the 1993 election. He did neither (to his credit, and due to the advice he got from senior officials once he became Prime Minister) which eventually allowed the Liberals to claim they had eliminated the deficit, albeit with building blocks left over by the decimated Conservatives.

So the context of Mr. Harper's 2006 pledge was to attempt to occupy some of the razed ground the Liberals had arranged for the GST. Harper promised to cut the rate by one percent right away and another point over the next five years.

Astonishingly, the Liberals, by then holding the levers of federal power, were brazen enough to oppose the Conservative initiative. Perhaps the Liberals' resistance had to do with the fact that they feared that the Tories would have to reverse the package of income tax cuts proposed in their Fall, 2005 mini-budget. For whatever reason, the Liberals chose the less popular side of the debate on that occasion.

The Conservatives kept their promise and took one percentage point off the GST on July 1, 2006. They rushed the implementation of the second one-point reduction which went into effect on Jan. 1, 2008. There can be little doubt that this latter change was advanced in time as part of the negotiations to bring Ontario and (unsuccessfully) British Columbia into the fold, to join Nova

Scotia, Newfoundland and Labrador and New Brunswick in what has come to be called the Harmonized Sales Tax. Ontario joined the system as of July 1, 2010. PEI adhered to it on April 1, 2013. Quebec had already integrated its provincial sales tax base with the GST by an agreement made in September 2011.

As to my second, quick-thinking reaction, I was motivated by the knowledge that the Mulroney government, under Finance Minister Don Mazankowski, had been quite aware of what a powerful revenue-raising tool the GST was. Maz went so far as to refer to it as a "deficit reduction tax", implicitly suggesting some change once the deficit was slain. Little did he know that, as the result of the automatic stabilizers (lower tax revenues accompanied by higher payments for employment insurance, welfare and other income support programs) which kicked in during the recession of the early 1990s, it would take more than a decade before Paul Martin, armed with the very tool labelled by Minister Mazankowski, would succeed in actually accomplishing the task.

> *The idea of a GST hike is gaining currency in pundit circles.*

By that time, the GST was churning out the predictable fiscal bounty at a rate that no believer in small government thought consistent with conservative ideology. Undoubtedly, this clash of visions was operating when the 2006 CPC platform was developed. Who knows what might have happened differently if the Harper/Flaherty team had foreseen the Global Financial Crisis and the degree to which Conservative fiscal rectitude would be driven offside by efforts to stimulate an economy side-swiped by disastrous financial structuring decisions made by Wall Street's best and brightest.

So the decision to shrink the cash cow which the Harper Tories took in 2006 can help explain why the Liberals might choose to occupy the politically distasteful position of proposing a restoration of the two points. In our most recent federal election, there was considerable attention devoted to an alleged tactic by the Conservatives to leave the cupboard bare, or in less-elegant terms, to "starve the beast". Many of the Conservative tax baubles, such as the increase in Tax Free Savings Account contributions and income splitting for families, were seen as being intended, apart from providing the promised tax relief, to deprive a potential Liberal or NDP government of the financial wherewithal to sponsor new blockbuster, government programs.

Enter Bill Morneau, our new Minister of Finance, who caused a stir when he refused to rule out raising the GST in a mid-December, 2015 interview, although he has since stated that a GST hike isn't being considered. However, beset by unexpected economic and fiscal tides and the need to fund a considerable repertoire of campaign promises, his first budget will be a challenge without a new source of revenue. And the idea of a GST hike is gaining currency in pundit circles.

Determining soon after taking office that the projected surplus was already a modest deficit, the Liberals added to it by implementing their tax cuts for middle class taxpayers (not quite balanced by the hike on the "one-percent" who earn more than $200,000). The deepening downturn in the resource sector (along with our export performance) means that the budget is likely to show a deficit more in the $20 billion to $25 billion range instead of the $10 billion mooted during the recent election campaign, so a new revenue source may prove irresistible, particularly one the chattering classes of experts is likely to applaud.

It may yet be that our new political masters will decide that now would not be the best time to increase consumption taxation, with the economy in the doldrums, voters feeling anxious about their futures and personal debt levels rising. Just as "improving" the Canada Pension Plan might not be a great idea right now because it involves new payroll taxes and new deductions at source, so too a hit to retailers and service providers by a 40-percent increase in the federal share of our national consumption tax might be neither economically defensible nor politically appetizing.

Perhaps the Minister will decline the pleasure of a more robust revenue source and rely instead on Liberal campaign rhetoric to the effect that modest fiscal deficits (defined by Mr. Trudeau as deficits that don't cause the debt to grow faster than GDP) don't really matter, even though we might soon be seriously stretching the definition of the word modest.

Stanley Herbert Hartt, *OC, QC is a lawyer, lecturer, businessman, and civil servant. He currently serves as counsel at Norton Rose Fulbright Canada. Previously Mr. Hartt was chairman of Macquarie Capital Markets Canada Ltd. Before this he practised law as a partner for 20 years at a leading Canadian business law firm and was chairman of Citigroup Global Markets Canada and its predecessor Salomon Smith Barney Canada. Mr. Hartt also served as chairman, president, and CEO of Campeau Corporation, deputy minister at the Department of Finance and, in the late 1980s, as chief of staff in the Office of the Prime Minister.*

Celebrating a man and his enduring ideas

While the former Liberal prime minister has been gone for nearly a century, his influence in making Canada great cannot be overstated. MLI Senior Fellow Sean Speer writes that a new federal Liberal government has an opportunity to revive Laurier's ideals.

Sean Speer

As we here at the Macdonald-Laurier Institute celebrate the year of Sir Wilfrid Laurier's 175th birthday, it is understandable if some Canadians find our enthusiasm a bit peculiar. Laurier, born Nov. 20, 1841, has been dead for nearly 100 years after all. In fact, more time has elapsed since Pierre Trudeau was first elected Prime Minister than between his victory and Laurier's death in 1919. Yet his example of statesmanship and good governance still endure. Laurier and his ideas – freedom, order, and economic and social dynamism – are worth remembering and celebrating.

Laurier's vision for the country is well-documented in MLI Managing Director Brian Lee Crowley's best-selling book, *The Canadian Century*. He was determined to lay the foundation for future prosperity and social harmony and he went about enacting a plan rooted in open, inclusive immigration, low, competitive taxation, limited government intervention in the market, and free trade to make it happen. His policy programme was evidence-based. He adopted these prescriptions because they were tried and tested and worked. As Crowley writes: "It was a plan that found its roots deep in Canada's origins, in the ideas of its founders and in the hard work and dogged determination of those who had already been building the country since the founding of the first colonies."

The positive economic and social outcomes produced by Laurier's plan are extraordinary. The highest levels of immigration in Canadian history ("nothing like them had been seen before or since" as two noted historians have put); massive increases in trade activity; huge levels of capital formation and business start-ups; a transformation from rural to urban living and an agrarian economy to industrialization. The establishment of new provinces. No wonder Laurier was convinced that the 20th century "would be filled by Canada", as he famously predicted.

But his sureness was rooted in more than economic statistics. It was also based on the certitude of his conviction – a deep understanding that he was an inheritor of the big, immutable ideas of the Western tradition. Laurier's political philosophy was based on the ideals of the British Liberal Party and its intellectual progenitors John Bright, Richard Cobden and William Gladstone. As well-known Canadian historians J.L. Granatstein and Norman Hillmer explain: "Great Britain was Laurier's spiritual home. He admired British institutions, ideas, and literature, Britain's political tradition of individualism, and its legacy to Canada of liberty and tolerance." Laurier, in short, was a classical liberal.

And what does that mean? Classical liberalism emerged in reaction to the collapse of feudalism in the 17th and 18th centuries. It was a worldview that rejected hereditary privilege and, in its place, set out a vision of natural rights and an emphasis on individual freedom in social, political, and economic life. The corollary was a vision of a limited, representative government bound by the rule of law and justice that sought to maximize freedom in all spheres, including the marketplace. Classical liberals believe that wealth is best created by the mutual cooperation of individuals through the spontaneous order of the free-market economy and that property, trade, and markets are the foundations of economic dynamism. This primacy placed on the individual and the presumption of freedom are its central principles.

These ideas were at the foundation of Laurier's vision for Canada. As one historian has written: "He believed that nothing was more important than the right of the individual to be free to think and act independently without interference from powerful forces such as governments or religious institutions." It is from this intellectual wellspring that he drew his political dictates and brought Canada into the 20th century.

Laurier's ideas lost some appeal over the course of the century. Classical liberalism ceded its dominant position in Canadian politics to more collectivist and centralizing impulses. Crowley's other major book, *Fearful Symmetry: The Fall and Rise of Canada's Founding Values*, documents the modern departure from Laurierism and the deleterious consequences. Government grew. Taxes went up. Economic freedom was restricted. And we were poorer for it.

But fiscal arithmetic caught up with us in the 1980s and 1990s. Politicians across the country representing different political persuasions were compelled to rediscover Laurier's lessons. It was a "Redemptive Decade", as Crowley calls it. Total government spending fell from 53 percent of GDP in 1992 to 39 percent in 2007. The federal debt-to-GDP ratio shrank from 68 percent in 1996 to 28 percent in 2009. And the federal tax burden began to fall as successive governments reduced taxes. The result was a period of sustained economic growth, job creation, and wage increases. Simply put: Laurier's prescriptions still worked.

This strikes us as a good reason to celebrate his birthday and promote his ideas. In fact, that is a big part of what the Macdonald-Laurier Institute is all about. The institute takes part of its name from Laurier because he, like Macdonald, represents the best of Canada's distinguished political tradition. Our mission – to make poor quality public policy unacceptable to Canadians – is partly inspired by the lessons of Laurier's successful prime ministership and the positive outcomes associated with his rediscovery in the Redemptive Decade.

Fortunately, then, a fresh revival of Laurier may soon be upon us. The new government's promise of "sunny ways" channels Laurier's message of hope and optimism. And Justin Trudeau has called Laurier his second favourite Canadian Prime Minister. We will see to what extent the government draws from his ideas and prescriptions in addition to his rhetoric.

Our new essay series, *From A Mandate to Change to A Plan to Govern*, has shown how Laurier's ideas – on economic opportunity, immigration, and federalism for instance – remain relevant today and can actually help the government achieve its ambitious policy objectives. The goal of the series to assist the government in developing an agenda that can prove Laurier's prognostication about a Canadian century accurate for the 21st century. His ideas and his optimism about Canada's prospects endure.

And so that is the reason that we are keen to celebrate his 175th birthday. Laurier was a remarkable Canadian who endowed us with a great political tradition that has helped make Canada one of the world's leading democracies and a place where people may live in peace and freedom under the rule of law. It is quite a legacy. Canadians are thus welcomed to join us in raising a glass to old Laurier.

Sean Speer *is a Senior Fellow at the Macdonald-Laurier Institute. For more information on his series,* From a Mandate for Change to a Plan to Govern, *visit macdonaldlaurier.ca*

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Sir Wilfrid Laurier campaigning in Western Ontario

Following Laurier's star

In 2016, Canadians will celebrate the 175th birthday of one of our greatest prime ministers, Sir Wilfrid Laurier. In this excerpt from the Macdonald-Laurier Institute book, The Canadian Century*, authors Brian Lee Crowley, Niels Veldhuis and Jason Clemens write that Laurier's vision for a strong and prosperous Canada should still be our guide in the 20th century.*

Brian Lee Crowley, Niels Veldhuis and Jason Clemens

When in 1904 Sir Wilfrid Laurier[1] proclaimed that "the twentieth century would be filled by Canada," this was no mere boastfulness. We were one of the richest countries in the world, we enjoyed boundless natural resources, an energetic population, a privileged place in the great commercial empire established and defended by the colonial metropolis, Britain, and reasonable access to American markets.

We had built a national railway across the vastness of the west, and immigrants were arriving on our shores in larger numbers (relative to our population) than anywhere else in the world. In the first twenty years of the twentieth century, our population grew by an unprecedented two-thirds. Canada was a magnet to the world. Our future seemed assured.

Laurier had a plan to make sure that this unprecedented flowering would be no seasonal bloom, briefly drawing every passerby's glance before withering away. He was putting in place a plan to fill, not a decade or two, but a full century with Canada's rise to prominent adulthood on the world stage. It was a plan that found its roots deep in Canada's origins, in

the ideas of its founders and in the hard work and dogged determination of those who had already been building the country since the founding of the first colonies.

A man, a plan, a people – Canada!

What was Laurier's plan, his vision for a Canada that would be the best the New World had to offer the Old, a plan that had already unleashed the greatest growth in our level of prosperity ever seen, and he expected would fuel our development for decades to come? That policy had four distinct elements.

> *Laurier was convinced that the best people in the world would jostle one another at Canada's door.*

1. Prosperity grows from liberty's soil

First, he thought it vital to preserve and protect the institutions brought to Canada by our forebears, the 'British liberty' composed of the rule of law, free speech, freedom of conscience and religion, respect of minority rights, habeas corpus, parliamentary self-government, minimal state interference, low taxes, respect of property and of contract. That liberty and those institutions were, Laurier believed, the catalyst that released the energy and dynamism of those who lived under them, whatever their ethnic origin or religious convictions. When people were free to follow their own star, to determine what was important to them, to build their own relationships with family, friends and colleagues, they built well and energetically — they had confidence in the future, they took risks and reaped the reward.

Laurier was convinced that the best people in the world would jostle one another at Canada's door, not just because they would enjoy a higher standard of living, but much more importantly, because in Canada they would be free: *"I think we can claim that it is Canada that shall fill the twentieth century...For the next seventy-five years, nay the next hundred years, Canada shall be the star towards which all men who love progress and freedom shall come."*

A society like this, where people were responsible for themselves, made their own plans, and accepted that their fate was in their own hands, was one that could be open to immigrants on a vast scale. Newcomers could not be a burden to the government or the population, because if they succeeded, they became net contributors, and if they failed, they were no affair of the state.

2. Limited Government, Light Taxes and Fiscal Discipline

The second element of Laurier's plan was the view that, once freedom, the rule of law and key infrastructure had been created, the best thing that government could do was to then get out of the way, to keep taxes and rules to a minimum. Indeed Laurier believed that the burden of government needed always to be kept below the level in the United States, so as to create a powerful competitive advantage for Canada. Small but efficient government, not big government, were to Laurier's way of thinking Canada's secret weapon in the competitive struggle with America.

Even beyond the absence of the welfare state, it may surprise many Canadians today the extent to which this belief in lean minimalist government in economic terms was also an article of faith for most of the first century of the Dominion's existence. Indeed, David Perry of the non-partisan Canadian Tax Foundation, one of our leading historians of Canadian tax policy, points out that this consensus was assumed by its drafters to be part and parcel of the plan that inspired the *British North America Act* (later re-baptised the *Constitution Act, 1867*). In that document's scheme, both the major responsibilities and the major sources of income were granted to the central government in Ottawa, but the plan was not to create an expansive and activist government. Rather it was to ensure that *no* government got too big for its britches by keeping them all, federal and provincial, on a meagre fiscal diet.

Canada's former prime minister was excoriated in the press for suggesting that there are no good taxes; the country's founders saw this view as unexceptionable. Sir Richard Cartwright, finance minister of the young Dominion in 1878, thundered during his budget speech to parliament that "...all taxation...is a loss *per se*...it is the sacred duty of the government to take only from the people

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[1] Laurier was our 7th prime minister and first French Canadian to occupy that post; he is widely regarded as a towering figure in Canadian politics whose "sunny ways" no doubt helped him enormously in his task of shaping the early Dominion. He was an ardent free-trader, an anti-clerical liberal rouge, a doughty defender of individual and minority rights. For more on Laurier and his political career, see Real Belanger, "Sir Wilfrid Laurier," in Ramsay Cook and Real Belanger, *Canada's Prime Ministers, Macdonald to Trudeau: Portraits from the Dictionary of Canadian Biography*, (Toronto: University of Toronto, 2007), pp. 149-192.

what is necessary to the proper discharge of the public service; and that taxation in any other mode, is simply in one shape or another, legalized robbery."

Politicians stayed as far as they could from the direct provision of services or competing with private enterprise. They did not think it their job to provide what businessmen with proper incentives could do more cheaply and efficiently, while the voters wanted no truck nor trade with government masquerading as business, or even any expansion of the role already played by the state. As one set of historians of the time wrote, the public, "regarded 'national services' like the Public Works Department, Post Office, and Intercolonial Railway, all of them believed to be sinkholes of patronage, as painful necessities that ought not to be duplicated."

"Politicians stayed as far as they could from the direct provision of services or competing with private enterprise.

The Honourable Wilfrid Laurier, M.P. (Quebec East), September 1891

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Laurier believed that we lived in a world in which people and societies compete for the most desirable things – whether they be immigrants, or industry or capital – and that Canada could not win that competition by trying to throw up walls against it. Instead, the winner of the competition would be the country that proved most open and hospitable to these footloose forces. A vital part of his plan therefore was to find a way to create a distinctive set of Canadian advantages that would help the young Dominion win the competitive struggle with others. Again, this preoccupation of Laurier's has an arrestingly modern feel to it.

3. Self-Confident Engagement with the Americans

The third part of Laurier's plan for the Canadian century was the certitude that Canada could not shrink before the challenge posed by American dynamism and proximity, but instead Canada must meet it head-on, turning it as best we could to our own account, especially as the British imperial power faded slowly from the scene. Laurier was a Canadian nationalist and a realist who knew that Britain took but scant interest in Canada, while we were not strong enough to impose our will on America, and so we had to play our few cards cleverly and well.

American arrogance and brashness, manifest destiny, hostility to the former colonial power, Britain, and its continued presence in North America, and the unsettled nature of the boundaries between much of Canada and the U.S., helped to give rise to many conflicts between Canada and the U.S. Britain, which kept control over all questions of Canadian foreign policy (which they saw as merely a part of Imperial policy), often sacrificed Canadian interests to further larger imperial objectives that required friendly relations with Washington.

Laurier lived through a classic example of Canada being sacrificed on the altar of British-U.S. power politics in the resolution of the dispute over the border with Alaska in 1903. The lesson that he learned was that Canada could not look to any power, whether Britain or the U.S., to protect the interests of Canada. We would always be sacrificed when it was convenient. Canada had to look to its own interests, while claiming from Britain increasing jurisdiction over its foreign relations. Beyond that, however, it had to seek to bind the more powerful nations to agreed and enforceable rules of behaviour that limit their ability to win their point through sheer brute force.

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Laurier on his last trip to the Western Provinces, Moose Jaw, Saskatchewan, 1911

Laurier believed that free and open trade was the cornerstone of economic prosperity and entrepreneurship.

4. Free Trade

Free trade deserves its own separate treatment as a central part of Laurier's plan. While the object of his efforts to negotiate free trade was the United States, free trade on a broad scale was, in his view, an end in itself. The fourth piece of Laurier's plan was therefore to move the country by degrees toward the regime of full free trade he so admired in Britain. Laurier believed that free and open trade was the cornerstone of economic prosperity and entrepreneurship and that government's role included working to throw open foreign markets to Canadian products while not obstructing the entry of products from abroad.

For Laurier and his cabinet colleagues British free trade was the ideal, but was politically unattainable in the face of the powerful manufacturing interests that had grown up behind the tariff curtain of Sir John A. Macdonald's National Policy. Laurier stoutly defended his government's commitment to finding new markets for the country's burgeoning production in the House of Commons in 1911: "Our policy has been, is and will be…to seek markets wherever markets are to be found."

However much his eyes may have been fixed on markets wherever they were to be found, those same eyes could see clearly that the market that really mattered for the future was the United States. And so the next major step in freeing Canadians' access to foreign markets was securing more favourable terms for the entry of Canadian products into the U.S. market. That effort was crowned with success in 1911 when after protracted negotiations his finance minister, Fielding, returned triumphantly from Washington with a new reciprocity agreement with the Americans, one that seemed to set extremely favourable terms for Canada. The Liberals were ecstatic and the Tories despondent, convinced that the old fox Laurier, with his "sunny ways," had dished them yet again.

To the surprise of almost everyone, the outcome of the 1911 election was the rejection of reciprocity by the voters, for a complex tangle of reasons that need not detain us too long. In English Canada, an aggressive British imperialist movement called for the Empire to be made a kind of free trade zone and tariffs to be erected against external parties, including the U.S. In French Canada, by contrast, Henri Bourassa and the nationalist movement he had breathed such life into abandoned the Liberals for being insufficiently ardent defenders of an independent Canadian policy in the face of growing imperialist sentiment. Even though the reciprocity agreement with the U.S. continued protection for Canadian manufacturers, Central Canadian industry feared the thin edge of a tariff-busting wedge. And of course the Americans, with the tin ear so typical of their sensitivity to Canadian concerns, gave Laurier's opponents lots of ammunition. Champ Clark, the speaker-designate of the House of Representatives, announced in Congress that "'I hope to see the day when the American flag will float over every square foot of the British-North American possessions clear to the North Pole.'" Reciprocity went down to defeat.

But Laurier's positive vision for the country would come under further stress in the middle of the twentieth century. Laurier's belief in the rugged individualism of Canadians, and the freedom, within the rule of law, that made individualism the source of great prosperity and social programs, seemed overtaken by events. The new zeitgeist called for an expansive state, great new social programs, and vast extension of state employment and state enterprise. Against all this Laurier had warned, and those warnings increasingly fell on deaf ears.

This article has been excerpted and edited from the book The Canadian Century: Moving Out of America's Shadow, *by Brian Lee Crowley, Niels Veldhuis and Jason Clemens (Key Porter Books).*

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Sir Wilfrid Laurier greeting supporters during the 1908 electoral campaign

Laurier in Quebec: A Battle on Six Fronts

As we mark 175 years after Sir Wilfrid's birth, historian Patrice Dutil writes that we should remember his great accomplishment of withstanding years in the crossfire of battles over language, education, religion and war. In the end, he won the hearts of Quebecers and helped secure his home province's place in Canada.

Patrice Dutil

It is easy to believe that Wilfrid Laurier, the first francophone leader of a national party and French-Canadian Prime Minister of Canada, enjoyed the easy and overwhelming support of Quebec. The impression left by the result of the 1917 election certainly would justify that interpretation, but the reality was far more complex.

Over his long political life, Laurier fought a war on six fronts in Quebec. Instead of joining the belligerents, however, he stood in the crossfire. Two fronts were opened over French schools outside Quebec. Two sides battled over the place of Canada in the Empire. Another two sets of belligerents fought over the soul and direction of the Liberal Party in Quebec.

Early in his career, Laurier placed himself between ideological opposites. On the Right were the "ultramontanes": conservative, Catholic intellectuals who fought any presence of modern thinking. On the Left were the "rouges", some of whom were inspired by the more radical ideals of *belle époque* France. In 1877, Laurier staked a place between the two of them. The Liberalism of the Liberal party in Quebec, he declared, was one of moderation. For him, its philosophy was drawn from British genes of liberalism: fair play, the rule of law, a separation of church from political affairs, notions of free trade.

The Liberals in Ottawa were seduced and urged him to make the leap to federal politics. There, Laurier catered to all tastes. He argued in defence of the Métis and campaigned against the National Policy. In the 1891 election, Laurier, now the Liberal leader, improved his

party's standing considerably, taking over 46 percent of the vote in Quebec. It was still less than Macdonald who took almost 50 percent.

He distinguished himself politically by drawing massive advantage out of the impasse over French and Catholic schools in Manitoba. He promised a resolution of the problem during the 1896 campaign and Quebec supported him: the favourite son took over 53 percent of the vote, a massive improvement that gave him the ticket to become Prime Minister (the Liberals actually lost the Canada-wide popular vote by 1 percent).

True to his word, Laurier forged a compromise in Manitoba. It acknowledged that French Canadians had no automatic right to be educated in French outside Quebec. They could petition for that right, however, and if their numbers were sufficient, Manitoba had to provide the funding necessary. It was a compromise that left ardent defenders of French and Catholic education unsatisfied. Still, it seemed reasonable to enough people so as to bring peace.

Laurier had been prime minister for three years when another two fronts opened in Quebec. On one side were the Imperialists: hardened Anglo-Saxons who demanded that Canada honour its historic commitments to Great Britain. On the other front were the anti-Imperialists, Canadianists really, who argued that Canada's involvement in war was entirely conditional on being attacked at home. The battle erupted over the Boer War as both sides hammered out the arguments. Laurier stepped into the middle field and pleaded for a compromise position, but took fire from both sides. The compromise of allowing for the despatch of a Canadian militia, but only on condition that they be deployed in the field as British troops, worked for most people. According to a young Henri Bourassa, who spoke for many, Laurier had gone too far. The Prime Minister had set Canada on a path of war.

The final fronts saw moderates and progressive Liberals battling. A small but influential group in Montreal argued strongly in favour of a secularized public education system and for a politics that was purified of the corruption that sometimes seemed to infect the party in Quebec City, Montreal and Ottawa. It was led by Godfroy Langlois, the editor of the Liberal daily, *La Patrie*.

Laurier had to mediate between the two sides. Though he mostly sided with the moderates, he knew the radicals were potent. When a new daily was needed in Montreal, he agreed that Langlois be named as editor of *Le Canada*. Langlois, though loyal to Laurier, used the paper to excoriate most of the prime minister's friends. One by one, Liberal leaders in Quebec were thrown from power. Quebec Premier Simon-Napoléon Parent, for instance, was deposed in 1905 just weeks after leading a crushing victory against the Conservatives. Raymond Préfontaine, a former Mayor of Montreal and also a friend of Laurier, was also defeated in Montreal. (Préfontaine eventually became a minister in Laurier's government.)

Henri Bourassa, French Canadian political leader and journalist, founder of ***Le Devoir***

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Fire reignited at the same time on language rights during the creation of Saskatchewan and Alberta. Laurier brandished the Manitoba policy, but to the young members of the *Mouvement nationaliste* in Quebec, Laurier had again gone too far. Henri Bourassa finally abandoned his Liberal backbench seat in the House of Commons and was elected to the Quebec legislative assembly.

Laurier's careful positioning between six fronts worked, however, and his popularity improved with each campaign: 55.9 percent in 1900, 56. 4 percent in 1904, and 56.7 in 1908.

Keeping cover in the middle of six fronts is not easy. By 1909, Langlois's endless demands for more state involvement in myriad issues became unendurable. Laurier finally acted in late 1909 and Langlois was fired. Langlois established *Le Pays*, a furiously combative weekly, in January 1910. In the same month, Henri Bourassa launched *Le Devoir* to fight Laurier's idea of a Canadian navy. Both campaigned against Laurier in 1911. The Liberals took 50.2 percent of the vote in Quebec, a loss of six percentage points, and dropped 16 seats.

Remarkably, Laurier persisted. In the 1917 election, his enemies rallied to him to fight against the Union Government led by Robert Borden. Finally, in his last race, Laurier had united Quebec, with almost 73 percent of the vote. He died exactly 14 months later.

Laurier was buried in Ottawa, not in Quebec. There was some justice to this surprising decision. He had lived in the city for much of his life and had aspirations for it. Still, it was telling. Even with the bittersweet victory of 1917, it was felt best that his final rest be outside his province, away from the battle fronts that had marked his life in Quebec.

Patrice Dutil *is Professor of Politics at Ryerson University. He is the author of* Devil's Advocate: Godfroy Langlois and the Politics of Liberal Progressivism in Quebec *and co-writer of* Canada, 1911: The Decisive Election that Shaped the Country.

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Like Chrétien, Trudeau has been handed an opportunity on trade

The Liberals return to power much like they did in 1993, with a decision to make on an important trade deal negotiated by a despised former government, writes MLI Managing Director Brian Lee Crowley. Trudeau's government should approve the TPP, as Chrétien did NAFTA, in large part because of the benefits to trade with the US.

Brian Lee Crowley

It's 1993 all over again. In that year the Chrétien Liberals swept out of office a decade-old Tory regime whose legacy they despised. Yet sometimes governments you detest nonetheless do things that are in the national interest. That presented the Chrétien Liberals with the dilemma of what to do about the NAFTA agreement their predecessors had negotiated with the US and Mexico. Chrétien squared that circle by declaring he would renegotiate the agreement but found that no one showed up from the other two countries for such talks. Having satisfied honour with a token resistance he quietly let the deal go forward.

Fast forward to 2016. The Trudeau Liberals have swept aside the Tories, one of whose last acts was to complete the negotiations for the Trans-Pacific Partnership, a Pacific-basin trade deal comprising 12 countries. This time the Grits were cannier politically — during the election they declared themselves pro-free trade and said that once in office they would study the TPP and decide what to do on its merits.

Now, however, the election's over, and the new government clearly wants to eat its cake and have it. On the one hand they want to be seen as favouring trade and market diversification. On the other hand, they don't want to cheer a Harper achievement and they want any disaffected sectors (like, say, autos or supply management) to blame the Tories, not the Liberals.

Ottawa's strategy, led by the able International Trade Minister Chrystia Freeland, is to ask Canadians to give them reasons to approve the TPP because, gosh, they are not sure they should like this deal. Thus Ms. Freeland announced, for example, that while she would sign it at a ceremony in New Zealand, this was

Jean Chrétien at an MLI event in 2011
(Photo courtesy Macdonald-Laurier Institute)

by no means an endorsement of the TPP. Uh-uh. No way we are approving this, said she. This is a purely technical requirement, she intoned, looking all the while like a bad smell was wafting up from the text she had just signed.

Hence we now get "consultations" with Canadians so that, the government hopes, those who benefit from the deal will speak loudest and the government can then say that Canadians told them to sign.

If that's what they want I for one am happy to oblige. In addition to the usual benefits of freer trade, there are two main arguments in favour of TPP, each of which is sufficient in its own right. Together they make a compelling case why Canada would be foolish to miss the TPP boat.

The first reason is our relationship with the US. Everyone knows that the US is our biggest trading partner, taking more than two thirds of our exports; we negotiated free trade with them in the 80s because we couldn't afford to have such a foundational relationship subject to unilateral politicking by Washington. If this argument passes you buy, I have three things to say: Buy America, softwood lumber and Keystone XL. These are all examples of how trade issues not governed by NAFTA can be and are manipulated by US politics to harm Canadian interests.

The Chrétien Liberals chose the national interest over partisan squabbling on trade.

Many will believe that our relationship with the US is already fully covered by NAFTA, but no. NAFTA is incomplete and outdated and TPP is a chance to modernise its provisions in a way we and Mexico would not obtain on our own.

Here are just a few examples of improvements over NAFTA that TPP offers according to international trade expert Larry Herman. We get much-better-than-NAFTA access to lucrative US markets like government procurement and financial services, a whole series of protections for e-commerce (something not even touched on in NAFTA), and new intellectual property protection rules that benefit Canada's creative industries such as music, software and publishing. The fact that we gain this access to other TPP signatories' markets too, such as Japan's, is just icing on the cake.

Put the other way round, Canada would be ill-advised to allow our NAFTA partner Mexico to gain the benefits of improved access to the US market not available to Canadian companies. At a stroke we would be a second-class NAFTA partner and every other TPP signatory would have better access to the US than we would.

The second reason to embrace TPP is China. China was not part of the TPP negotiations for a very good reason. The market-oriented nations of the Pacific wanted to set the rules for regional trade before China became so powerful it could dictate them unilaterally. TPP now creates a huge trading bloc China will want to join, and it will have to accept the rules pretty much as they are. Canada's interests would be far better protected by working with its TPP partners to entice China into their tent than attempting to negotiate a Canada-China deal in which we would be the weaker party.

The Chrétien Liberals chose the national interest over partisan squabbling on trade. We are about to find out if the Trudeau Liberals can pass the same test.

Brian Lee Crowley i*s Managing Director of the Macdonald-Laurier Institute.*
An edited version of this column appeared in the Globe and Mail.

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The TPP will benefit, not harm, Canadian e-commerce

Much has been made of the e-commerce provisions of the Trans-Pacific Partnership trade deal. Richard C. Owens, writing in the National Post, says the agreement will only help Canadian business, innovation and consumers.

Richard C. Owens

Like the intellectual property chapter of the Trans-Pacific Partnership, the electronic commerce chapter has taken some knocks. Professor Michael Geist of the University of Ottawa Faculty of Law has been particularly critical, calling both chapters a "major failure" of negotiation. A comprehensive assessment shows them to be anything but.

The IP chapter is long. The electronic commerce chapter (chapter 14) is not. This reflects the far wider international agreement on IP rules and principles, as reflected in many treaties. Electronic commerce is newer; governments are still determining how best to legislate over it effectively, and have adopted different approaches. Out of the diversity and paucity of electronic commerce regulation emerges a narrow common ground. Thus one of chapter 14's articles provides for extensive international cooperation on the development of policies and laws. Perhaps the relative brevity of the chapter is the reason that criticism has focused on what it doesn't say, rather than what it does. As Professor Geist said, "Canadian negotiators adopted a defensive strategy… doing little to extend Canadian policies to other countries."

Extend Canadian policies to other countries? Could that seriously be an objective of a Canadian trade negotiation team? Isn't trade negotiation tough enough without aspirations to legislative imperialism?

Professor Geist laments that the Chapter 14 provisions dealing with unsolicited commercial electronic messages are insufficiently like Canada's Anti-Spam Legislation (CASL). But why would Pacific Rim nations want CASL, which is so harshly judged in Canada? Look at what, in the absence of copying CASL, was accomplished in the TPP. It requires minimization of unsolicited messages, or the ability to opt-out of, or consent to, commercial messaging; recourse against suppliers for unwanted messages; and international cooperation in cases of concern. This is good work for a treaty whose object is trade generally, not solely electronic commerce.

> *The new Liberal government should be encouraged to adopt it without delay.*

Professor Geist raises similar complaints about the personal information protection provisions of the TPP. In this area, Canada has a patchwork of laws across the country; why would the nations of the Pacific Rim be persuaded to adopt Canada's example (assuming that they could make sense of it)? And again, the TPP duly emphasizes the importance of the protection of personal information, requires enforceable privacy protection and requires each party to encourage the development of mechanisms to promote compatibility between their differing privacy regimes. This is an improvement over the existing state of affairs in that it creates the expectation of a developing reciprocal protection of privacy. Chapter 14 also requires the parties to promote international compatibility of their regimes.

Notch another one for the consumer.

Professor Geist worries also because the TPP requires that parties allow the cross-border transfer of business data, including personal data. This, of course, is now the norm and international business would be severely hampered without the power to make such transfers. But lest anyone fear that this will cramp Canada's ability to protect sensitive data, the rule does not apply to data held by or contracted for by governments, thus saving British Columbia's and Nova Scotia's existing initiatives regarding the processing of health information, and allowing others to be formed. It is also subject to any policy a party may establish for any "legitimate policy purpose," provided it doesn't constitute a means of arbitrary or unjustifiable discrimination or disguised restriction on trade, and does not impose restrictions greater than are required to achieve the objective.

By setting out principles rather than dictating legislative text, the TPP preserves a wide scope to governments to mould law and policy to their own circumstances. Preserved too is the ability of any government or person to try to persuade a party to take one legislative approach or another. The field remains open to convince, for instance, Vietnam or Brunei to adopt CASL; but to expect the TPP to set out detailed legislative policies where no international consensus is yet formed is to forget that it is a trade treaty, not a novel IP/electronic commerce initiative. Indeed it is remarkable what a forward-looking treaty it is, given the tight constraints of trade negotiation. Chapter 14 right off establishes non-discriminatory treatment of digital products, and a prohibition on customs duties on them, but also does so much more to create a shared and safe electronic commerce environment.

Missing in TPP commentary to date is the extent to which it enshrines consumer-oriented principles. In the IP chapter we see principles like the importance of the fair dealing exception to copyright, of the public domain, access to medicines, protection of public health, and assistance to less-developed economies. The electronic commerce chapter underscores the importance of online consumer protection, personal data protection, free access to the Internet and protection from spam emails, as well as international cooperation on these and other matters, including cybersecurity.

The TPP is good for Canadian innovators, business and consumers. Our new Liberal government should be encouraged to adopt it without delay.

Richard C. Owens *is a Toronto lawyer and adjunct professor of law, and author of the recent paper titled "Debunking Alarmism over the TPP and IP: Why the Trans-Pacific Partnership is a Good Deal for Canadian Innovators" for the Macdonald-Laurier Institute. This article first appeared in the* National Post.

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Western economies aren't destined to stay ahead

CapX author Victoria Bateman explains that economies are like people in that they require certain 'personality' traits to succeed. The Western powers need to show a little humility to avoid being caught by the rest.

Victoria Bateman

No one's perfect, and the popularity of New Year's resolutions suggests that most people agree. Whatever your latest resolution, my Cambridge college, Gonville and Caius, has a clear idea of the kinds of personal qualities we should all aspire to, so much so that students pass through three symbolic gates on their academic journey, representing honour, virtue and humility. Of course, we economists don't spend too much time thinking about the merits of these types of individual characteristics. You could say, more fool us.

A growing body of research suggests that personality traits can be just as important for individual success as is human talent. We probably all know about the famous Stanford marshmallow test, where a child's ability to resist a sweet treat at a young age appears to correlate nicely with their future achievement. Taking this one step further, a recent paper by Bhash Mazumder from the Chicago Fed concluded that inequality in non-cognitive skills "explains as much or more of the variation in intergenerational mobility than inequality in traditional measures of cognitive skills such as numeracy, literacy and problem solving". What is true for people should also be true of economies. To succeed in the long run, economies need to have more than ability and endowments.

Working and teaching in the ivory towers has certainly taught me that however "clever" an individual is, they need to be open to the ideas of others and willing to actively look for and accept criticism if they are to thrive in the longer term. Western brains are no cleverer than those elsewhere in the world. What has instead advanced Western science, intellect and business over the last two centuries has been a temperament of humility. If the West

is to find the economic holy grail, defying the story that "every dog has its day" and sustaining its economic leadership in the years to come, economists need to think beyond the usual set of "economic fundamentals". As our parents taught us in our youth, personality matters, and, if the economy was a person, it would do well to keep checking-in at my college's gate of humility.

> *Humility is what provides economies with such responsiveness.*

Unfortunately, it doesn't look like that will be happening this year. Whilst China lurches from one stock market crash to another, and as falling commodity prices wreak havoc in Russia, the Middle East and Latin America, the United States and Britain seem to have a lot to boast about in comparison. Combine that with an American presidential election and a potential British vote on its membership of the EU, and the year ahead looks like it will be one of the leading economies parading their greatness – of showing that they can do perfectly well on their own, thank you very much. Whilst poorer economies such as China will no doubt be learning from their current woes, placing themselves in an even stronger relative position in the longer term, we in the West will be interpreting our relatively better economic performance as a sign that we are destined to stay ahead – and blaming any setback that comes or way on foreign shocks.

This is nothing more than foolhardy. Throughout history, great and glorious civilisations have faltered, and more often than not for what seem to be inexplicable reasons, and despite having ability and endowments. If the fall of Rome or the decline of the historically innovative Chinese and Middle Eastern civilisations had been easy to explain, they wouldn't still be preoccupying historians – and the minds of those beyond academia – to this day. If America and Britain are to avoid the same fate, they will need to keep their eyes open to their weaknesses, to learn from others, and not be blinded by their success.

For a small company or a poorer economy, such humility would of course seem entirely natural. China and India have come on leaps and bounds by addressing their own weaknesses and adopting some of the better aspects of the "Western" economic model. Smaller economies and quasi-states which have instead chosen to turn their backs on the rest of the world, demonising external influence and believing in their own inherent greatness, have, by contrast, condemned their people to poverty.

However, not only can a lack of humility cost poorer economies. For a large company or prosperous economy in a dominant market position, overconfidence and a feeling of superiority are the enemy of continued progress. If you are successful, it's easy to assume that there is nothing to be learned from those around you – that the rest of the world needs to learn from you and that you have nothing to learn in return. Whether we are talking about a large business or an entire economy, rise and decline is, however, seemingly difficult to avoid, and the only way to forever postpone the inevitable is to regularly engage in self-criticism – to learn from those that are smaller, just as a parent learns from a child or a teacher learns from a student. To borrow the title of Peter Blair Henry's book, there are "third world lessons for first world growth".

In the real world, we operate on continually shifting sands and so, in the words commonly attributed to Charles Darwin, "it is not the strongest of the species that survives, nor the most intelligent, but the ones most responsive to change". Humility is what provides economies with such responsiveness. Like people, economies are all imperfect. Continued success requires overcoming our weaknesses whilst we are riding high on our strengths. If we don't, and as the weather turns, the dark horse wins the race. Success turns to decline.

With countries from Brazil to Russia having missed out on their own opportunity to fix the roof whilst the sun shines, it's important that we don't now do the same. Even though things look relatively calm on our own particular economic surface, there are still underlying economic problems that need to be resolved, from fixing the architecture of financial regulation, which Howard Davies warned this time last year was well off the mark, to the labour market and welfare policies that now require a radical rethink in the face of modern day forces such as the "uberisation" of employment. Whether it's Trump and his wall, or Britain and the EU, we therefore need to be careful not to be overcome this year by pomposity. Humility is the true source of all greatness. To stand still we need to keep on improving.

Dr. Victoria Bateman *is an Economic Historian and Fellow in Economics, Gonville & Caius College, Cambridge, and Fellow of the Legatum Institute, London. She is author of the book* Markets and Growth in Early Modern Europe. *This article first appeared on CapX.co.*

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How to get infrastructure right

The new government is right to put a focus on investing in the country's infrastructure, write MLI Senior Fellow Sean Speer and transportation expert Brian Flemming in an excerpted paper from the MLI series "From a Mandate for Change to a Plan to Govern". But in doing so it should avoid attempts at short-term stimulus and ensure infrastructure funds are spend wisely for the greatest long-term benefit.

Sean Speer and Brian Flemming

The Canadian economy is softening. Oil and gas prices continue to drop and energy companies have responded by cutting capital spending and laying off workers. The dollar has fallen to its lowest level in nearly 45 years. Equity markets are turbulent. Canadians are beginning to express a lack of economic confidence. The new government is now facing pressure from some quarters to present a bold economic plan.

The major economic plank in the Liberal Party election platform was a significant increase in federal infrastructure spending. The Liberals pledged to effectively double federal spending on provincial, territorial, and municipal infrastructure by infusing another $60 billion over the next 10 years. This election commitment was characterized as both a plan to boost Canada's economy in the short-term and to provide for "sustained economic growth for years to come".

Canada's more recent economic doldrums have prompted the new government to place a greater emphasis on its programme's short-termism. It is rumoured to be considering options to use the program to try to stimulate the economy, and fast.

The government's plan to boost support for national infrastructure has its merits. High-quality infrastructure is a key condition for long-term economic growth. It should be also be credited for

its willingness to support public-private partnerships as an effective tool for infrastructure financing and project management, and consider innovative financing tools such as infrastructure banks to raise low-cost capital to meet our infrastructure needs.

But the government should exercise caution in shifting its focus from a long-term infrastructure plan to a preoccupation with short-term economic conditions. Not only is it unlikely to produce meaningful economic results, poor policy choices now may undermine the government's infrastructure plan over the long-term. Instead, the government should adopt big thinking with respect to (1) ensuring greater political accountability between infrastructure revenue generation and spending, (2) targeting projects with the most economic return, and (3) creating the policy conditions for more private sector capital spending.

The prime minister says that he intends to "do this right" with respect to setting out a long-term, strategic infrastructure plan. The purpose of this essay is to help the new government achieve this important objective.

The ultimate goal, as the Liberal Party press materials rightly put it, is to "set the foundation for 21st century prosperity."

THE EVOLUTION OF FEDERAL INVOLVEMENT IN INFRASTRUCTURE SPENDING

The federal government's role in infrastructure spending has ebbed and flowed over the past 50 years. Think-tank scholars and policy researchers have documented a gradual federal withdrawal from national infrastructure from the post-Second World War era to 2004. Thereafter a new political consensus emerged in favour of a renewed role for the federal government in infrastructure financing. It is currently poised to reach levels that would represent modern highs.

This evolving fiscal relationship between Ottawa and the other levels of government with respect to infrastructure financing is highlighted by the declining role of the federal government in direct ownership of capital assets and its increase in transfer payments to offset infrastructure spending by provinces, territories, and municipalities.

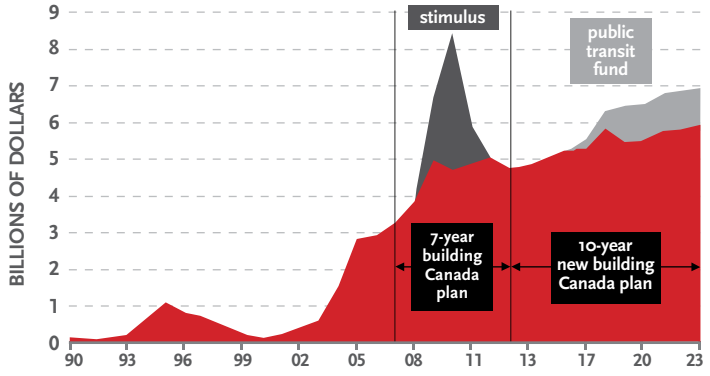
Consider, for instance, that in 1955 the federal government owned 44 percent of public infrastructure, the provinces owned 34 percent, and local governments owned 22 percent, and now provincial, territorial, and municipal governments own and maintain roughly 95 percent of Canada's public infrastructure.

The federal government started to gradually assume a co-finance role in provincial, territorial, and municipal infrastructure projects in the early 2000s. New federal infrastructure programs functioned as intergovernmental transfer payments to the provinces for specific projects and were conditional on matching financing from provincial and municipal governments. This co-financing mechanism became the central means of federal infrastructure funding. The provinces would submit project applications and assume project management responsibility in exchange for a federal financing share.

> *The Harper government continued the expansion of the federal role in national infrastructure spending.*

One exception to this model is the Gas Tax Fund which was launched in 2005 as the first dedicated transfer payment for municipal infrastructure. The fund was subsequently increased from $1 billion to $2 billion per year in 2009, made permanent in 2011 and indexed in 2014. It functions based on contribution agreements with provinces (except in the case of the City of Toronto) and allocates a per-capita share that provincial and territorial governments then flow to their municipalities to support local infrastructure priorities. Municipalities can pool, bank, and borrow against this funding and use it for a wide range of capital projects. There is no matching funds requirement. This type of dedicated, ongoing financing represented a significant new commitment to provincial, territorial, and municipal infrastructure on the part of the federal government.

The Harper government continued the expansion of the federal role in national infrastructure spending. Its 2006 election platform lamented the country's "infrastructure deficit" and promised to provide greater financial support to lower levels of government to co-finance infrastructure projects. The government subsequently rolled out its seven-year Building Canada Plan (which comprised different co-financing streams with the provinces, territories, and municipalities) and followed it up with its 10-year New Building Canada Plan in 2014. Annual federal infrastructure funding climbed by one-third as a result. These multi-year, large-scale transfer payments to the provinces, territo-



(Chart 1)

Federal spending on provincial, territorial, and municipal infrastructure

Source: Department of Finance Canada 2015, Chart 3.4.5.

ries, and municipalities reflected a new federal role with respect to national infrastructure.

The Building Canada Fund framework was augmented in the intervening years by the government's fiscal stimulus plan in response to the 2008 global economic recession. A major share of the federal stimulus package took the shape of greater transfer payments to lower levels of government for infrastructure projects. Federal spending jumped on provincial, territorial, and municipal infrastructure to an all-time high as a result (see chart 1). The Federation of Canadian Municipalities – the primary lobby group for Canada's cities – describes it as "an unprecedented federal-municipal partnership that will benefit cities and communities for years to come."

The outcome of this increase in federal transfer payments for infrastructure has been a major renewal of Canada's capital assets over the past 15 years. As economists Jack Mintz and Philip Bazel note, we have witnessed a sharp increase in infrastructure spending as a share of GDP. In fact, over the past 3 years, Canada has become one of largest spenders on public infrastructure among OECD countries at 4 percent of GDP. Only Estonia (5.5 percent), South Korea (4.8 percent), Poland (5 percent), and Sweden (4.4 percent) spend more. We now spend more than the US (3.7 percent) and the European Union (roughly 3 percent). The result is that the age of our public infrastructure stock has fallen from 17.8 years to 14.7 percent years.

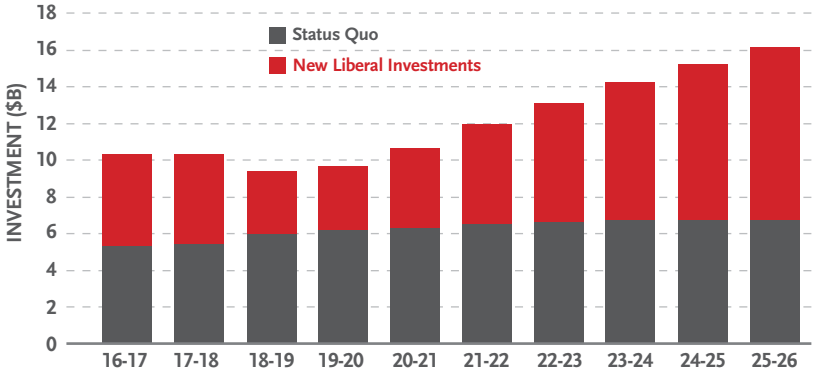
The federal government's expanded role in national infrastructure has not been limited to traditional co-financing with the other levels of government. It has also begun to experiment with public-private partnerships, and alternative forms of financing as exhibited by the Public Transit Fund announced in the last budget.

The 2008 creation of PPP Canada, a Crown agency responsible for coordinating federal support for infrastructure projects delivered through public-private partnerships, was an important catalyst for a new focus on innovative financing. The P3 Canada Fund was established with more than $1 billion and was recapitalized in 2014 by the same amount. Progress was slow initially as the new organization was stood up and began to engage with lower levels of government on how best to advance these types of projects, but it is increasingly helping to shape a greater openness to public-private partnerships. As two policy analysts from the Conference Board of Canada write: "Through the creation of PPP Canada and the P3 Canada Fund, the federal government has played a more active role in encouraging P3 project delivery across the country. This fund is particularly important as an encouragement for greater municipal involvement in P3s."

The growing interest in public-private partnerships as a financing and project management model has been partly motivated by the goal of leveraging private sector capital but the principal reasons have been to transfer risk and to draw in its expertise in asset management. The evidence in favour of the model – particularly for large-scale projects with clear revenue-generating potential – is strong. A recent study published by Lawrence National Centre for Policy and Management at the Ivey Business School, for instance, conducted case studies of 6 major infrastructure projects executed as traditional builds and public-private partnerships to analyse the results. The authors conclude that "the P3 approach is generally superior because it brings to bear specialized expertise, due diligence and accountability mechanisms that are not possible to replicate in the political environment in which public sector managers work". These outcomes suggest that the public-private partnership model should be kept and expanded.

(Chart 2)

Federal infrastructure spending under the new government's plan



Source: Liberal Party n.d., 5.

Overall, these developments in the past 10 years represent a significant shift in the federal role in financing national infrastructure. The new government inherits an arrangement where the federal role is primarily to direct resources to lower levels of government and coordinate private sector involvement.

THE NEW GOVERNMENT'S PLAN

It is fair to say that increasing federal transfer payments for infrastructure represents the core feature of the new government's pro-growth agenda. The fiscal impact of its plan will be considerable. As mentioned, it represents a near doubling of its predecessor's commitment to infrastructure spending, or another $60 billion over the next 10 years. To put it in perspective: the government's plan proposes to spend more per year than what was expended during the 2009–11 temporary stimulus, yet on a permanent basis for the next decade (see chart 2).

While the government has made firm commitments about the magnitude of its incremental support and provided a general sense of its priority areas such as public transit and wastewater facilities, there remain some outstanding details about the plan's design and financing model. It will be important that these issues are properly resolved if the government is to "do this right", as the prime minister has pledged.

One of the new government's key pledges with respect to infrastructure financing is the creation of a new Canada Infrastructure Bank to provide low-cost financing for new infrastructure projects. The party platform indicated that the bank will use the federal government's credit rating and lending authority to help municipalities achieve lower borrowing costs. The details are otherwise undeveloped at this stage.

Brian Flemming writes extensively about the potential utility of this type of financing option as "another 'tool' in the 'toolbox' of possibilities for those public officials who are wrestling with great [infrastructure] needs and limited funds". At present the new government's vision presumably involves the creation of a publicly-owned federal infrastructure bank, but that is not the only model available to them.

> *The use of the public-private partnership model can serve to minimize the politicization of infrastructure spending.*

Flemming has analysed other models such as a mixed public-private bank that is administered at the federal level, or provincial-municipal banks that are jointly owned and operated by the lower levels of government. The latter structure would be created by provincial legislation but the capital for such a body could come both from discrete bond issues for that purpose or even from pooling some or all of the gas tax or HST funds (transferred from the federal government) that are already in the exchequers of provinces and municipalities. This decentralized model would be responsive to regional and local circumstances.

With respect to public-private partnerships, the new government will need to clarify its intentions. The prime minister, to his credit, has spoken positively about a complemen-

tary role for private capital. But early signs – particularly the removal of the so-called "P3 Screen" which requires all major federally-funded infrastructure projects to be assessed for public-private partnership options – have led to some questions about the government's commitment to greater private sector involvement. An evidence-based infrastructure plan will need to draw from the research on the efficacy of public-private partnerships and figure out how to utilize the private sector.

The final outstanding question is the government's expectations with respect to the matching contributions of lower levels of government. The traditional co-financing model has tended to require two-thirds of funding from provincial and municipal governments. The purpose of this type of co-financing is not just motivated by fiscal considerations. There is also a fiscal federalism dimension to it. Requiring that the provinces and municipalities co-finance individual projects imposes discipline on the levels of government that are selecting and managing projects and provides for political accountability at the local level. The new federal infrastructure minister has indicated that the government may relax these co-financing requirements. If the government ultimately chooses this path, it will need to explain its rationale and what steps it is taking to maintain lower level accountability with respect to infrastructure spending.

THE CASE AGAINST STIMULUS

There is speculation that the government is now "actively considering" options to speed up its infrastructure spending to provide for a fiscal stimulus.

The question of whether the current economic conditions require a stimulative fiscal policy in general and a major infusion of short-term federal infrastructure funding in particular has generated some debate among economists and public policy commentators. The preponderance of opinion disputes the case for stimulus.

The case against fiscal stimulus in the current context rests on three primary considerations: (1) the commodity-driven nature of our current economic malaise is largely impervious to fiscal stimulus, (2) the economic downturn is regionalized and fiscal stimulus would likely be untargeted, and (3) the short-term economic payoff is probably overstated.

A major catalyst of Canada's economic downturn has been the sharp drop in commodity prices. The precipitous drop in oil and gas prices over the past several months has continued largely unabated. Consider, for instance, that crude oil futures have fallen below $30 US per barrel for the first time since 2003 and declined by more than 20 percent in the last two weeks alone. As a major energy-producing country, this fall in commodity prices has taken its toll.

But there is little evidence that unilateral fiscal stimulus by the Canadian government will mitigate a downturn prompted by changes in global oil prices. As Laval University economist Stephen Gordon writes: "there is no mechanism that I know of by which changes in government spending (a demand response) can offset the effects of changes in oil prices (a supply shock)."

> *High-quality infrastructure is a key condition for long-term economic growth*

Another limitation of a fiscal stimulus plan in the current context is the extent to which the economic downturn is regionalized. Energy-producing provinces such as Alberta are experiencing a significant downturn. Alberta's unemployment rate, for instance, has climbed to nearly 7 percent and is now above Ontario's for the first time since 1994. But other parts of the country are not experiencing the same type of downturn. As Bank of Canada governor Stephen Poloz said in a speech earlier this year: "just as we see divergence in economic performance between countries in response to lower resource prices, so, too, we see divergence within Canada, among our different sectors and geographic regions." A national programme of stimulus spending would therefore invariably be untargeted and largely unproductive in many parts of the Canadian economy.

The final limitation to a short-term stimulus programme is that Canada is an open trading economy and has a flexible exchange rate and thus any gains would be minimized by leakage across the border and distort the market-based adjustment to Canada's exchange rate. University of Calgary economist Trevor Tombe has reviewed the economic research on fiscal stimulus spending in economies such as Canada's and come to the conclusion that "we shouldn't overestimate infrastructure's short-run effects on economic activity." This is exacerbated by the reality that so-called "shovel-ready projects" often fail to materialize and the timing of a short-term stimulus is unlikely to provide the boost in the right timeframe.

This is all not to say that the federal government should roll back its infrastructure plan. It just means that it should not sacrifice "getting this right" for the long-term in order to expedite or augment spending in the short-term.

> *The government's emphasis should be on projects that offer the greatest long-term economic return.*

RECOMMENDATIONS FOR A STRATEGIC, LONG-TERM INFRASTRUCTURE PLAN

Overall, the new government is right to prioritize high-quality infrastructure as a key driver for economic growth. As Canadian economist Kevin Milligan writes: "a volume of academic research finds public infrastructure makes workers and firms productive."

The minister of infrastructure has been tasked with developing a 10-year infrastructure plan in partnership with the provinces, territories, and municipalities. Here are three policy recommendations for his consideration as he carries out his important work.

First, the federal role in national infrastructure should better incorporate the strengths of Canadian federalism. This could involve major changes to the current co-financing model. Bazel and Mintz argue that the interprovincial transfer payments are a "seriously flawed means of funding local infrastructure." They argue that this severs the link between revenue generation and spending responsibilities and in turn diminishes political accountability. Their analysis points to a greater use of user fees such as tolls and market-based transit fees to finance the cost of local infrastructure.

Such an approach would not necessarily involve a complete federal withdrawal from infrastructure financing. An infrastructure bank, for instance, would draw upon the federal government's low-cost borrowing but still leave project decision-making and asset management to local governments. An infrastructure bank could source its initial capital from the divestiture of current federal assets. The federal government presently owns valuable assets such as airports and ports that could be monetized and used to capitalize the bank without worsening federal public finances. It is an important idea that the government is right to explore.

Another option would be to shift a greater share of federal support to the Gas Tax Fund or other unconditional transfers rather than traditional co-financing arrangements. Direct benefit spillovers from infrastructure justify some federal involvement – particularly with respect to highways, railways, and ports – but the goal should be to maintain decentralized decision-making and political accountability. A plan that leads to more federal conditionality and centralized decision-making would therefore be a step in the wrong direction.

The second recommendation is that the government's emphasis should be on projects that offer the greatest long-term economic return. This seems intuitive but often the political nature of infrastructure decision-making leads to poor choices. A bias towards recreational or cultural projects over productivity-enhancing ones or subsidizing the true cost of infrastructure use (think, for instance, subsidized public transit) are often political calculations that produce sub-optimal outcomes.

The new government's broad infrastructure categories poses this risk. The inclusion of child-care facilities, social housing units, and transportation infrastructure in a single plan could limit the scope for cost-benefit analysis and orient funding to non-core projects. It is not to say that child-care facilities or social housing are unimportant but rather that lumping these categories together can confuse priorities and ultimately lead to project decision-making based on political or ideological calculus.

Policy thinkers have contemplated different options to minimize political input into infrastructure decision-making. Bazel and Mintz, for instance, have proposed the creation of arm's-length public organizations responsible for carrying out independent cost-benefit analysis of prospective projects to determine which ones should be prioritized based on economic return.

The infrastructure bank model could be part of the solution. Brian Flemming has written about how the design elements of a federal infrastructure bank would ensure independence and accountability with respect to investment decisions. An infrastructure bank could be structured with similar transparency and accountability as any TSX-listed company. That means having public annual general meetings and the issuance of regular quarterly and annual reports with independently audited accounts plus a management review and analysis that is similar to those required by public companies.

More generally, the use of the public-private partnership model can serve to minimize the politicialization of infrastructure spending. The market impulses of private partners impose a discipline on project decision-making and execution. Therefore the new government should revisit its plan to remove the P3 Screen and indeed consider ways to enhance greater use of the public-private partnership model. This may require seed-funding to smaller municipalities to help them build the capacity to develop proper business cases.

Another virtue of a greater independence in project decision-making is that it allows for a more forward-looking assessment of need. The political cycle is invariably focused on the short-term while infrastructure spending has long-term consequences. It is important to ensure that infrastructure assets do not become obsolete or limit the use of new technologies. One example is the potential for automated vehicles in the next 10 years. Current decision-making on prospective transportation projects should at least consider how to accommodate this technology if it becomes widely used.

> *A preoccupation with short-term imperatives could risk undermining the long-term efficacy of the government's plan.*

The final recommendation is not to neglect the potential for private sector capital spending. There is a tendency in public policy discussions to use a narrow definition of infrastructure that excludes private assets, such as energy projects or communications and broadband infrastructure, even though this private capital spending can be significant. Consider, for instance, that the private share of utility infrastructure has risen from 15 percent to 35 percent of infrastructure spending in the past 25 years.

The reality is that private infrastructure investment has been growing faster than public investment, and could represent a major source of productivity-enhancing investment in the coming years. The Energy East pipeline alone is projected to have capital costs of more than $15 billion. This level of private capital spending could represent a significant boon to Canada's long-term economic prospects in particular since it will have broader utility with respect to energy transmission or broadband connectivity.

The government should therefore examine what steps could be taken to create the conditions for greater private infrastructure spending. Recently the minister of natural resources has pledged to get Canadian oil and gas to tidewater. This is a promising commitment. Many projects remain tied up by slow regulatory processes. Any steps that the government can take to expedite the process would unlock significant private infrastructure spending, in addition to the long-term benefits of resource development.

CONCLUSION

Among the new government's top economic priorities is developing a long-term, strategic infrastructure plan. The recent economic downturn has placed pressure on the government to shift its plan's focus to the short-term.

This essay makes the case for resisting these calls for short-term stimulus in favour of setting out a strategic infrastructure plan that contributes to long-term economic growth. A preoccupation with short-term imperatives could risk undermining the long-term efficacy of the government's plan.

As for the design of a long-term strategic plan, our essay sets out three key recommendations to "get this right", as the prime minister has put it.

An effective infrastructure plan should (1) harness Canadian federalism to maintain political accountability with respect to infrastructure revenue generation and spending, (2) target projects with the greatest economic return rather than based on political calculations, and (3) improve the conditions for private sector infrastructure spending on energy projects, broadband and communications infrastructure, and utilities. Practical options to achieve these goals can include a greater adoption of user fees and market-based transit fees, experimentation with infrastructure bank(s), and more use of public-private partnerships.

Following these guidelines would allow the federal government to really "set the foundation for 21st century prosperity".

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Brian Flemming *is an international lawyer, a public policy adviser and one of Canada's leading experts on transportation policy and the international law of the sea. He was chair of the Canada Transportation Act Review Panel of 2000-1 and has served as assistant principal secretary and policy adviser to Prime Minister Pierre Trudeau.*

Mergers and acquisitions, not goods, Canada's best value for trade growth

Brian Lee Crowley

The part of international trade that gets all the attention is to trade in goods and services. Canada has negotiated free trade deals with South Korea, the EU and the Trans-Pacific Partnership and now there is talk of a deal with China. In every case the fans of free trade tout the benefits of opening foreign markets to things Canadians make. But as desirable as that is, it may not be the most valuable kind of trade. And the most valuable kind of trade isn't necessarily with the countries we've been signing trade deals with.

There is a good case to be made that the international market for corporate assets, otherwise known as mergers and acquisitions (M&A), is the most consequential of foreign trade. Such trade tends to open up important new channels for the sales of goods and services, it shakes up management, brings new technologies and new management techniques to companies that might otherwise become stale and insular, and gives access to fresh capital to companies judged to have a bright future. Some analysts attribute Japan's poor economic performance in part to its resistance to such transactions compared to, say, Europe and especially the US.

Such transactions carry no guarantee of success, and indeed there have been many high profile failures, such as AOL and Time-Warner or eBay and Skype. On the other hand many mergers and acquisitions have produced good value, especially among the middle-sized companies that have a greater chance of successful integration than mating behemoths. But even the big boys have chalked up impressive successes like the ExxonMobil and GlaxoSmithKline matchups.

Rising M&A activity is generally taken as a sign of growing business confidence. If that's the case, the M&A record in the last year or so may help to dispel some of the gloom caused by falling stock markets and poorly performing national economies: according to financial journalist Richard Walker, "last year was a record year for global M&A, with deal values rising to $4.6 trillion – just above the previous high of $4.3 trillion for the previous peak year of 2007. And many large companies say there is more to come."

Unlike trade in goods and services, however, the really big M&A trade flows do not involve China or the Pacific Rim countries. The most successful two way trade in M&A occurs between two of the oldest, most established and richest economies in the world: the United States and the United Kingdom. In fact international M&A activity is starting to look like an Anglosphere speciality.

While the data for global M&A are always incomplete (because many such transactions are between private entities that need not disclose the price paid), it seems pretty clear that this trans-Atlantic relationship is leading the world, and the pace is accelerating, especially in high-tech. Again according to Walker, there have been nearly 500 M&A transactions between these two economies in the last year, with the Americans buying about twice as many companies as the British, but with each British-led transaction worth twice as much on average as the American-led ones. That suggests a fairly balanced relationship with both countries realising significant benefits.

Both countries share certain characteristics that make such transactions less anxiety-making than they might otherwise be. Similar business cultures, adherence to the rule of law and respect of contract along with large pools of well-managed capital and lots of well-run companies, strong management and relative transparency compared to much of the rest of the world all create an atmosphere of trust and mutual confidence.

My guess is that the corporate sectors of America and Britain will draw even closer in coming years. Whenever America and Britain have found it in their mutual interests to collaborate on a broad scale the results have been of global significance. This balanced transatlantic merging of the corporate sector is likely to be no exception.

There is a lesson here for Canada. In thinking about trade it is easy to be dazzled by the brash and relatively fast-growing new kids on the block, especially China. But if we want to build global competence in business we might want to think less about the mere transactional business of trade in merchandise and services and think about the long term capacity building that comes from buying and selling high-quality corporate assets in countries that we know and understand well. About two-fifths of the M&A activity in Canada is international, and we tend to buy twice as much internationally as we sell, but we have a way to go before we achieve the kind of strategic focus and scale that is cementing US-UK leadership of the international business world for the foreseeable future.

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This column first appeared in the Globe and Mail.

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Seeing the signs of domestic radicalization

Our experience shows there is no profile of a potential terrorist, writes former CSIS analyst Phil Gurski, but we are beginning to recognize which behaviours and attitudes suggest that someone might be heading down the path of violent radicalism.

Phil Gurski

The post 9/11 period in Canada has been robust in homegrown al Qaeda-inspired or, increasingly, Islamic State-inspired terrorism. There have been six significant attacks planned and/or executed in that timeframe: four foiled (the Toronto 18 in 2006, Project SAMOSSA in 2010, and the Via Rail plot and the BC Legislature plot of 2013) and two successful ones (the lone actor attacks in St-Jean-sur-Richelieu and Ottawa in October 2014). Two other related phenomena are Canadians who have carried out terrorist attacks abroad with Islamist extremist groups (among others the In Amenas, Algeria, gas plant attack of January 2013, and a suicide bombing in Iraq in June 2014), and the many who have left to become "foreign fighters" with groups such as Al Shabaab and Islamic State.

This is an increasingly rich data set which can be used to try to determine what is happening in Canada when it comes to radicalization to violence and whether or not there is a definable subset of Canadians who succumb to the extremist ideologies used by groups such as al Qaeda and IS. Added to that publicly available information are data that are not available in open source but to which I had access while working as a senior strategic analyst at CSIS from 2001 to 2015. It is this combination of open and classified information that enabled me to write *The Threat from Within: recognizing Al Qaeda-inspired radicalisa-*

tion and terrorism in the West (Rowman and Littlefield 2015). This article is a summary of the findings of the research I carried out in the writing of that book.

As you analyse the individuals who radicalise to violence in Canada, whether or not they move on to commit acts of terrorism, you quickly realise that they are cut from the general Canadian cloth. Aside from being Muslim (by definition), and a weaker correlation with males and youth, attempts to draw profiles fail rapidly. There is no consistency in family background or status, education level, employment, mental disposition (such as can be measured) or previous involvement with violence. In other words, these extremists are representative of the entire Canadian Muslim experience (findings in other Western countries would likewise reflect those countries' Muslim experiences). The obvious practical implication of this finding is the absence of a profile or checklist that can assist security intelligence and law enforcement agencies in narrowing the field of potential violent extremists.

> *There is no consistency in family background or status.*

All is not lost, however. Violent extremists in the AQ/IS paradigm tend in large part to exhibit certain behaviours and attitudes that betray their journey along the radicalization pathway. These indicators, as I have called them, are, perhaps surprisingly to some, overt and obvious. I believe that this openness stems from the fervour with which these individuals hold to their violent ideologies and their conviction that what they belong to is valid.

These indicators range from religious views, to social milieus, on-line habits and attitudes to Canadian society. It is important to stress that individuals exhibiting these behaviours and ideas will not necessarily move on to commit acts of serious ideologically-motivated violence. Nevertheless, the indicators are reliable signs of violent radicalization.

In the end I settled on 12 indicators. There are undoubtedly more but a longer list would not be as useful or practical for security intelligence agencies, law enforcement and anyone else in a position to observe these individuals. The following paragraphs summarise these indicators (note that an entire chapter in the book was required to provide a comprehensive discussion).

1. An intolerant, hateful and arrogant interpretation of Islam – extremists reject mainstream Islam and Muslims and see themselves as the only "true" Muslims;

2. Hatred for the members of certain Islamic sects – usually Shiites, Sufis and Ahmadis – and the belief that these individuals are not Muslim;

3. Rejection of non-Muslim beliefs and adoption of a view that non-Muslims are inferior;

4. Rejection of Canadian society and its tenets – democracy, rule of law, gender equality, etc. – and the belief that Islam also rejects these tenets;

5. Belief that Canada must be punished, through acts of terrorism, for its policies and acts against Muslims (the deployment of Canadian forces to Muslim majority lands is a common grievance and one that underlays all the attacks mentioned in the first paragraph);

6. Sudden change in social milieu and migration to smaller circles of likeminded people;

7. Obsessive viewing of violent extremist Web sites and frequent sharing of material found on those sites;

8. A belief in the Single Narrative: the West hates Islam, the West is at war with Islam and "true" Muslims have a divine obligation to fight;

9. Obsession with foreign conflicts and a desire to join terrorist groups fighting in those conflicts;

10. Obsession with violent jihad and the belief that jihad is an individual obligation on all Muslims;

11. Obsession with martyrdom and the conviction that martyrdom will lead to Paradise and allow one to intercede on behalf of one's family to gain Paradise;

12. Obsession with apocalyptic scenarios and a desire to fight in the cosmic, end-of-time battle between good and evil.

None of these indicators is necessarily illustrative on its own and context is critical. At the same time, however, these can help people identify individuals who are heading down a violent pathway and determine which action needs to be taken.

Decisions on what to do with individuals exhibiting signs of violent radicalization depend crucially on the specifics of each individual case. Just as there is no single profile of violent extremists nor is there a "cookie cutter" model for intervention. Responses to violent radicalization range from early intervention

and deflection (where the process is in its initial stages) to investigation, arrest, charges, trials and incarceration. There is a subset of measures to deal with foreign fighters that includes passport revocation. At the extreme end of response there remains the de-radicalization option: this approach remains contested and has not been adopted to any large degree in Canada.

Based on available knowledge, the extent of al Qaeda- or IS-inspired violent radicalization in this country appears to be relatively limited. CSIS and the RCMP will acknowledge publicly that they are engaged in several hundred investigations at any one time. This number is obviously not complete, as demonstrated by those who successfully evade detection to leave Canada to join terrorist groups abroad. There is nevertheless nothing to suggest that the problem is an order of magnitude larger, and it is very difficult to imagine future conditions that would lead to significant increases in the numbers of Canadians adopting, and acting on, these violent ideologies.

Despite this good news it has to be recognised that the phenomenon of violent radicalization will not disappear any time soon. There will be more plots and more Canadians departing for jihad abroad. Our security intelligence and law enforcement agencies will be seized with this scourge for years to come and it will remain the single greatest threat to national security. At the same time, it is incumbent on ordinary Canadians to cooperate in identifying potential risks as authorities cannot be everywhere. In the end, however, it is important that all of us, from politicians to average citizens, respond in a measured, proportionate manner.

Phil Gurski *was a senior strategic analyst at CSIS from 2001-2015. He spent more than 30 years as an analyst in the Canadian intelligence community. He is a recognised expert on radicalization and homegrown Islamist extremism and has presented on these issues across Canada and around the world. He is the President and CEO of Borealis Threat and Risk Consulting, and the author of* The Threat from Within: recognizing Al Qaeda-inspired radicalisation and terrorism in the West *(Rowman and Littlefield 2015).*

The world is safer than ever – even with the threat of terrorist attacks

Nicolas Bouzou

The atmosphere in France was already gloomy before the atrocities of the 13th of November. What should we call it now? A familiar tune is echoing louder and louder: we hear that the world is horrible, that the youth is getting lost, threatened by unemployment, climatic catastrophe and now this radical Muslim terrorism that casts a shadow on an already dark setting.

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It is in these times that we can turn to history for help. Indeed we fail to perceive a reality that only long-term data can reveal: in fact, the world has never been as welcoming as it is today. And in some way, this is precisely the problem: the safety and the comfort of modern life has made us more vulnerable, notably to the terrorist risk.

If you are unconvinced, have a look at the work of a young German economist living in Oxford, Max Roser. His fascinating research covers economics, health and security. In the economics field, Roser reminds us that in the last twenty years extreme poverty (defined as the proportion of individuals living with less than $1.25 a day) has halved (shrinking from 30% to less than 15% of the total population) all the while 66% of Americans surveyed believe it has doubled. Almost every impoverished country is engaged in a process of economic development which has a mechanical consequence: on a global scale, inequality is decreasing (this trend has been particularly visible since 1988).

As the American economist Jeffrey Sachs has said, for the first time in the world's history, we have the capacity to eradicate extreme poverty. Health data shows a similar picture: infant mortality has almost disappeared around the world; life expectancy has soared since 1875 when it ranged between twenty and forty years. The same is true of "healthy" life expectancy.

Given the current circumstances, security data is the most interesting to look at. And here too, Roser's data is unequivocal. The number of deaths due to war is rapidly decreasing thanks to the absence of large scale conflicts such as the 20th century world wars, the Napoleonic wars or those related to the French Revolution. In prehistoric societies, one individual out of 10 was killed by other humans. The same can be said of homeland security. In Europe, five people out of 100,000 are victims of homicide, a rate ten times lower than it was during the Renaissance. And, unless you live in Iraq, the chances that you will die from terrorism are 60 times lower than from suicide and 180 times lower than from diarrhea.

The truth is, the world has never been as secure and – which explains it – as educated as it is today. Never before have we been this civilized. Roser shows that insecurity has decreased over time with the extension of freedom. Ever since the fall of Communism, the number of democracies has rocketed. Forty percent of the world population still lives live an authoritarian regime, located in Asia and in the Middle East. It is a lot, but it has never been so low.

Seen through the lens of data, it is a major analytical error to consider that terrorism is the avatar of a world in material decay. It is quite the opposite. Humanity has been successful in building a planet that, despite all its problems, especially environmental ones, is more welcoming than ever. The main challenge of the antiterrorist struggle is to protect this treasure.

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A little healthy dissent at the Supreme Court

Benjamin Perrin

In January, the Supreme Court of Canada technically gave the federal government four more months to rewrite its physician-assisted suicide law. However, over the objection of four judges, a five judge majority exempted Quebec, which has its own new euthanasia law, and individual applicants – meaning physician-assisted suicide will now be legal starting Feb. 6. It follows a trend that has emerged of a court that has been divided amongst itself over the past year. But that might not be a bad thing.

In a review I conducted of the court's most important decisions over the past year for the Macdonald-Laurier Institute, one of the most striking findings was the difference in the number of split decisions and strong dissenting opinions compared to the relative unanimity and harmony of the year before. The year 2015 saw the emergence of a cadre of vocal judges who have raised the alarm that the court is intruding on Parliament's policymaking domain.

The court also appears to be making a habit of overturning its own precedents on controversial issues, including on physician-assisted suicide (toppling a 1993 precedent), RCMP collective bargaining (abandoning a 1999 precedent) and the existence of a constitutional right to strike (upending a 1987 precedent). It was too much for recently retired Justice Marshall Rothstein who wrote a scathing dissent in *Mounted Police Association of Ontario v. Canada (Attorney General)*, stating: "Fairness and certainty require that where settled law exists, courts must apply it to determine the result in a particular case. They may not identify a desired result and then search for a novel legal interpretation to bring that result about."

Notably, former prime minister Stephen Harper appointed all of the most vocal dissenting judges, and most have shown a predisposition towards judicial restraint to varying degrees.

In *R. v. Nur* (mandatory minimum sentences), Justice Michael Moldaver (with Justices Rothstein and Richard Wagner concurring) wrote in their dissent that Parliament's objective in adopting mandatory penalties for firearms offences is valid and pressing, and that "it is not for this Court to frustrate the policy goals of our elected representatives based on questionable assumptions or loose conjecture."

In *Saskatchewan Federation of Labour v. Saskatchewan* (the right to strike), Justices Rothstein and Wagner again dissented, arguing that "the majority is wrong to intrude into the policy development role of elected legislators by constitutionalizing the right to strike." They even went so far as to caution the Court against "usurping the responsibilities of the legislative and executive branches."

Finally, in *Quebec (Attorney General) v. Canada (Attorney General)*, it was majority Justices Thomas Cromwell and Andromache Karakatsanis who characterized the destruction of long-gun registry data as a "contentious policy choice" that was for Parliament to make, stating that "the courts are not to question the wisdom of legislation but only to rule on its legality."

In a 2009 speech to the Canadian Bar Association, Chief Justice Beverley McLachlin expressed pride in her court's historical record of a high number of unanimous decisions. At the time, she stated that Canada's top court had unanimous decisions in three-quarters of cases, compared with less than half of the cases heard by the U.S. Supreme Court. In 2015, however, our top court dipped to American levels of dissent in its major cases.

Harvard Law Professor Cass Sunstein's book, *Why Societies Need Dissent*, makes a compelling case that institutions, including courts, that show few signs of dissent are likely headed for trouble. His research shows that more uniform philosophical outlooks on judicial panels can lead to extremes if unchecked.

Dissent serves a valuable social function: it moderates, brings internal accountability and leads to better decisions because of the value of diversity and the contest of ideas. It will bear watching if the court continues this healthy new trend of dissent and debate within its ranks in 2016. Given the assisted suicide extension decision, it looks like it will.

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Decision on Energy East up to Ottawa, not Quebec mayors

The case law is clear, says Dwight Newman: The final decision on the controversial Energy East pipeline rests with Ottawa.

Dwight Newman

The residents of Saint John, like those of Alberta, see the Energy East pipeline's real economic value to Canada. Montreal Mayor Denis Coderre sees only risks to his own city.

Canada has always faced the prospect of some local interests opposing major national infrastructure projects. That is why the constitution puts interprovincial transportation projects in the sole jurisdiction of the federal government it can make decisions based on the overall national interest.

A long line of court cases interpreting the constitution recognize that interprovincial pipelines are a mode of transportation. The case law has also long been clear that provinces cannot exercise their jurisdiction in ways that interfere with interprovincial transportation. The question of whether to approve a major pipeline project like Energy East is an issue of national infrastructure, and it is a decision to be made based on the national interest.

The constitution puts interprovincial transportation projects in the sole jurisdiction of the federal government: it can make decisions based on the overall national interest

Some legal academics may try to tell us that this has changed because of complex changes in a doctrine called "interjurisdictional immunity". A recent trial court decision in British Columbia appears partly to have bought into those theories. It remains subject to appeal. These professors' academic theory and that court decision are out of step with many other decisions. And they are out of step with the fundamental principles of the federal government being able to make decisions on national infrastructure projects, as is necessary for the country to function.

It is of course fully open to Mayor Coderre to offer perspectives before the National Energy Board (NEB), and he can responsibly represent his constituents by doing so. As an independent regulatory board, it is the duty of the NEB to consider the various impacts of the projects it approves.

Although we have seen some pipeline opponents try to smear the integrity of the NEB, anyone who actually watches its operations knows that it is engaged in serious work to make responsible decisions. Its approval of pipeline projects is based on conditions that assure world-class safety and environmental standards of which Canada can be proud.

What is not open to Mayor Coderre, or the premiers of various

provinces, is to try to interfere with a national decision or to try to get the Prime Minister to politically meddle in the decisions of an independent tribunal. The decision, ultimately, is within the constitutional parameters of the federal government, and it has set up a fair, independent process precisely so that decisions are made in a principled way rather than based on local politicking.

These constitutional principles were the bases on which Canada was built. Had every province or municipality felt free to interfere with every interprovincial transportation project at will – or even to threaten it with the sort of unconstitutional "conditions" we have seen some try to impose – there very possibly would have been no national railways and no Canada to speak of.

In many ways, Canada defies geography. Though reaching boldly to the Arctic, much of its existence is a long strand just north of the American border. It wills itself to existence partly through the national infrastructure projects that link it economically together.

Canada is also a country of great diversity, and broad spheres of provincial jurisdiction respect this diversity. There is a careful balance in the constitution.

Provinces that want their provincial jurisdiction respected in future play a very dangerous game if they do not respect well-established principles of the constitutional division of powers. If the Mayor of Montreal is not willing to respect the jurisdiction of national decision-makers, why should other governments respect Montreal's or Quebec's jurisdiction? Just to be clear, I would be the first to firmly defend Quebec's areas of jurisdiction, but I defend also the areas of national jurisdiction that the constitution has defined.

The federation has a rule book so we can all live together in all our diversity. Canada is a complicated place, and we need to respect the founding principles of the constitution that holds us together. These principles imply right now that the NEB has a job to do, and local politicking must not interfere with it.

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