

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

# INSIDE POLICY

APRIL 2016



Canada-US relations

## The next chapter in a storied relationship

### Also INSIDE:

Trudeau avoids his father's footsteps in Washington

Q&A with Derek Burney and David Wilkins

Planners: Look out for the driverless car

Budget 2016: No cause for alarm?





# INSIDE POLICY

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

## *Published by the Macdonald-Laurier Institute*

Brian Lee Crowley, Managing Director, [mmdir@mli.ca](mailto:mmdir@mli.ca)  
David Watson, Managing Editor and Communications Director

### Past contributors

Thomas S. Axworthy	Laura Dawson	Carin Holroyd	Peggy Nash
Mary-Jane Bennett	Elaine Depow	Dean Karalekas	Linda Nazareth
Carolyn Bennett	Jeremy Depow	Paul Kennedy	Geoff Norquay
Massimo Bergamini	Peter DeVries	Tasha Kheiriddin	Benjamin Perrin
Ken Boessenkool	Brian Dijkema	Jeremy Kinsman	Jeffrey Phillips
Scott Brison	Don Drummond	Steven Langdon	Mike Priaro
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Ken Coates	Daniel Gagnier	Velma McColl	Michael Watts
Celine Cooper	Guy Giorno	Ted Menzies	Alex Wilner
Philip Cross	Stephen Greene	Robert P. Murphy	

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**Production designer:** Renée Depocas

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*Inside Policy*: 8 York Street, Suite 200, Ottawa ON, Canada K1N 5S6, PH: 613-482-8327

# From the editors

Canadians have been captivated by an election campaign south of the border that has been defined by the rise of outsider candidates, Democrat Bernie Sanders and Republican Donald Trump, with potentially ominous implications for Canada. At the same time, a strong relationship seems to be forming between incoming Canadian Prime Minister Justin Trudeau and outgoing US President Barack Obama. These are fascinating times for the world's greatest cross-border relationship.

By most accounts Trudeau's state dinner in Washington last month was a success, and MLI Senior Fellow **Sean Speer** observes that Trudeau seems to be making a strong departure from Pierre Trudeau's protectionist posture on the US, and demonstrating his leadership qualities. Relationships at the top matter, agree **Derek Burney** and **David Wilkins**, former ambassadors to Washington and Ottawa respectively. The two had a wide-ranging discussion in a Q and A with MLI in which they reflected on the best relations between Canadian and US heads of government (and those that were not so good), potential trade irritants, the importance of working with Congress, and also the Trump/Sanders factor. Wilkins recalls the strong relationship between Stephen Harper and George W. Bush being important to getting things done: "Upon learning directly from Prime Minister Harper how significant it was to him, to Canadians, and to the health and welfare of the US-Canadian relationship, President Bush immediately made resolving the softwood lumber dispute a top priority," said Wilkins.

Offering another perspective from the Washington side, Johns Hopkins professor **Christopher Sands** writes that Canadians could be forgiven for wondering what the current anti-establishment tone, and discouraging words about NAFTA in the campaign mean for us. He points out that since the late 1980s, America's Canada policy, such as it is, has been fairly predictable. Not anymore.

And while we're talking about the Trump phenomenon, **Stanley Hartt** warns that Canada isn't completely immune from a brash political outsider, like say Kevin O'Leary, who is polling second among those who are thought to be seeking the federal Conservative Party leadership. **Elaine Carsley** reflects on Trump's strange appeal to evangelical Christians.

Also in this issue, **Sean Speer** responds to the odd backlash against those who are concerned about a return to federal deficit spending; cyber security expert **Valarie Findlay** explains how Canadian policy leaves us vulnerable to enemies online; **Christian Leuprecht** warns that the left should be careful about wishing for proportional representation; **Philip Cross** suggests that Canada's Finance Minister shouldn't have skipped the procedure for turning his heart to stone and saying no to funding demands; **Brian Flemming** says watch out policy makers, here comes the driverless car; **Andrew Pickford** and **Jeff Collins** explain how Canada and Australia are the perfect polar partners; and **Brian Lee Crowley** offers up a more accurate name for the suddenly-popular living wage term: a tax on jobs.

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# Watch out, Canadian political elites. We're not immune from a Trump

*No, rumoured Tory leadership candidate Kevin O'Leary is not The Donald, writes Stanley H. Hartt. But the estrangement of large swaths of the electorate is happening in both countries, resulting in potential momentum for a brash outsider.*

**Stanley H. Hartt**

**A**fter Super Tuesday, the establishment of the Republican Party in the US panicked. It is hard to see what took them so long, since it had been evident for some time that Donald Trump, the “outsider” who continues to win state after state in the caucuses and primaries, was astonishingly and resiliently popular among a substantial element of the voting public. There is a simple explanation as to why: at some point, ordinary citizens get fed up and are unwilling to take it any more from the political class with their well-worn electoral playbook of fund-raising, polling, managing their ground games and blah, blah, blah rhetoric.

Of course, the refreshing non-politician does not have to be

a self-important iconoclast, boorish in his stump speech, with a look of bullying disdain carved into his pursed lips. But the fact that the prospect of this caricature of the ugly American meeting with Angela Merkel or François Hollande and telling them, in his most offensive manner, how the world ought to work, does not generate shudders among his supporters speaks volumes. Stunningly misogynistic and xenophobic, as politically incorrect as conceivable, chillingly jack-booted as he urges supporters to beat up protesters at his rallies, The Donald astonishingly appears to be what the people want.

As the Republican party establishment lurched from improvised strategy to conditioned-reflex overreaction, the conventional

wisdom shifted tectonically from “everyone needs to stay in” to “we must make this a one-on-one race”, anything to ensure that the blond interloper arrives at the convention in Cleveland in July with fewer delegates than the 50 percent + 1 needed to win. That, presumably, would permit the power brokers to twist arms and apply pressure to secure the nomination for someone else. At this writing, Ted Cruz and John Kasich may still be able to garner enough support to take the decision to the convention floor.

The most important take-away from all this is not limited to the United States of America. When defiant tub-thumpers build strong staying power in electoral support, the fault should not be ascribed to the failings of the populist rebel alone. Disengaged working people, youth and minority groups, as well as mainstream voters who have suffered from the cruel gyrations of an economy which the elected elites have failed to monitor or manage for the general benefit, will usually send a message to their representative. That message, forged in anger and frustration, will not necessarily be conceived or couched in diplomatic terms. The middle finger comes to mind. “A plague on all your houses”.

The rising anger appears to be attracted to clownish exaggeration, a personal history that ought to disqualify a candidate from serious consideration, and rhetoric that purposely inflames. The policies might not be workable, but it is cathartic to contemplate them.

So in Britain, Boris Johnson (who looks like Donald Trump’s twin brother separated at birth) has forcefully taken up the cause of the UK leaving the European Union. Italy thrust Silvio Berlusconi into high office, despite tabloid-inspiring scandals and misadventures. France has the Le Pens, and as for Germany, no one wants to mention the parallels. Canada has had its Réal Caouettes and “Bible Bill” Aberharts.

The Conservative Party of Canada will soon embark on a leadership race to replace former Prime Minister Harper. The question is will it resemble in a number of undesirable ways the spectacle currently unfolding south of the border?

The first comparison Canada’s Tories should want to avoid is a contest among 17 or so candidates presenting themselves at the outset. The Tower of Babel which results from too many office-seekers cackling at once obscures the Party’s message and undermines its ability to present itself as a coherent force to channel opposition to the government. It also permits the emergence of fringe players who sew up a marginal segment of the eligible vote and suck the air out of the room for more serious potential leaders.

Of the Party’s loyal servants in the crucible of electoral politics, a large number are currently exploring potential bids.

Tony Clement, Kellie Leitch, Michael Chong, Jason Kenney and Maxime Bernier are all out there in candidacy-evaluation mode or have already jumped into the race. Peter MacKay and Lisa Raitt have been less visible, but are thought to be interested. Many others are considered possibilities – Brad Wall for example. Many individuals from outside the political arena have also been speaking to their inner circles about whether their candidacy would be helpful or even have a chance.

*When defiant tub-thumpers  
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One candidate has been quite vocal about the legitimacy of his being considered in a run for the CPC leadership. While on some levels, it would be odious to suggest a comparison between Kevin O’Leary and Donald Trump, the parallels are there. Both have been successful participants in reality TV shows (*The Apprentice* where Trump took pleasure in telling young applicants for business roles, “You’re fired!”; and, for O’Leary, those melodramatic distortions of how business people make investment decisions known as *Dragons’ Den* and *Shark Tank*). Both have been successful in their business careers, a few ups and downs in each case notwithstanding. Neither has any actual political experience. Both are outspoken gadflies who love to rail against the accepted wisdom of the powers that be.

Known for his brutal honesty and brusque and assertive style, O’Leary extols greed and worships money as the essential building blocks of a free-enterprise capitalist system. He has sternly called out the NDP premier of Alberta for the way she has been managing the province’s economy in the wake of the collapse of resource prices. While he claims that the comparison with Trump stops there, and on the level of personality and political philosophy that is undoubtedly true, it is in his potential for galvanizing the public’s political discontent that the similarity re-emerges. Canada and the US are very different political systems and societies, but the estrangement

from the process by large swaths of the electorate is happening in both countries, resulting in potential momentum for the untried and unproven.

The political pendulum in both countries swings to the left, then right, then left again, though not always in synch. When voters in either country feel that austerity has pinched them too much, they opt for the tax and spend folks. When the latter drive the country into fiscal exhaustion, they once again call on the hard-nosed managers to clean up the mess, before once again rewarding hope and “sunny ways”. Thus, in our last election in Canada, though the anger and frustration was not akin to what is going on in America now, voters opted for a young handsome, idealistic leftist who could be described as “Obama light”. The issue thus is what form will our discourse take when the inevitable disappointment sets in and it is time to once again restore fiscal rectitude and tough love, a phenomenon currently palpable south of the border.

*Perhaps the time has come  
for the Conservative Party  
to remove the rule that  
prohibits the Interim leader  
from seeking the permanent  
leader's role.*

Stephen Harper can be seen as a highly principled Conservative who represented Canada’s “Tea Party light” in many of the stances taken during his majority mandate, a position of power that the purist conservatives in the US have never achieved, thus making it clear that Canada sometimes precedes the US in the pendulum’s cycle. But if the Conservatives want to limit Trudeau fils to a single term, the challenge will be to decide whether they would be better to select a shrill detractor of the political status quo or a consensus builder to enlarge the Party’s accessible vote by reaching out to the disaffected groups with constructive, inclusive, common sense plans.

Of course, we in Canada don’t have primaries, so the politicking doesn’t have to be front and centre each and every news cycle. But the Conservative Party has just decided that its leadership vote will be a full 14 months from now, so the prospect of endless televised

debates and media prognostications about winners and losers is real. The media circus emphasizes the insults and barbs flying among the rivals and detracts from the focus on sound policy choices in an endless race.

It is rumoured that Jason Kenney, the CPC’s master of outreach to Canada’s diverse ethnic communities and one of the major architects of the 2011 Conservative majority, is pondering his future because he worries about being seen as another Caucasian male Christian fundamentalist from the West leading the conservative movement again. It is said that Kenney may be contemplating a move to unite the right in Alberta, by leading a merger of the Progressive Conservative Party and the Wild Rose. But if he does decide to be a candidate for Leader of the Conservative Party of Canada, the country would be far better off with his qualities than the abrasive trash-talking of a Dragon or Shark who is prepared to offer instant nostrums in place of profoundly thought-out policy options. Of course, we don’t want a wall on our border. We are generous to immigrants and refugees and don’t propose to ban all members of a given religion or characterize all undocumented immigrants from a neighbouring state as rapists and drug dealers. And no one would suggest Mr. O’Leary shares those kinds of extreme views with Mr. Trump, but we still need to be careful not to abdicate our political process to facile demagoguery just because we are cheezed off.

Peter MacKay was the early frontrunner in a recent poll of prospective Tory candidates, with O’Leary coming second. MacKay may appear to be entitled to his “shot”, having parented the unification between the Progressive Conservatives and the Canadian Alliance, then stepped back to allow the Harper era to unfold. But Peter needs to step up the dynamism of his speaking style and acknowledge and engage with those issues that are generating so much electoral momentum among the marginalized. They dislike the political status quo in our country as much as their counterparts in our neighbour to the South. Handsome, young and dynamic, he ought to be appealing, but the charisma is missing.

Many of the others are considering throwing their hats in the ring to improve their visibility among voters, perhaps so their talent can be recognized when Cabinet posts are next given out to Tories. Others are basing their willingness to ponder a contest for the top job on the fact there is no clear front runner. If Kenney were to announce early, that might limit the field to a reasonable number consistent with putting the party’s best foot forward.

Perhaps the time has come for the Conservative Party to

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*Continued on page 18*

(Adam Scotti, Office of the Prime Minister)



# Mr. Trudeau goes to Washington

*With a successful state dinner and a positive tone, Justin Trudeau seems more like Laurier than Trudeau Sr. when it comes to Canada's bilateral relationship with the US, writes Sean Speer. His meeting with Barack Obama was the new PM's best performance to date.*

**Sean Speer**

Justin Trudeau's predecessors offered two paths to choose from when he articulated his vision for Canada-United States relations last June less than six months prior to the 2015 federal election. He could pursue a path of confident engagement that recognized the continental pull of economic and cultural forces or he could steer and prod these dynamic pressures in a new direction that sought to reduce Canada's dependence on the United States.

The first option is best represented by Sir Wilfrid Laurier's self-confident leadership. The second is personified by Pierre Elliott Trudeau's economic nationalism. These two tensions – economic

interdependence and a defensive nationalism – have been at the heart of the Canada-US relationship. The current Prime Minister Trudeau has opted to follow Laurier's path rather than his father's.

Canada's geographic proximity to the United States and the economic and security issues that stem from our closeness have been a shaping force in Canadian politics since the beginning. Confederation was in large part a response to the abrogation of continental free trade by the United States in 1866. If we were no longer to have preferential access to the US, should we not at least have free trade among the future provinces? The answer was in the affirmative and Sir John A. Macdonald and the other founders



Prime Minister Trudeau and President Obama  
meet in the Oval Office, March 10, 2016  
(Adam Scotti, Office of the Prime Minister)

went about the exercise of nation building.

It would be far from the last time that the Canada-US relationship loomed over our politics. The elections of 1911 and 1988, for instance, were watershed moments in the evolution of Canadian public policy and our economic relationship with the United States. Prime Minister Laurier did not lose the 1911 election. It just took 77 years to count the ballots.

This formulation obviously requires some reductionism. The ensuing three-quarters of a century involved a shift in Canada's trade and security orientation from the United Kingdom to the United States and the institutionalization of the Canada-US relationship in a series of agreements, partnerships, and joint operational and strategic engagements such as the Permanent Joint Board on Defence and North American Aerospace Defence Command (NORAD).

This build-up of continental institutions often occurred at the administrative or bureaucratic level. It mattered little who was serving as prime minister and president. Sometimes these developments occurred even in spite of personal irritants between the two leaders. President Johnson was chastising Prime Minister Pearson because he had "pissed on my [Johnson's] rug" at roughly the same time that the Columbia River Treaty and the Auto-Pact were negotiated.

The inexorable trend towards greater integration was larger than one person or one relationship. The post-World War II era was marked by slow yet steady economic integration. Some

voices (including socialists and conservatives) would decry this trend along the way. Others (including Prime Minister Pierre Trudeau) sought to manipulate Canadian trade patterns in another direction. But market forces continued unabated.

Pierre Trudeau's defensive nationalism was evidenced by the enactment of the Foreign Investment Review Act which sought to limit foreign ownership – namely, US investment – in the Canadian economy, the Third Option Policy which aimed to reorient Canadian investment and trade patterns away from the US market, and the creation of state-owned enterprises and institutions (such as Petro-Canada) to assert greater domestic control over the economy. These efforts were motivated in large part by a defensive posture vis-à-vis the United States. Mr. Trudeau was attempting to reverse the trend toward closer integration that had accelerated in the post-war era. As two Canadian historians have noted: "it is no small irony, that Trudeau, the visceral opponent of nationalism in Quebec, the committed liberal, the promoter and defender of individual rights, came to embody Canadian nationalism in economic and cultural policy."

This type of statist tinkering was in hindsight a fool's errand. The integration of Canadian industry along continental lines meant that no number of trade missions to Asia was going to fundamentally shift the country's economic orientation. It proved to be an exercise in vanity and the false confidence in the power of state action. It also went great lengths to inadvertently confirm that nationalistic concerns about Canada's economic and political autonomy were overstated. This formative period proved that greater economic integration did not put the Canadian political project at risk as Conservatives had claimed in the 1911 election.

Counterfactual apprehensions about the political risks to Canadian sovereignty that stemmed from economic integration were thus, by and large, disproven by 1988. John Turner's use of the nationalist arguments from 77 years earlier was ineffectual. The result was the first bilateral free trade agreement in more than 100 years and a massive furtherance of the economic relationship. Much had happened in the intervening time but the path had

been set by Laurier. It is difficult to overstate the consequences.

Consider that that two-way trade totalled \$2.4 billion every day or \$1.6 million every minute in 2014. About 77 percent of Canadian exports are destined to the US market. The second largest export market is China which accounts for a paltry 3.7 percent. Exports to the US are nearly one quarter of Canada's total economic activity. And that is to say nothing of our deep defence and security links or cooperation on issues such as climate change, boundary waters, student exchanges and research and development.

It is no surprise therefore that current Prime Minister Trudeau has placed such an emphasis on Canada-US relations. It is one issue where he seems to side with Laurier (his political idol and second favourite prime minister) rather than his father who often seemed suspicious and contemptuous of the United States.

The current prime minister does not share these misgivings. It may be a generational distinction. It may also be that Mr. Trudeau has a better appreciation of Canada's history than his famous father. Whatever his motivations it is clear that Justin Trudeau's US policy reflects the Laurier tradition of confident bilateral engagement built on shared values and interests.

His pre-election speech on Canada-US relations in June 2015 was the first expression of his policy. There were the usual political critiques of the governing party and platitudes about doing a better job representing Canada's interests. But at its core Mr. Trudeau's speech was a rejection of superficial anti-Americanism (which at times had found a home in the modern Liberal Party) and acceptance of the long-standing trend towards continentalism. He described the Canada-US relationship as "definitional" and dismissed the false choice between "a strong national identity and an economic interdependence." His remarks were, in a phrase, prime ministerial. It was an important step on his path to the political credibility and ultimately his major electoral victory in October 2015.

Fast forward less than 5 months and Mr. Trudeau found himself in Washington for the first state dinner for a Canadian prime minister in nearly 20 years and the first opportunity to show that his vision for bilateral engagement is the right one to advance Canada's interests in the US capital.

It is hard to contest that it was not a successful bilateral visit. Prime Minister Trudeau and President Obama have, by all accounts, developed a strong personal relationship and it would appear that this has extended to the staff level where there are already personal connections that come from traveling in similar progressive circles. Media speculation is that President Obama and his team have come to see Mr. Trudeau and his advisers as their "heir" with respect to present-day progressivism.

As for deliverables, the meeting's primary output may have been goodwill rather than concrete progress on key bilateral issues. This is not a criticism of Mr. Trudeau. There were real limitations to new developments due to the ongoing friction between President Obama and the Republican-controlled Congress and the president's increasingly "lame duck" status. Still there were some positive noises about softwood lumber (an update from ministers in 100 days), proceeding with a new pre-clearance regime for goods and travellers, new harmonized methane emissions regulations, and greater cooperation in the Arctic. It was a positive start especially since the Trudeau government was only officially sworn in on December 4.

Prime Minister Trudeau was a confident participant over the course of the visit. He struck the right tone between economic partner, defence and security ally, and friend, and refrained from the anti-American sophistry that tends to play well in the Canadian market. He spoke about shared values and interests and the importance of the Canada-US relationship for workers, families, and communities on both sides of the border. He recognized that Canada's interests lie in effective engagement rather than moralizing sniping or differentiation for its own sake. He even largely avoided commenting on Donald Trump's candidacy even though there is little in the Republican frontrunner's message or programme with which he would find resonance. It was, in short, the prime minister's best performance to date and a signal to his detractors that he is up to the job.

Now there remain outstanding bilateral challenges. The softwood lumber agreement will expire in less than a year and, without a new deal or an extension, Canadian producers are bound to face major impediments to the US market. An election of Mr. Trump will likely change the dynamic between prime minister and president. It will be less natural and more difficult than it has been thus far with President Obama. Ongoing security concerns will risk a thickening of the border for Canadian exporters. And the emergence of new issues – including ones that we cannot presently anticipate – are bound to test the relationship. No one can effectively judge how a Trump presidency, for instance, will affect our shared issues, including the North America Free Trade Agreement.

But irrespective of what irritants surface, Mr. Trudeau and Canada should be well-served by the prime minister's Laurier-like approach. Real leadership involves confident engagement with the United States rather than empty nationalism. Justin Trudeau's first trip to Washington passed this test. ■

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*Sean Speer is a Senior Fellow at the Macdonald-Laurier Institute.*

# Trump and consequences? The 2016 election and Canada's relations with the US

*What does the US want from Canada? Despite some ups and downs, for much of our history, the answer has been fairly clear, writes Christopher Sands. But Canadians would be forgiven for being alarmed by the foreign policy debate in the current election.*

**Christopher Sands**



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The 2016 US election is impossible to ignore. Canadians have a ringside seat for the greatest show on Earth, which would be fun if it didn't matter so much.

There is an anti-establishment mood in the United States this year, challenging both parties. This creates a problem: typically, you can reliably estimate the direction of US foreign policy, and of US policy toward Canada, by sizing up the establishment figures in line to take on key jobs in each candidate's administration. This year, candidates like Bernie Sanders and Donald Trump are confounding this method.

Of course, Canada has rarely come up on the campaign trail in 2016 (unlike 2012, when the Keystone XL pipeline made a Canadian issue part of every presidential debate). So even if the establishment is viewed skeptically by voters in 2016, perhaps the

default US policy toward Canada will continue. After all, if no one sees anything controversial about Canada, why expect change?

That would make sense if the goals and objectives of US Canada policy were clear. The populist backlash against traditional US establishment leadership has sent US politicians scrambling for new approaches to trade, immigration and security. And that is the underlying cause for concern about the 2016 election and its impact on bilateral relations: Has the United States itself changed, and does it want something different from Canada now?

It is a strange question, because in general, Canadians have been able to count on relatively clear communication and consistent policy from the United States government that was echoed by American friends and business contacts.

After the American Revolution, most in the new United States saw British North America as our American cousins who ought to have joined in claiming independence from Britain. The US position was to finish the revolution and liberate Canada: from the War of 1812, to Manifest Destiny and tough stances on border disputes throughout the 19<sup>th</sup> century, US presidents alternated between aggression and persuasion hoping to bring Canada into the United States.

At the start of the 20<sup>th</sup> century, US strategy changed. As the Theodore Roosevelt administration managed to settle the Alaska Boundary dispute, it noted the rising nationalist sentiment in Canada. Roosevelt's successor, William Howard Taft, saw the potential to draw Canada away from the British Empire – then the United States' major commercial rival – by promoting Canadian independence.

The Boundary Waters Treaty of 1909 for the first time established an institution, the International Joint Commission, in

which Canada was a co-equal partner with the United States and Britain had no role. Taft also negotiated a Reciprocity Treaty with Canada to link the two economies. Canadian voters rejected the treaty in the 1911 general election. Yet from this period onward, the United States pursued economic ties with Canada, promoted Canadian independence, and a weakening of the British Empire.

What these eras have in common is the US rivalry with Britain. Without that, it is difficult to imagine that the United States would be able to devise a consistent approach to Canadian relations. The United States Constitution makes it difficult to accomplish things by design, with checks and balances and a separation of powers. It takes a major national security crisis, threat or rival to enable sufficient unity among US leaders for a coherent strategy to emerge.

When the Canada-US Free Trade Agreement took effect in 1989, two things happened. First, the US strategic objective in the 20<sup>th</sup> century was realized; and second, Canada formally accepted close economic ties with the United States provided that its sovereignty was respected. The new joint strategic objective was now the foundation of ever-closer bilateral relations with an attendant mutual commitment to sovereign independence of both countries.

The shared idea of the relationship was honored even in the breach by both sides. Canadian officials cited it as a reason for President Barack Obama to approve the Keystone XL pipeline, and to criticize the “Buy American” provisions of his stimulus program after 2009. US officials invoked it to persuade the Harper government to join the Trans-Pacific Partnership talks, and to seek changes to Canadian intellectual property rights protections. And it seems that both sides raise it whenever the softwood lumber dispute revives, or an automobile plant is competing for new work from decision-makers in the other country.

While it hasn't been perfect, this shared understanding has improved the health of the relationship since the late 1980s. So much so that major shocks, like the Sept. 11, 2001 terrorist attacks on the United States, led gradually to closer US-Canadian cooperation rather than a breakdown in trade.

But what authority does the shared commitment to economic integration and national sovereignty have today? Have globalization, terrorism, and the return of great power geopolitics rendered this consensus unsustainable?

One lesson that can be drawn from the surge in populism in the 2016 election campaign in the United States is that many voters are unsatisfied with current policy. And a significant segment of the electorate does not trust politicians associated with the US establishment who tell them, for example, that trade boosts US growth, or that immigration provides a net benefit to the US workforce, or

that to protect citizens we need to work closely with other countries rather than to build walls unilaterally.

In fact, US-Canadian relations show all of these establishment ideas to be correct. Bilateral trade has grown and both countries have benefitted since 1989. Thousands of Canadians and Americans visit, live and work in each other's country with little problem and both countries have successfully assimilated immigrants from elsewhere. The closer cooperation between law enforcement and border security officials of the two countries keeps us safer than a Great Canadian Wall could do.

There is no indication that on these issues, the American public disagrees. Canada is more often forgotten, or seen as an exception that proves the general rule that foreign policy should aim to keep other foreign problems at bay. Donald Trump's bombastic calls for a wall on the Mexican side of the border or a 30-percent tariff on all Chinese imports are cause for worry, but Trump has not called for a radical change in US relations with Canada. Even Bernie Sanders, who wants to cancel the North American Free Trade Agreement, sees trade with Canada as worth continuing.

What has been more alarming is to see how the 2016 US election cycle has shaken the confidence of US leaders in traditional policies by revealing a lack of confidence among voters in the leadership of the country. This new reality has been the subject of books, essays and television debates in both countries.

In contrast, pundits in the United States have not paid enough attention to the extent to which US friends and allies, especially Canadians, have been shaken by this election cycle, too. Once the voters have made their choice, even if it is for an establishment figure such as Hillary Clinton to be the next US president, the United States cannot expect that the rest of the world will simply breathe a sigh of relief and pretend that nothing unusual has just happened.

Immediately after the 45<sup>th</sup> US president is sworn in, Prime Minister Justin Trudeau should seek – or demand, in a characteristically polite Canadian way – a public affirmation of the US commitment to closer economic integration and the policy cooperation necessary to deepen it.

The next US president should provide that affirmation. Like a married couple after one partner has been acting strangely for a protracted period, Canada and the United States need a renewal of their vows just to put the strangeness behind us. 

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*Christopher Sands is a Senior Research Professor and Director of the Center for Canadian Studies at the Johns Hopkins University School of Advanced International Studies in Washington, DC. He is a member of the Research Advisory Board of the Macdonald-Laurier Institute.*



(Adam Scotti, Office of the Prime Minister)

# *Straight Talk* on Canada-US relations with Derek Burney and David Wilkins

**O**n the occasion of Prime Minister Justin Trudeau's State Dinner in Washington with US president Barack Obama in March, MLI interviewed Derek Burney and David Wilkins for the latest in its *Straight Talk* series of interviews. The former ambassadors to Washington and Ottawa respectively, shared insights from years of top-level experience with Canada-US relations about the challenges and opportunities for the two countries in the coming years.

**MLI:** The big news in Canada-US relations has been the appointment of a new Canadian Ambassador to Washington, David MacNaughton, and Prime Minister Justin Trudeau's attendance at a State Dinner hosted by US President Barack Obama. What is the significance of the invitation? And would you say that it's unusual that it has been 19 years since the last state dinner for a Canadian prime minister?

**Burney:** The invitation is essentially symbolic, a bit late

perhaps if not unusual given our relationship, but a welcome gesture at any time. Given the breadth and depth of our relations with the United States, top level meetings – symbolic or otherwise – can be used to advance the interests of both countries.

**Wilkins:** A state dinner is nice but it is all glitter and not substance. It is mostly symbolic and frankly would have been more meaningful and impactful had President Obama made the offer during his first term when Prime Minister Harper was still in office. It is much more important for the leaders of our two countries to have a solid, personal relationship like President Bush and Prime Minister Harper did. Diplomacy is all about relationships and timing.

**MLI:** Can you each think of a few instances when the relations between a Canadian Prime Minister and a US President have been good, and not so good, and what have been the consequences?

**Burney:** I am of course biased but I think that the Mulroney-Reagan, Mulroney-George H. W. Bush years from 1984 to 1993 were the high point, an exemplar in terms of personal chemistry at the top and significant and mutually beneficial achievement both bilaterally and globally. The Free-Trade Agreement, NAFTA, the Acid Rain Accord and the Arctic Cooperation (Northwest Passage) agreement were notable accomplishments, each the result of persistent prodding by the leaders of our respective governments. During the same period, the first Gulf War, the unification of Germany, the collapse of the Soviet Union and the end of apartheid in South Africa were events of momentous global importance and, on each, the US President and the Canadian Prime Minister were in the forefront of discussions and decisions.

This was a time when trust and respect at the top anchored the tone as well as the substance of our relations, demonstrating clearly that proximity was more than a matter of shared geography. Our leaders used their political capital to ensure that we derived the most from our shared values and interests as well as from common objectives on breaking global events.

The Trudeau-Nixon years were at times chilly but improved under President Ford and President Carter's terms in office. It was primarily thanks to President Ford that Canada became a member of the G-7, balancing the addition of Italy.

The tone at the top can make a distinct difference. For one thing, access is key for ambassadors, especially in Washington which is home for some 200 ambassadors. When that tone is positive, ambassadors get their calls answered. That is the way it works. There will always be differences on some issues but it helps if the basic motivation on both sides is to alleviate rather than exacerbate such differences.

Any new Canadian Ambassador in Washington needs also to understand that the President and the administration are not all powerful. The separation of powers, notably the independent authority of Congress, is a fact of life, one that obliges attention and careful nurturing by our diplomats to complement regular discussions with the administration.

**Wilkins:** Diplomacy is all about relationships. Important things get accomplished when relationships, especially at the very top, are strong. I saw this firsthand as I watched President George W. Bush actively engage with Prime Minister Harper over the softwood lumber issue. Softwood lumber was not one of President Bush's top priorities at the time, but upon learning directly from Prime Minister Harper how significant it was to him, to Canadians, and to the health and welfare of the US-Canadian relationship, President Bush immediately made resolving the softwood lumber

dispute a top priority. Consequently, within months of the two leaders meeting face to face and because of their joint efforts and good relationship, the Softwood Lumber Agreement was signed ending decades of litigation and disagreement.

In recent years, with the US adopting a more protectionist tone, and with the current administration making internal US politics a much higher consideration above smart, strategic bilateral policy in the years-long Keystone XL pipeline process, the US-Canada relationship has suffered. With a politically-like-minded Prime Minister now serving in Ottawa, we see the White House hosting a state dinner, and that is a positive first step.

But the Canadians and Americans, who day in and day out engage in cross-border trade and travel, who seamlessly continue to build this partnership and make it work, are the true heroes and the reason why ultimately the US-Canada partnership continues to be the most peaceful and productive the world has ever known.



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- Derek Burney

**MLI: How should Canadians view the current US election and the perhaps surprising success of the Trump and Sanders campaigns? Do some of the candidates' policies present potential sources of friction with Canada's government?**

**Wilkins:** After seven years of the Obama Administration, a majority of Americans are simply angry and frustrated at their government. They are ready for a change and Donald Trump has struck a deep chord. He is boldly promising to fix all those problems – without offering any specific plans as to how he'll do it. But this is familiar territory to Americans: Seven years ago Barack Obama promised “hope and change” and asked Americans to trust that his force of personality would bring about the favoured results. Donald Trump is doing much of the same thing now.

As for Bernie Sanders, he might be the single most honest candidate running in this race. While I personally disagree with the vast majority of his policies, he doesn't run from who he is and even Hillary Clinton is adopting many of his positions. He is an

unabashed, avowed socialist promising to bring our country further to the left than Obama has – and he makes no bones about it. His promises of free college and free healthcare are finding many sympathetic ears – especially among young voters – here in the US

Both Trump and Sanders are having a profound effect on the campaigns of their respective opponents. For example, Trump has forced other GOP candidates to take tougher stands on immigration, while Sanders has forced Clinton to move significantly to the left on issues such as the Trans-Pacific Partnership and the Keystone XL pipeline – both of which she had spoken positively about as secretary of state.

A Trump or Sanders presidency would offer significant challenges to Canada. If Trump wins, he has, for example, been inconsistent regarding his support for the Keystone XL pipeline project, unlike all other Republican candidates who are solidly behind it. There are also concerns about issues of protectionism and trade.

Those concerns obviously increase exponentially with a Sanders' presidency because he has clearly shown that he is not a free trader and is vigorously anti-fossil fuel. There can be little doubt that Sanders' opposition combined with the President's anti-oil-sands rhetoric forced Clinton to voice her strenuous opposition to KXL. In my opinion, a Sanders administration would have a detrimental effect on our bilateral economic relationship.

*Canadians follow US  
presidential elections  
with vivid interest.*

*- Derek Burney*

Also, both Sanders and Trump have expressed serious concerns with NAFTA, while neither has expressed any interest in renewing the Softwood Lumber Agreement with Canada, which expired last October.

**Burney:** Canadians follow US presidential elections with avid interest and 2016 is no exception. I suspect that some regard the possible election of either Donald Trump or Bernie Sanders with the same degree of apprehension as some Americans.

Either candidate, if successful, could pose some daunting challenges, especially on international trade and volatile global issues. But both have clearly struck a nerve of dissatisfaction over

prevailing political trends in America.

Ultimately, only Americans will make the choice and Canada, along with other US allies and neighbours, will be obliged to adapt prudently in order to articulate and defend our interests in the most efficient manner possible with whomever is elected. The emphasis should be on the mutually beneficial nature of our economic, environmental and security interests and objectives. We need to recognize, too, that the underpinning fiber and value of our relationship depends heavily on the extensive network of personal and private sector links that transcend those between governments.

**MLI: Derek, can you give us a sense of what the most important bilateral issues for Canada are going to be, and how we can best advance them?**

**Burney:** 1 . Bilateral trade is the hardy perennial for Canada in most high-level meetings with the US and 2016 is no exception. The prospect for renewal of the Softwood Lumber Agreement is probably the most contentious at the moment, but, at any given time, there are several items of friction. Another managed trade solution on lumber would run counter to the spirit of NAFTA but, given the record to date, is probably the best, worst case objective for Canada.

2. President Obama's veto of the Keystone XL pipeline has chilled an otherwise robust two-way flow of energy. While there is certainly the need for some pragmatic fence-mending on energy, no clear solutions are in sight. Increased production from the Marcellus and Utica shale basins actually poses a threat to traditional markets for western Canadian gas both in Canada and the US which is one reason why LNG (liquefied natural gas) projects in Canada urgently merit more forthright government support.

3. The Americans may be interested if not concerned about Canada's stated intent to negotiate free trade with China.

4. The Trans-Pacific Partnership is not likely to loom large in discussions given that the President's ability to gain Congressional approval seems highly remote. But there will likely be an exchange on the topic in any event.

5. Clean energy is an area for common ground if not a topic for substantive, bilateral progress. Given the Supreme Court decision blocking EPA (Environmental Protection Agency) directives on coal and staunch opposition more generally from Congress, the President may be hard-pressed to explain how the US intends to fulfill the aspirations agreed to at the Paris climate conference late last year. Mr. Trudeau might press for some clarity on this point before committing Canada to unilateral measures that would otherwise hamper competitiveness.

6. At least publicly the Americans have accepted Canada's modified role against ISIS. If the Trudeau government is also ready to alter its campaign position and consider purchasing F-35 fighter jets, that may help the tone and tenor of broader security discussions.

7. The administration may also be interested in Canada's experience in hosting 25,000 Syrian refugees but will be constrained from doing anything similar by rigid opposition in Congress. However, there could be some security concerns in Washington about potential leakage over their northern border.

8. The Arctic is an area where, despite some conflicting legal claims, Canada and the US have shared interests and, in light of increasing Russian and Chinese activity in the region, shared concerns as well. A constructive dialogue on economic, environmental and security aspects of our northern neighbourhood would be timely.

*Many Americans will  
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marijuana in Canada.*

- David Wilkins

**MLI: And what are the most important issues for the United States in dealing with Canada?**

**Wilkins:** I think we are at an interesting intersection historically with President Obama being a lame duck president and Prime Minister Trudeau just beginning his mandate. While the two share similar political philosophies and would have certainly enjoyed working together (as the White House state dinner held in Trudeau's honour indicates) they only have less than 10 months together before a new president is in the Oval Office. That does not leave much time to carve out sweeping new initiatives.

For now, ensuring the viability and strength of our bilateral economic trade relationship – in the face of increasing worries of economic downturns on both sides of the border, mounting debt and deficits, and plummeting oil prices not to mention the lingering fallout from the president's rejection of the Keystone XL pipeline – should be a top priority for both leaders.

And as the polls in the US continually reinforce, security in

the face of an increased terror threat from ISIS is the top priority for Americans. Americans want this administration actively engaged on border security issues with both our northern and southern neighbors and they don't want the threat underestimated or downplayed.

The Obama administration has already praised Trudeau's "training only plan" when it comes to ISIS so I doubt there will be a vigorous discussion on a US-Canada game plan to actively engage on fighting ISIS. I would also think the president will want some clarification from the Prime Minister on where Canada is headed in regards to TPP ratification. Softwood lumber trade and a potential softwood lumber agreement will likely be discussed with little substantive progress being made. Since Obama and Trudeau share a passion for "fighting" climate change, I imagine that building on post-Paris COP (Conference of the Parties) talks will be a top priority for these two leaders.

**MLI: How will the US regard the Trudeau government's policy of legalizing marijuana?**

**Wilkins:** Since some states have already legalized marijuana I don't imagine there will be much of an outcry. Many Americans will not be surprised by the legalization of marijuana in Canada.

**Burney:** Legalized marijuana is a pot too far for me.

**MLI: David raised the importance of nurturing relationships within Congress as well as in the White House. To choose one recent example, the repeal of country of origin labelling for beef has been characterized as a legislative victory for Canada. Can you comment on the approach our diplomats used in terms of gaining support in Congress for the Canadian position, and what lessons that holds for the new government?**

**Wilkins:** Relationships matter. There was much lifting by many hands on this issue from both the federal and provincial fronts. Certainly our friend, former Ambassador Gary Doer, was a very capable and effective advocate for Canada on the issue and worked the issue aggressively on Capitol Hill. On the provincial level, Saskatchewan Premier Brad Wall, in particular, was a vital part of this effort. He visited Washington and met with members of Congress, wrote letters and op-eds, and worked to make sure official Washington understood what was at stake.

**Burney:** Action to overturn the Country of Origin Labelling legislation that discriminated against imports of Canadian (and

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# The unexpected evangelist

*One of the most fascinating aspects of Donald Trump's wild Republican campaign is the support he has drawn from evangelical Christians, writes Elaine Carsley.*

**Elaine Carsley**

Presidential campaigning has become an exercise in evangelizing America. Evangelicals have asserted themselves as a crucial, vocal, and powerful interest group, whose stamp on politics has become a relevant part of the US presidential campaign discourse. Now more than ever, voters are gravitating toward candidates who radiate Christian values, which is why the 2016 campaign is so completely confusing.

Republican candidate Donald Trump, the fair-weather Christian and popular demagogue has stood on podiums across America, unabashedly preaching a gospel of self-adulation. As Trump continues to sweep the primaries, stumble through scripture ("Two Corinthians, right? Two Corinthians 3:17, that's the whole ball game"), and insist he is a proud Presbyterian who will "drink my little wine ... and have my little cracker," he has also taken a somewhat flippant approach to touchier social issues, including homosexual unions and abortion. Trump dismissed the Pope as "disgraceful," and commented that, "no leader, especially a religious leader, should have the right to question another man's religion or faith."

According to Pew Center research, 86% of evangelicals say religion is very important in their lives, 83% say they pray every day, and 52% believe Trump would be a great President.

Trump has likened his pledge to make America great again with a promise to "protect Christians," because, "Christianity is being chopped away at. Chop, chop, chop".

New York Mayor Michael Bloomberg said unlike Republican Party founder Abraham Lincoln, "Trump appeals to our worst impulses." Trump is a volatile representation of style over substance and spirituality, whose semi-declared war on secularism has generated attention – and surprisingly, a lot of support. Evangelicals should, by virtue of their core beliefs, despise Trump – but they do not. And the primary results have demonstrated that Evangelicals have room in their hearts for Donald Trump. "Why do they love me? You'll have to ask them. But they do. They do love me."

Although the United States has endeavored toward secularism in government, it has never fully embraced it. God is constantly

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# Budget 2016 shows Ottawa hasn't yet learned to say 'no'

*It seems Canada's new finance minister has skipped the all-important procedure to turn his heart into stone, writes Philip Cross.*

**Philip Cross**

The most troubling issue raised by the federal budget is not the average \$40 billion of actual borrowing projected over the next two years, but how fast Bill Morneau will grow into his job as the Minister who says No.

Canada has been well served by a string of great finance ministers – liberal and conservative – stretching from Paul Martin to John Manley to the late Jim Flaherty. A good finance minister covers many blemishes in any government. They all understood that an important part of the job is saying no – no to unaffordable spending programs, no to deficit-financing as the reflexive choice of governing.

John Manley apocryphally tells the story of how, when named minister of finance, you are escorted to the basement of the Finance building and laid out on an operating table where faceless mandarins cut open your chest, rip out your heart and insert a piece of Canadian Shield in its place. This is because you need a heart of stone for all the times you will say no—whether to self-serving unions, businesses and provincial governments or to well-meaning cabinet colleagues who have no concept of a budget constraint.

Frankly, it seems that Morneau has skipped the procedure to turn his heart into stone. The only ones who have publicly said no to this government have been the provinces. First they said no to CPP expansion in January, and then no to a national carbon tax in March. That Scott Brison at Treasury Board claims Morneau occasionally said no while preparing the budget is hardly reassuring, since it implies the Liberal cabinet on its own wanted drunken-sailor deficits of \$50 billion or more, a level last seen at the worst of the global economic crisis in 2009.

The economy on its own is gradually responding to stimulative factors such as strong US auto sales and lower gasoline prices. News that manufacturing sales hit a record high and retail sales

rose strongly in January demonstrate the economy was not the basket case portrayed by Liberals during the election. Still, this government is wedded to its own election sloganizing that the economy is in dire straits even outside the oil-producing regions. The budget takes a bi-polar view of global risks; the Canadian economy is full of risks to the downside that require deficit spending, but assumes no risk lurking in the global financial system that would require the sort of extreme fiscal response the Harper government adopted in 2009.

Morneau has  
opened the deficit  
floodgates.

As a result, Morneau has opened the deficit floodgates, unperturbed by the prospect of the deficit's lunar trajectory despite a growing economy and no prospect of balancing the books by the end of the government's mandate.

While growth in Canada will benefit little from sharply higher deficits, the added debt will burden future governments and taxpayers.

What sort of benefit can the Canadian economy expect from these deficits? Very little, according to plenty of studies on the fiscal multiplier published by the NBER. The research demonstrates no net stimulus from fiscal policy in an economy with a floating exchange rate, like Canada's, because it is offset by

tighter monetary policy. The loonie's recent rally above US77 cents is a good example. The surge was not all due to higher oil prices; it also reflected investors anticipating that the Bank of Canada's infatuation with lower (or even negative) interest rates is over. The loonie's upturn began almost to the day in January the Bank of Canada announced it would not cut interest rates.

While growth in Canada will benefit little from sharply higher deficits, the added debt will burden future governments and taxpayers. We have reduced the distortions of extreme monetary policy (such as a falling exchange rate and changed incentives for saving and borrowing) by increasing the distortions from extreme fiscal policy. Such is progress in today's world of macroeconomics.

The appointment of a novice MP like Morneau – the first rookie at Finance since 1919 – was a curious move. Usually, becoming minister of finance is the culmination of years of seasoning and learning how government works. It now looks like Morneau was picked precisely because he would have difficulty saying no to his high-spending cabinet colleagues.

Canada's unfortunate experience with hitting the "debt wall" in the mid-1990s showed that deficits don't fix themselves.

An artful government could have boosted the economy without spending its own money. Private sector firms are waiting for the green light to build pipelines to both coasts, boosting infrastructure spending and permanently lowering the price discount for our oil exports which are trapped in the over-supplied US market. Over the last decade, Canada has invested nearly \$1 trillion in developing its energy assets. We need continued investments to maximize the return on these investments, not strand them with utopian plans for greening the economy.

Canada's unfortunate experience with hitting the "debt wall" in the mid-1990s showed that deficits don't fix themselves. Government in Canada subsequently developed an aversion to debt that served us well during the debt-fuelled financial crisis enveloping the US and much of Europe in 2008. However, despite these vivid reminders of the dangers of debt, we are now plunging head first into the treacherous waters of large deficits in a growing economy. ■

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**Philip Cross** is a Senior Fellow at the Macdonald-Laurier Institute. This column first appeared in the National Post.

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## Not immune to a Canadian Trump (Hartt)

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remove the rule that prohibits the Interim leader from seeking the permanent leader's role. It is generally agreed that Rona Ambrose is doing an excellent job and could be just what the Party really needs. She is extremely effective in Question Period and on television, with a knack for formulating her arguments in an even-handed, matter-of-fact tone while making her point precisely and persuasively.

But if preventing someone like O'Leary from shocking the insiders and seizing the sentiment of the disenchanted masses, as Trump has done south of the border, is the goal, then the party big-wigs need to decide early whom to back. While mindful of the will of the people, there needs to be some policy coherence behind a Conservative Party renewal that will enhance their potential to regain power and not turn the contest into a divisive battle of belittling put-downs from strong personalities who despise the political process and all it has become. The GOP establishment appears to have discounted Trump disastrously and put too little

support behind, say, a Marco Rubio, who suffered a humiliating defeat in the state which he represents as a sitting Senator and was forced to withdraw from the race.

O'Leary's address to the recent Manning Centre Conference in Ottawa was described by one journal as "typically bombastic". Trump University offers a degree in bombast. We will not likely see O'Leary steaks or wine marketed alongside untested political nostrums, but, like Trump, O'Leary's mantra appears to be "whatever works". "Earned" (i.e. free) media, where coverage is derived from merely being colourful, would be equally easy to generate here. ■

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**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.

# A living wage is just another name for a tax on jobs

**Brian Lee Crowley**

The recent UK budget announced the government's intention to put in place a minimum "living wage" of £9 an hour by 2020. Attentive followers of public debate will have noticed that this emotive terminology of the "living wage" is increasingly being substituted for the bureaucratic-sounding "minimum wage." A rose by any other name: to the extent that a living wage forces employers to pay more for labour than market conditions would justify there is little real difference between the two concepts.

In my experience when a new term is introduced for a widely understood and used one, it is usually a ploy by reformers to win an argument by emotion or obfuscation rather than reason. Think of the benign sounding "social welfare" to replace "the dole".

From that perspective I can appreciate the marketing appeal of the living wage. It evokes images of a struggling single mum eking out a meagre existence for herself and her children working at a job whose pay is so low no one should or could be expected to live from it.

But notice that this appeal is premised on the idea that there are lots of households out there actually trying to live from a single minimum wage worker's earnings. Are there?

Well, actually, no. In fact, according to Statistics Canada, a mere 2.2% of those earning the minimum wage were unmarried heads of household with at least one minor child.

Nearly nine out of every ten Canadians earning the minimum wage in 2012 lived in households whose collective income was above the Low Income Cut-Off (LICO), a widely used measure of relative poverty. In other words using a minimum wage increase to tackle poverty actually misses its mark.

As to the composition of the group actually earning the minimum wage we know that nearly three fifths of them were teenagers and young adults under the age of 25. About the same proportion of minimum wage earners were living with family, while a fifth were married to a spouse who was also employed. So far from helping out the poor single parent struggling alone on the minimum wage, high "living wages" actually most affect young people getting their first job, when they have the least value to an employer, just as they chiefly boost the income of families who are already doing well.

So rather than selling high minimum wages as a solution to

poverty (which they aren't) perhaps we should look for a more accurate rebranding than the "living wage." What might that be?

Well, consider that when Seattle raised its minimum wage from \$9.32 to \$15 an hour, this amounted to imposing an annual tax on minimum-wage employers of \$11,360 per full-time employee. I could avoid that tax by hiring fewer people, giving my employees fewer hours or by substituting machinery for workers. So we could call such a policy "the tax on jobs."

I can hear the objections already. No, no, the critics will say. Taxes go to the government. Higher wages go to the employee. Please; if the government forces me under pain of legal penalty to do something with my money, then the government is commandeering my money for its purposes. I call that a tax.

An alternative way of rebranding high minimum wages would be to consider their effects on the consumers of goods and services that employ low wage workers. Logic would indicate that low wages would be concentrated predominantly in industries where many of the customers don't have a lot of money, i.e. the poor. An employer that can't cut jobs or hours, or mechanise, has to put up his prices to survive. Hence you see the emergence in Seattle of "living wage surcharges" and price increases in restaurants etc. That poor harassed single mum will really thank you for making a treat at McDonald's something she has to deny her kids more often. So instead of "living wage" how about "higher prices"?

Finally, recall it is young people, not the poor, who predominantly earn the minimum wage, so it is properly thought of as an "entry wage" into the labour market. The higher you fix that wage, the more choosy employers will be about whom they hire, and the fewer hours of work they'll offer. Yet young people constantly complain that they can't get work because they have no experience. That first job is valuable chiefly for the evidence it provides of a young person's productivity, discipline and trustworthiness. Low minimum wages help young people by making that first job more accessible, and putting them on the ladder to higher wages later. So my final alternative to the "living wage"? The "youth penalty."

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**Brian Lee Crowley** is the Managing Director of the Macdonald-Laurier Institute.

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Google's famous self-driving cars have logged more than a million miles on northern California highways.

# Look out infrastructure planners, here comes the driverless car

*Before the new Liberal government and governments at other levels start spending more billions, we must consider that disruptive technologies like driverless cars and the sharing economy could make today's infrastructure plans obsolete pretty darn quick, writes Brian Flemming.*

## Brian Flemming

Erik Brynjolfsson and Andrew McAfee, the authors of *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies*, tell us that the world is today at an “inflection point” that heralds the dawn of a new age. The Industrial Revolution ushered in the First Machine Age, the first time in human history that progress was driven primarily by technological innovation, and the most profound time of transformation our world has ever seen. The Second Machine Age promises that whatever tasks are today routinely done by humans will soon be done by computers.

The disruptive technologies that are coming at us will transform 21<sup>st</sup>-century civilization beyond recognition. Some of these disruptive technologies include: quantum computing, 3D printing, nanotechnology, financial blockchains, metadata mining,

amazing new mobile phone technology, 3D scanning and fusion power. But the transformative technology that will soon impact the average person the most is the arrival of automated vehicles (AVs), also known as autonomous, self-driving or driverless vehicles. AVs are not just on some drawing board somewhere but are actually operating, or are about to operate, in many parts of the world. AVs will be nothing less than the first widely-available “autonomous robots” to be used by nearly everyone in the world’s advanced economies.

As the new federal government prepares to spend billions on infrastructure, it will be important for all levels of government to be aware of the impacts AVs will have on many projects. Indeed, on many expensive transit projects, for example, an “AV audit” should be done before large sums of money are committed because

AVs will dramatically influence transit projects of all kinds.

It is important to understand that AVs are not only “coming” but they are already here. As *The Economist* – when reporting from the Consumer Electronics Show (CES) in Las Vegas – told its readers, “Incumbent [automobile] manufacturers are recognizing the double threat posed by [AV] technology, as car-sharing takes off and driverless vehicles come closer. First, some people who might hitherto have wanted to own a car may no longer do so, cancelling out the growth the motor industry might otherwise have expected from the rising middle classes in developing countries ... Second, technology firms might be better placed than car makers to develop and profit from the software that will underpin both automated driving and vehicle-sharing. Some of these [tech] firms may even manufacture cars on their own.”

As I have written with Paul Godsmark, Barrie Kirk and Vijay Gill, “as the list of companies and governments promoting or permitting AVs grows exponentially, Canadians have to ask the question, ‘Where is Canada positioned as the age of AVs arrives?’ Historically, Canada has frequently been behind as new technologies have been introduced.” The ownership of the automobile manufacturing companies slipped from our grasp a hundred years ago. So did the introduction of radio and TV when those technologies were in their infancy. And good manners keep me from mentioning disasters like the design and disposal of the Avro Arrow, the collapse of Nortel and the ongoing difficulties of BlackBerry.

To show how fast things are evolving, Elon Musk, the “parent” of the Tesla automobile among other ventures, recently predicted that, in two years, an automated vehicle will drive from Los Angeles to New York, without the necessity of a human having to touch the wheel in the car. For those who are interested in the history of transportation, this is very much like the prediction of the first non-stop flight of an airplane from coast to coast. That happened in 1911 and look what has happened to aviation since then.

Google’s famous self-driving cars have logged more than a million miles on northern California highways, without an accident that was actually caused by the Google car. Google plans to hit the market with an electric, fully-automated, low-speed (40 kph) two-seater prototype vehicles. One hundred to 200 of these experimental vehicles may be available in California this year, thanks in part to regulations allowing the operation of fully-autonomous vehicles that California introduced last year. Ontario recently took some baby steps towards that same kind of regulation a few months ago. Ontario requires formal applications from any company that wishes to test AVs but is offering nearly \$3 million in matching grants

to support AV research, development and commercialization. But other Canadian provinces are nowhere to be found in their preparations for AVs. As part of the massive infrastructure spending being planned by our new federal government, one trusts Ottawa will spend some of the money on thinking about AVs and the profound impacts they will have on the Canadian transportation system.

Six US states – California, Florida, Michigan, Nevada, North Dakota and Tennessee – plus the District of Columbia have legalized AV trials and about 20 other states are looking at AV legislation. The German Ministry of Transportation has, with the help of car manufacturers and supply chain participants, released a report on automated and connected-driving technologies. Highly automated vehicles are expected to hit the German market by 2020. Last year, the UK government issued a code of practice for AV testing and is trying to establish a UK-based AV manufacturing industry. This year, Volvo is planning to run a 100-car AV project in its headquarters city of Gothenburg. And the following countries have serious government-supported AV initiatives: Australia, China, France, Japan, Korea, the Netherlands and Singapore.

In Canada, the most significant class of autonomous vehicles are the large trucks that are owned and operated by Suncor in the Alberta oil sands. Fully one-third of Suncor’s fleet is now autonomous. The remainder will be converted to autonomy in the coming year or two, thereby eliminating scores of well-paying jobs forever.

It is rumoured that Apple – a company with about \$180 billion in cash in its treasury – is planning to enter the competition to design and market AVs. If that happens, that will be a true game changer. One of the most significant things to know about AVs is that the Googles and Apples and the conventional auto manufacturers have different visions.

In contrast to the software giants, the car manufacturers are coming at the AV future in an evolutionary rather than a revolutionary way. They are gradually adding Advanced Driver Assistance Systems (ADAS) to familiar vehicle models, starting with high-end ones. Current ADAS systems include: lane keeping, intelligent cruise control (including braking) and automated parking. By 2020, most major car manufacturers will have vehicles in their showrooms that are capable of driving themselves for some of the time. By 2025, several manufacturers have indicated that they expect to have fully autonomous vehicles. The Big Question is: will the Google, Tesla and Apple cars squeeze the conventional automakers out of the field? It is worth remembering that, of the thousands of wagon manufacturers that existed in North America at the end of the 19th century, only Studebaker made it as an

automobile manufacturer. And where is Studebaker today?

Wild cards in this brave new world are car parts manufacturing companies like Magna. Magna may be able to survive no matter who winds up manufacturing the AVs.

The rate of adoption of AVs and the associated market dispersion will be rooted in several factors. How quickly will users buy into AVs? Certainly, no matter how completely the AV takes over driving in cities and on main highways, there will always be a market for people like sports car enthusiasts who will want to self-drive their MGs, Triumphs and Miatas along country roads. Some observers argue the switch over to AVs from the existing human-driven fleets will take many decades. As my paper of last year said, "... it is worth noting that it took about a dozen years for New York to switch from horse power to horsepower. In 1900, 4,192 cars were sold in the US; by 1912 that number had risen to 356,000. In 1912, traffic counts in New York showed more than horses for the first time. The equine was not replaced all at once, function by function. Freight haulage was the last bastion of horse-drawn transportation; the motorized truck finally supplanted the horse cart in the 1920s."



*Of the thousands of wagon manufacturers that existed in North America at the end of the 19<sup>th</sup> century, only Studebaker made it as an automobile manufacturer.*

I am old enough to remember horse-drawn carts delivering ice, milk, fresh fish and groceries to my home in Halifax so it took a long time for the horse to vacate the streets completely. Given the successful experiments – most recently in Nevada – with autonomous 18-wheelers, I think the automated truck will not be far behind the automated car on North American roads. If that happens, the direct employment displacement will be historic and socially nothing short of a major crisis.

In Canada today, there are about 560,000 drivers of trucks

of all kinds – 1.5 per cent of the Canadian workforce – and about 50,000 taxi drivers and thousands of bus drivers. All told, there may be 750,000-plus people – mostly men – plying these trades. What will happen to them and their families? We are already seeing the profound changes that Uber and Lyft have wrought in many cities around the world as "professional taxi drivers" are replaced by "amateur Uber drivers." What will happen when Uber reaches its corporate Valhalla of elimination of all its drivers and conversion of its business to driverless cars? Another Big Question is: who will own the automated vehicles? Will Google and Apple – like IBM in the early days of large main-frame computers – want to own all the cars and simply "rent" them to you? Or, if the car manufacturers win the game, will you be able to own your very own AV? Will you want to? Or will it even be possible in some societies that governments may want to own the vehicles?

One of the key recommendations of my paper of January, 2015 was that no new major transportation project should be contracted in Canada without an "AV audit" being carried out. In the area of public transit, particularly with very expensive projects – such as LRTs, subways, bridges, superhighways and elevated transit – great care should be taken not to commit billions to projects that have 30-50 year lives without considering the impact AVs will have on their long-term viability. The recent review of the Canada Transportation Act led by the Hon. David Emerson urged that such audits should be done.

Toronto is already considering this kind of question. A recent paper by David Ticoll entitled *Driving Changes: Automated vehicles in Toronto* foresees a revolutionary – and very disruptive – change in how transit will look in a decade or two. There may be no buses or trams or new subways or new LRTs by 2030 – just thousands of AVs taking people seamlessly to and from work, to and from shopping, to and from the cottage and so on. Every city in Canada should be watching closely at what is happening in Toronto today. Every city should take all this into account before they beat up the new government for money for new buses.

AVs have many benefits; the most significant one is safety. By removing the human driver from behind the wheel, AVs could eliminate most of the 93 per cent of collisions that currently involve human error. Eight years ago, a Transport Canada study reported that road collisions cost society \$62 billion or nearly five per cent of GDP. Plus more than 2,000 people die annually on Canadian roads, and thousands more are injured.

The next great benefit will be to transform the driving world to a transportation-as-a-service (TaaS) model, i.e. the use of cars on a short-term rental basis as an alternative to ownership. I

think it is conceivable that existing car rental, taxi and car-share business models will converge into a single model. A beneficial side-effect of this change will be the disappearance of the need for parking spaces, especially in downtown cores where they are never adequate and where they consume huge amounts of land. This will lead inevitably to more space being available for green spaces and a significant decrease in the kind of pollution that afflicts so many cities around the world, including Toronto.

AVs are being designed to travel on existing roads without requiring modifications to the current infrastructure. In Canada, existing technology is facing the challenge of guiding AVs along snow or ice-covered roads in winter but that problem will eventually be overcome through ever-more-powerful computers, by 3D laser-radar scanning and by GPS positioning technology. The key first step will be to ensure that the AVs will be able to navigate the built environment of the standard city. And since 83 per cent of Canadians live in cities, that will be an easy hurdle to clear.



*A beneficial side-effect of  
this change will be the  
disappearance of the need  
for parking spaces.*

AVs will be able to travel closely – indeed, many trucking companies are planning “truck trains” that will travel nearly bumper to bumper. That will increase the capacity of existing roads as measured in vehicles per hour. In the early days, roads will be divided into AV and non-AV lanes. High occupancy lanes that are being established in many places in Canada could be early places for AVs to travel safely. More roundabouts will be built to replace traffic signals because roundabouts work more efficiently for AVs. And cities that have a Transit-Oriented Development (TOD) policy that encourages development close to subway stops or suburban car parks next to transit stations may find that the benefits of having this kind of policy will diminish. Some cities may even make their city centres pure AV zones where no human-driven vehicles of any kind are permitted. What is certain is that the number of vehicles on the roads will decrease with the coming of the AV. And for Canadians,

perhaps the best demonstration project the new government in Ottawa might consider funding would be the development of the completely automated snow plow.

Another great impact that AVs will have could be to reduce household expenditures on transportation. This will be significant because Canadian households spend more on transportation than they do on most other goods and services. In fact, Canadian households spend about \$11,000 per year on transportation versus \$7,700 per year on food; \$3000 on recreation and \$3500 on clothing. Only spending on shelter – \$15,800 per year – exceeds transportation costs

In the US Morgan Stanley issued a blue paper that estimated, when AVs were fully deployed, the US would save, in the base case, \$1.3 trillion per year (about eight per cent of the US GDP) and global savings would be more than \$5.6 trillion per year. Taking the Canadian economy as being 10 per cent of America’s, that means the savings for Canada would be about \$130 to \$150 billion per year.

According to Morgan Stanley, the savings in the US from collision avoidance will be nearly \$500 billion. In Canada, that would be \$50 billion. It is interesting to note that, since the Morgan Stanley paper came out, the US Department of Transportation has said that the 2010 societal cost of road crashes was \$871 billion or the equivalent of six per cent of US GDP. Productivity gains from regained driver time in the US will be \$507 billion, based on average commute times of 25.5 minutes – similar to Canadian average commute times of 25.4 minutes. Fuel savings will be \$158 billion which will be delivered through the improved efficiency of AVs and the reduced time drivers would have taken driving around urban centres looking for parking spaces. Congestion avoidance savings will amount to \$138 billion and fuel savings from congestion avoidance will be \$11 billion.

One of the major headaches for society will be the employment displacement that AVs (and other disruptive technologies) will bring. Direct employment displacement would include these job categories: truck drivers, taxi drivers, bus drivers, auto body repair personnel, those selling auto insurance or adjusting claims, lawyers practising personal injury law relating to autos, traffic police, road safety professionals, tow truck drivers, driving instructors, emergency room staff and trauma medical doctors, rehabilitation doctors and nurses, parking lot attendants and road-building companies.

On the other side of the coin, there will be new business opportunities for the auto and technology industries that are designing and manufacturing the software for AVs. The size of

these opportunities will partly depend on the extent to which the federal and provincial governments will stimulate activity in the AV space. Many countries are gearing up for this challenge but Canada is nowhere to be found on this turf. And because most AVs will be electric vehicles, it is safe to predict that the overall consumption of petroleum being used for powering vehicles of all kinds will fall. Already, many large truck fleets are switching over to using natural gas rather than diesel. Indeed, in Quebec, along a major highway from Quebec City to Montreal, stations already exist to fuel trucks with natural gas.



*Automated vehicles  
are a truly disruptive  
technology.*

Land values – particularly here in Vancouver and the lower mainland – will be impacted by the AVs. There is a strong likelihood that people will be more willing to tolerate longer commutes if they are able to be productive in their vehicles while being able to pay less for their housing. This could result in more sprawl and the reduction in land values in suburban and ex-urban areas. Paradoxically, densification may also be encouraged by AVs because there will be less need for urban parking and the possibility that more housing can be developed on existing parking lots and garages. This trend will be reinforced because the cost of transportation will be reduced for city dwellers who use the shared AV fleets – the TaaS model – and therefore do not own their own vehicle.

The “sharing economy” that has already been seen in the rise of companies like Uber, Lyft and Airbnb will be a factor. It is interesting to note that GM recently made a huge \$500 million investment in Lyft, a competitor to Uber. The sharing economy is all about using fewer resources more efficiently so AVs could be the most significant contributor to that objective. Certainly, the so-called Millennial generation is already part of this trend. Millennials are taking longer to get driver’s licences or to buy automobiles. AVs will allow this generation and others coming behind it to significantly improve their access to transportation in a way that lets them maintain their increasingly connected worlds, not to speak of the savings that they will get when they don’t buy and maintain private-

ly-owned automobiles. Indeed, these new generations may make a leap to basing their offices in a vehicle that allows them to visit worksites and clients – like the Lincoln Lawyer – without having the costs associated with offices in bricks and mortar.

Finally, let me talk a bit about the impact of AVs on infrastructure. The best way to approach this subject is to look, once again, at history. In the early 20th century, when the first automobiles were introduced, sales volumes were huge and the impact on infrastructure was huge. Roads, traffic management systems, parking and gas stations were built to accommodate the adoption of the new technology. What will AVs do?

The first thing to realize is that numerous AV developers – Google in particular – are very keen to ensure that their AV technology can operate on existing roads and infrastructure without any modifications. Their intention is to incorporate enough sensors, software and intelligence into vehicles so that they are not reliant on additional external infrastructure or communications systems. (This may not be possible in Canada with our snow and ice-covered roads.)

AVs will be able, not only to travel on existing roads, but will be able to travel closer together. In other words, existing roads will become more efficient. There may, therefore, be a reduction in the need to expand existing roads or highways or to build new ones. This trend, in turn, may lessen the drive towards twinning and tolling existing roads.

When designing infrastructure projects, there is a tendency to assume that the future is simply an extension of the past. But AVs are a truly disruptive technology. Because major infrastructure projects are being designed and planned all across Canada, projects that will last for 30 to 50 years or more, it is imperative that everyone in the planning business become educated in the conception, planning and design of AVs and their potential impacts. They in turn must demand that their governments – at all levels – start developing the necessary regulatory frameworks to cope with this disruptive technology. This is something that is particularly important for our new masters in Ottawa to grasp. Will they? 

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**Brian Flemming, C.M., Q.C.,** 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. He is currently Senior Fellow at the Van Horne Institute in Calgary, Canada's foremost think tank on transportation issues. He is a former Assistant Principal Secretary and Policy Adviser to Prime Minister Pierre Trudeau. This article is based on a talk he gave to the Association of Canadian Engineering in Vancouver in January 2016.

# In Europe, proportional representation empowers the old and angry

*Across Europe proportional representation is sweeping the politically-marginalized into positions of power and influence. Christian Leuprecht believes this should give Canadian Prime Minister Justin Trudeau second thoughts as he prepares to follow through on his electoral reform campaign promises.*

**Christian Leuprecht**

**W**hen the Gods want to punish us, they answer our prayers,” figured Oscar Wilde. The Liberal government of Prime Minister Trudeau is committed to electoral reform. Last weekend gave yet another European pause for thought.

Electoral reform in Canada tends to be propagated under the pretense of making Parliament more “representative.” What reformers really want is more representation of “their” views. Proportional representation (PR) holds out not only the spectre of greater representation of the left (more seats) but greater diversity of representation on the left (more political parties). Reformers seemingly forget that expanded depth and breadth on the left forebodes the same potential on the right.

A recent lead editorial in the *Globe and Mail* on “the truth behind Donald Trump’s lies” claimed that, unlike the United States, Canada has “not developed a large, angry underclass of ‘old-stock’ voters” because “the rich and powerful can’t buy federal elections in Canada. We embrace diversity. We have universal health care, and a stronger and better-funded social safety net than the US. The same is true for most European countries.” But if the smug-Canadian hypothesis were true, how then to explain the “large, angry underclass of ‘old stock’ voters” that has been taking Europe by storm?

Earlier this year we got yet another reminder of the ugly underbelly of democracy, this time in Germany. The electorate in three of Germany’s 16 states went to the polls, two in the former West, one in the former East: a new party with no previous parliamentary representation garnered 15.1% of the vote in Baden-Wurttemberg, 12.6% in Rheinland-Pfalz, and an astonishing 24.2% in Sachsen-Anhalt. In its rhetoric, the Alternative für Deutschland (AfD) has much in common with Trump: simple answers to a host of complex problems – disestablishmentarian, anti-immigrant, anti-globaliza-

tion, Islamophobic, and a platform long on grievances on short on detail. It is similar in tone (although not necessarily in degree of ideological extremism) to the Front National in France (where Marine Le Pen stands to be a real contender for the presidency in 2017), the Vlaams Blok in Belgium, the Partij voor de Vrijheid in the Netherlands (a past governing coalition partner), Law and Justice (PiS) in Poland, Fidesz in Hungary, the True Finns, the UK Independence Party (UKIP)... All share the same electorate: older, white, often economically deprived and less educated.

The difference in outcomes has less to do with policy than with electoral systems.

Yet, there is also an important difference. In continental Europe, parties bask in right-populist support. In the United States, by contrast, the party leadership of Republican elites is scrambling: a coalition of alienated white geezers in the Northeast and South and bible thumpers in the Midwest is not enough to win. Last spring, UKIP was thought to be mowing the Conservatives’ lawn. Pollsters notwithstanding, David Cameron, much like Trudeau, was handed a solid majority.

The difference in outcomes has less to do with policy than with electoral systems. Forms of proportional representation prevail across continental Europe. By contrast, Single-Member Plurality (SMP) prevails in the UK, US, and Canada – whoever carries a plurality of the vote in a district, carries the seat. PR and SMP have opposite intended consequences: usually PR empowers ideological margins, SMP moderates them (by encouraging brokerage politics and parties). Hurdles – such as five per cent in Germany – are meant to keep out the ideological riff-raff. But thresholds are irrelevant

*Continued on page 33*

# Australia and Canada make perfect polar partners

*Countries like China, Russia, India and Brazil are seeking to grow their influence in Canada's polar regions. That's why it's a good idea for Canada and Australia to collaborate on their Arctic and Antarctic endeavours.*

**Andrew Pickford and Jeff Collins**



Donald Perovich, Wikimedia Commons

Over two centuries ago, polar activities in what became Canada and Australia were connected by one man, Captain James Cook. This occurred before nationhood and was driven by the British Royal Navy's grand strategy. Cook is familiar to Canadians for his pivotal role in mapping the treacherous St Lawrence River and helping James Wolfe prepare his famous amphibious landing to secure Quebec City, and with it North America, for the British.

With remarkable accuracy, in the 1770s Cook mapped Newfoundland. For Australians, Cook is recognised as claiming Australia for the British enroute to observing the Transit of Venus.

Less well known about Cook's exploration was his efforts to locate what is now known as Antarctica, as well as to find the Northwest Passage.

It is easy to dismiss the activities of James Cook as a historical

footnote. However, he was a part of geopolitical competition which saw European powers push outwards and control, then colonise, what were viewed as empty lands. More recently, in World War II and during the Cold War, Polar Regions represented potential zones of competition. It is only in the recent past that the Arctic and Antarctica have been home to collaboration and international harmony.

But what happens when the great powers of the 21st century begin to view the polar regions as core to their strategic interests? Will the status quo prevail or will there be a new cold rush?

With competition over the Polar Regions increasing, Canada and Australia may want to collaborate on their Arctic and Antarctic endeavours in case soldiers replace scientists in these cold, hostile and unforgiving environments.

For Canada, the possibility of resource riches and an opening of the fabled Northwest Passage sea route between the Atlantic and Pacific Oceans offers both an opportunity for future prosperity and a challenge. For Australia, maintaining its pre-eminent position in Antarctica will become more difficult as will ensuring that the continent does not become a contested southern flank.

The agreements and collective approaches underpinning the Polar Regimes have been remarkably successful with an emphasis on science and consensus. However, a vastly different interna-

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# Canada's cyber security policy needs an overhaul

*Current policy is written to maintain the status quo, not to develop a strategy that will allow the kind of agile, proactive prevention that is required to meet today's threats, writes Valarie Findlay.*

## Valarie Findlay

It's nothing we don't already know: cyber threats hold the potential for disruption that affects a wide range of policy areas from national security, public health and safety, foreign relations and the economy. However, while cyber security is a problem, it is not the problem and its continued breaches are evidence of a policy that has resulted in a flawed strategy.

The overarching policy that governs the security of assets, information and services is the Treasury Board Secretariat of Canada's Policy on Government Security (PGS). Broad and risk-based, this policy is written to maintain the status quo and repudiate breaches, as opposed to the agile, proactive prevention that is required to address cyber threats and vulnerabilities.

Taking broad swipes at various sectors, the PGS reads more like a laundry list or organizational chart than a security policy with its references to security intersecting with "access to information, privacy, risk management, emergency and business continuity management, human resources, occupational health and safety, real property, materiel management, information management, information technology (IT) ..." For as long as the prevailing notion is to treat these areas as separate entities, instead of being defined by their assets, cyber security will ultimately falter.

While the PGS does outline activities that assist in selecting appropriate processes and countermeasures, many of these, such as the Harmonized Threat Risk Assessment (HTRA), pre-date the Web 2.0/3.0 environment and emphasize risks over actual threats, abbreviating the analysis and intelligence processes. Threats should be defined by actors and technologies and risks defined by the probability and degree of harm associated with the threats. We need to better understand the former. More importantly, these activities must be a recurring program activity – a frequent health check – not a periodic or one-time event that is initiated only when an environment changes or when a breach occurs.

Last summer the out-going government announced, after

high-profile hacks on RCMP and CSIS websites, a federal initiative to address cybersecurity gaps from the legislative trickling down to the operational with a budget of \$142 million. While the new government has committed to a review of cybersecurity on critical infrastructure for seven departments, there is no indication of committed funds nor timeline. Above all, one has to ask: Are we doing it again; creating silo-ed, local approaches to deal with a serious, growing global problem? By carving out critical infrastructure from inextricably connected systems, selecting only a handful of the over 40 federal departments and slicing these strata into budget-friendly components, efforts to develop and implement effective cyber security countermeasures are futile.

When we're protecting government assets, information and services, we need an aggressive policy that raises the bar for accountability, requires mandatory compliance and recognizes the horizontal interconnectivity of systems and networks with private stakeholders and partners. Focusing only on cybersecurity and technology ignores several other important domains and creates vulnerabilities that allow threats to creep into the national and public security framework.

With sectors such as energy and utilities, and other critical infrastructure (noting that much of Canada's critical infrastructure is privately owned and does not require mandatory disclosure of cyber breaches) relying on common technologies for all aspects of operations and being interconnected with many other external systems and providers, the government must adjust policy not only for the current operational environment but the one we are evolving to years from now.

### Threat definition: Battles define the war

While the resolve and commitment required to truly globalize cyber security among stakeholders is a massive endeavour, we must recognize that the malicious actors are "in it to win it" and we must adopt the same stance.

From relatively unsophisticated hackers looking to make a name for themselves by rooting out cyber security vulnerabilities, to agenda-driven state and non-state actors attempting to disrupt and destroy and benefit from weakened systems, cyber threats span a wide range of capabilities. The technologies are easy to acquire, cheap, if not free, and progress much faster than our policies and countermeasures. For these reasons alone, cyber security or capabilities should be a policy and operational priority for all levels of government, the private sector and the public.



*We must better develop  
and use intelligence  
resources rather than merely  
technological defences.*

But how much is too much? Largely pejorative, the term “militarization” bristles us for a reason – but we are fighting a war with new battles arising daily. In the Art of War, Sun Tzu said, “if you know your enemies and know yourself, you can win a hundred battles without a single loss”. Often overlooked for its value in cyber-prevention and detection, “knowing your enemy” is established through the collection and analysis of information from breaches; this does not guarantee victory in the war but it does ensure preparedness for battle. So we must better develop and use intelligence resources rather than merely technological defences to identify and profile individuals and groups who pose a threat.

What makes intelligence even more valuable is when it is communicated to and collaborated on with stakeholders; this is analogous to immunizing an entire community against disease, as compared to handing out vaccines in one neighbourhood. Resistance to sharing intelligence with external partners and private sector stakeholders remains a substantial impediment and the cycle continues: We address global threats as local threats and undermine the relevance of interconnectivity, common technologies and platforms – MS products, SQL, Open Source technologies, etc. – which translate into common vulnerabilities. The Heartbleed bug that exposed the vulnerability of the OpenSSL cryptography software causing the shutdown of the CRA website

in the spring of 2014, is a prime example; if a cross-sector, multi-domain communication framework existed, government departments and other sectors would have been aware of the vulnerability weeks prior, avoiding a very public breach.

### **Overall degree of harm: It's not just data**

With the hackers’ sophistication and access to technologies rapidly growing, immediate impacts from cyber attacks, such as loss of data or loss of reputation and credibility, are quickly being overshadowed by the possibility of economic, competitive or national impacts, including physical harm or loss of life. By broadening the policy and directives that analyze and solicit in-depth detail on degree of harm, immediate and long term impacts, we will help define how we protect multiple environments. Whether attacks are simple, advanced or complex, unstructured or structured, or generic or specialized, is crucial in determining the most effective prevention and detection countermeasures.

Even the simplest of attacks can have significant impact on a nation’s security – not so much for the damage they cause themselves but because they could be a dry run for something bigger. In 2007, a three-week wave of cyber-attacks on the websites of Estonian government, media, communications and banks ground the small country to a halt and appeared to require little time and resources to be executed. Complex-coordinated cyber-attacks that demonstrate highly capable target analysis, command and control and organized learning capability embedded in their technology, such as Stuxnet, the zero-day worm that attacked uranium plant systems in Iran and several systems in other countries in 2012, are of greatest concern. A similar attack on Canadian or US critical systems, such as water, food or air quality systems, would have devastating, long-lasting impacts – the acceleration of technology and our inability to keep up with it makes this a real and credible threat.

### **Conclusion**

Policy on its own does not prevent cyber threats and vulnerabilities, but if its parameters of the policy are too wide and scope is too vague, gaps and deficiencies arise that create real vulnerabilities. An effective federal government cyber security policy will be developed in consultation with the private sector and consider the interconnectedness of vulnerable systems rather than focusing on certain critical infrastructure or the security of certain departments in isolation. And finally, we must actively confront the threats by deploying intelli-

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# Are deficit critics sounding a false alarm?

*Some recent commentary has urged calm about Canada's federal finances following the 2016 budget, writes Sean Speer. And while it is true there is not an "imminent fiscal crisis", it's not unreasonable to question the utility of deficit spending or be worried about where the country is headed.*

**Sean Speer**

Another federal budget has come and gone. While most Canadians have understandably moved on, economists and policy commentators continue to debate the Trudeau government's fiscal policy. Budgetary deficits – nearly \$120 billion and counting – are the budget's signature policy and the source of ongoing contention.

The fiscal policy debate is manifested in an initial wave of commentaries such as “Canada is adrift without a fiscal anchor” and “Liberals’ budget hikes pressure on Canada’s dangerous debt bomb”, and a subsequent response in form of essays and columns such as “We are not heading to fiscal crisis” and “Deficit mania: stuck in the 1990s again”. Finance Minister Bill Morneau’s budget anticipated a multiplier effect. Presumably though he had not expected that it would come in the form of multiplying commentaries about his deficit spending.

Broadly speaking these post-budget analyses can be placed into two camps. The first is dubious on the utility and composition of the federal deficit and is concerned that the absence of a plan or timeline to eliminate the deficit could set the government on a path of protracted budget shortfalls. The second argues that the projected budgetary deficits are sustainable and that claims they may lead to long-run fiscal challenges are overblown.

To the extent that anyone is keeping track mark down another member for the first camp. Raising questions about the utility of budgetary deficits in a growing economy and the risks of ongoing



Finance Minister Bill Morneau tables the budget in the House of Commons, March 22, 2016.  
(Adam Scotti, Office of the Prime Minister)

deficits in the absence of a clear plan to balance the budget is hardly evidence of false alarmism. The onus of fiscal policy should be on those who support deficit spending rather than those who raise cautionary notes about the advisability, utility, and consequences of a return to budgetary deficits.

Dissuasion of hyperbole is fair enough. We are not on the

(Table 1)

## Budgetary Balance using 2015 Budgetary Revenues and 2016 Total Expenses (\$ billions)<sup>2</sup>

	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>Budget 2015 REVENUES</b>	<b>279.3</b>	<b>290.3</b>	<b>302.4</b>	<b>331.3</b>	<b>326.1</b>	<b>339.6</b>	—
<b>Budget 2016 TOTAL EXPENSES</b>	<b>280.4</b>	<b>296.6</b>	<b>317.1</b>	<b>331.0</b>	<b>338.0</b>	<b>347.0</b>	<b>358.6</b>
<b>Budgetary BALANCE</b>	<b>-1.1</b>	<b>-6.3</b>	<b>-14.7</b>	<b>-17.7</b>	<b>-11.7</b>	<b>-7.4</b>	—

cusp of an “imminent fiscal crisis.” Projected deficits as a share of GDP are lower than what we witnessed in the 1970s and 1980s. The federal debt-to-GDP ratio is expected to remain essentially flat over the next five years. No one is going to confuse Canada for a banana republic.

But one can accept that the budget’s return to deficit spending does not put the country at risk of “an imminent fiscal crisis” and still question its usefulness. Put differently: just because the federal government can run deficits does not mean it should.

Part of the debate has focused on the extent to which a drop in federal revenues or a hike in spending have caused the deficit. The government cannot be faulted for the decline in its revenue outlook. Federal revenue projections have fallen by an average of \$7.2 billion annually relative to the previous year’s budget. This deterioration in federal revenues was bound to make it challenging to balance the budget this year.

But the Trudeau government cannot claim immunity on the magnitude and duration of the projected budgetary deficits. It was a matter of choice rather than circumstance, as *National Post* columnist Andrew Coyne has observed.

Consider 2015-16, for instance. Projected revenues are now higher than in the 2015 budget and yet the government is anticipating a deficit of \$5.4 billion rather than a surplus of \$1.4 billion – a \$6.8 billion swing that cannot be attributed to a drop in federal revenues.

A similar story emerges when one unpacks the deficit projections in subsequent years. Remember the Trudeau government committed to annual deficits of \$10 billion per year and now asserts that these deficits will be higher as a result of the deteriorating revenue outlook. One way to test this claim is a back-of-the-envelope calculation of the federal fiscal picture using revenue projections from the 2015 Budget and spending assumptions from the 2016 budget. It is an

imperfect calculation but it seeks to isolate the increase in federal spending from the drop in revenue to better understand the driver behind the rising deficit projections. Table 1 shows that the deficit is higher than the \$10-billion cap that the government set for itself even before one accounts for the decrease in revenues relative to the 2015 budget and this does not account for the \$6 billion risk adjustment reflected in the 2016 budget.<sup>1</sup>

The point is that deteriorating revenues do not fully explain the government’s departure from its self-imposed deficit cap of \$10 billion. Discretionary spending increases are a major source of the government’s budgetary deficits.

The composition of new federal spending is therefore worth examining. What is driving spending growth? Mr. Morneau’s speech cited “invest” and “investment” more than 40 times as the budget’s central idea. Its centrality to the government’s budget message should come as no surprise. The role of public investment in creating the conditions for economic growth has been a key part of its economic vision since last year’s federal election.

As a basic premise there are few who would contest that certain types of public spending are a critical input to economic activity. Public spending on core infrastructure – such as transit, roads, bridges, and highways – for instance is often considered “investment” to the extent that it lowers the cost of the movement of people, goods, and services in Canada and to external markets. To the extent that discretionary spending is in large part responsible for the return to budgetary deficits there may have been a case

<sup>1</sup> A small share of the change in spending is a result of higher Employment Insurance costs. But these higher EI costs are partly offset by upward projections for EI premium over the fiscal planning period. The net result is that it is not EI benefits that are driving more spending.

<sup>2</sup> See: [www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf](http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf) and [www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf](http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf).

(Table 2)

## Budget 2016 – Program Expenses and Year-over-Year Growth (\$ billions)<sup>3</sup>

	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>Budget 2016 PROGRAM EXPENSES</b>	<b>270.9</b>	<b>291.4</b>	<b>304.6</b>	<b>308.7</b>	<b>314.2</b>	<b>323.2</b>
<b>Year-over-year SPENDING GROWTH</b>	<b>–</b>	<b>7.6%</b>	<b>4.5%</b>	<b>1.3%</b>	<b>1.8%</b>	<b>2.9%</b>

assuming that spending increases were focused on investment.

Yet it is difficult for one to argue that the increase in program spending was driven by public investment rather than current consumption. Of the \$33.7 billion in new program spending over the next two years, less than one-third is dedicated to infrastructure. This percentage falls even further when one drills down into what the budget document characterizes as infrastructure. It requires a rather elastic definition of infrastructure, for instance, to consider “municipal capacity building” (referring to project management and infrastructure planning) as infrastructure or an investment.

Much of the new spending – and in turn the budgetary deficit – is focused on immediate consumption (that is, spending with little or no long-term return) such as seniors’ benefits and operating funding for the CBC. One might argue that some of these expenditures are not only justified but important for individuals, communities, and the country. Incremental funding to improve social services in Aboriginal communities, for instance, was overdue. But it is hard to rationalise government borrowing to pay for basic, present-day services. And it is equally difficult to contend that spending on current consumption is going to drive long-term economic growth. As BMO economist, Douglas Porter, has said, “While there was much talk about enhancing productivity and growth, I’m afraid that most of the budget measures will just provide a one-off boost to spending, and not support longer-term activity. In fact, some may suggest that it did the opposite, since the near-term deficit boost at some point will have to be repaid.”

Yet the government continues to claim that its deficit spending focused mostly on current consumption will somehow drive economic growth – that is, it will contribute to greater economic activity in the short- and long-term term. The message has become a bit muddled in light of recent positive economic developments

but the key takeaway seems to be that more spending is justifiable irrespective of the state of economy and whether one’s focus is the short- or long-term.

There are basic theoretical problems with the idea that a smattering of new spending will produce the economic growth that the government is anticipating especially when one considers that the economy is already growing and the extent to which higher spending is tilted towards consumption. Expectations that the budget will therefore “kick start” the economy are likely to be misplaced.

*It is quite conceivable  
that the budgetary  
deficit will persist for  
the foreseeable future.*

As for the path to a balanced budget, the 2016 budget is essentially indeterminate. The budget document states: “the Government will set a timeline for balancing the budget when growth is forecast to remain on a sustainably higher track.” It is the first federal budget since the 1990s that envisions deficit spending over the entire fiscal planning period with no prospect of returning to a balanced budget. Post-budget comments from the prime minister and the minister of finance have suggested that deficit spending will continue for at least half-a-decade and possibly longer.

It is quite conceivable that the budgetary deficit will persist for the foreseeable future. Consider that current projections for program expenses anticipate that year-over-year spending growth

<sup>3</sup> See: [www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf](http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf).

will fall from 7.6 percent in 2016-17 to 1.3 percent in 2018-19 (see table 2). This represents optimistic (and likely unattainable) budget planning.

There is little in this year's budget – including the intention to repeal its predecessor's *Balanced Budget Act* – to signal that the government will impose the type of fiscal discipline necessary to bring annual spending growth down to this level. Quite the opposite. The reintroduction of the Labour-Sponsored Venture Capital Tax Credit in spite of clear evidence of its deficiencies, reversal of the increase to the Old Age Security eligibility age, and ceasing the reforms to sick-leave benefits give reason to doubt the government's willingness to make tough fiscal choices. There is every reason to believe that annual spending growth will rise faster than projected especially since several big-ticket promises, such as increasing the Canada Health Transfer, are still outstanding. It is quite possible therefore that medium-term fiscal projections deteriorate rather than improve.

Does this signal an "imminent fiscal crisis"? Of course not. The deficit as a share of GDP is low relative to historical experience and the federal debt-to-GDP ratio is steady. But it does mean that we may be entering a period of ongoing budgetary deficits that are primarily driven by spending increases on current consumption and are indifferent to the state of the Canadian economy.

It also creates the risk that the federal government may fall into a cycle of ongoing deficit spending that is challenging to extract itself from. Consider that Canada has experienced an economic slowdown or recession, on average, every eight years since 1980. An economic recession squeezes federal revenues and increases spending in the form of automatic stabilizers such as employment insurance. It also may lead to discretionary spending increases to stimulate economic

activity as we witnessed in 2009-10 and 2010-11.

Drawing on past experience, analysis by the Fraser Institute shows that Canada will likely experience an economic slowdown or recession over the next two or three years. An unexpected economic shock would undermine the government's fiscal planning and almost invariably extend the current string of budgetary deficits.

Would such a scenario precipitate a fiscal crisis? Still no. But one can begin to discern how easy it is for a government to lose control of its timetable for a balanced budget and for deficit spending to become normalized and difficult to cease. This is presumably a scenario that most, if not all, economists and policy commentators would agree that the government ought to avoid.

The solution, then, is not alarmism (to the extent that anyone can be accused of raising alarms) but it is also not complacency, as Coyne has recently put it. The government needs to put forward a clear plan to erase the budgetary deficit. This does not necessarily mean closing the revenue gap in a single year or abandoning its campaign commitments. But it does mean a clearer articulation of how and when the federal government should run budget deficits (calls for deficits every time there is an adjustment in global markets or negative economic news risks intellectualizing irresponsibility) and concrete steps to eliminate the current deficit over the medium term.

This is the best path to ensuring that federal finances remain sustainable and that those voices cautioning calm in the face of the current string of budgetary deficits are ultimately proven right. Until then the debate about the Trudeau government's fiscal policy is bound to continue. ■

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**Sean Speer** is a Senior Fellow with the Macdonald-Laurier Institute.

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## Straight Talk (Burney and Wilkins)

*Continued from page 15*

Mexican) meat were ultimately successful but required several lengthy WTO appeals and persistent representations to Congress by Canadian diplomats.

This is just one example of why the mood of Congress, not just the administration, has to be a top concern for Canadian diplomats. We need to use all the available instruments, including trade agreements, to secure access in our most vital market.

### **MLI: Looking forward, what are the biggest challenges and opportunities for the two countries to work together?**

**Wilkins:** The single biggest challenge we both face are uncertain economies. Canada really needs a strong US economy

and we are just not there, and now Canada is planning to run years-long deficits. This doesn't bode well for either of us. I also think many Canadians and Americans are not facing the threat from ISIS and other radical groups in a realistic fashion. We lived through 9-11 and some are acting like it never happened. With our economies so uncertain, with oil at an all-time low, and government spending at an all-time high, one calamitous event to either nation could be truly devastating. Another major challenge is to put the politics and acrimony of the last few years behind us and work together to adopt a true "all of the above" compatible energy policy where governments don't pick winners and losers and negatively impact their respective economies with an unrealistic environmental policy. ■

## Unexpected evangelical (Carsley)

*Continued from page 16*

blessing America, the Pledge of Allegiance makes faith a prerequisite for patriotism, and even the greenbacks boast “in God we trust.”

The story begins on Plymouth Rock, when John Winthrop declared America to be a City upon a Hill. From the Puritans onward, early evangelical underpinnings have equally validated and tormented the America’s consciousness.

Religious fundamentalism hit a few high notes in the 19<sup>th</sup> century, most of which were discredited because of their partial devolvement into the Ku Klux Klan. Cultural pluralism further marginalized the position of evangelicals for the first half of the 20<sup>th</sup> century.

During the 1960 campaign, John F. Kennedy famously declared that, “I am not the Catholic candidate for President. I am the Democratic Party’s candidate for President, who happens also to be a Catholic. I do not speak for my church on public matters, and the church does not speak for me.” Kennedy’s campaign could only advance in earnest once he placated the Evangelical base.

Ronald Reagan transformed podiums into pulpits in 1980, convincing voters that the answers to America’s moral decay could be found in the Bible. Whilst President, Reagan earned support from Jerry Falwell and Billy Graham and courted the Moral Majority and the Christian Coalition, organizations that backed his two terms in Office. *Washington Post* columnist E.J. Dionne Jr. argued that Reagan, more than anyone else, captured the attention of religious traditionalists who “saw the Enlightenment as a wrong turn and saw the destruction of

tradition as a grave danger,” which turned out to be an effective election strategy.

The influence of evangelicals on presidential politics grew ever stronger through the 1980s and 1990s and culminated with the election of George W. Bush in 2000. “I believe God wants me to run for President,” Bush said of his candidacy in 2000. “I am driven with a mission from God.” More than anything, Bush cemented the Christian Right’s relevance in presidential politics, again blurring the lines between church and state.

When Trump told Liberty University that, “if separation of church and state is code for attacking religion, I’m not interested,” he was preaching to the already converted. Known for their philosophical opposition to secularism, the Liberty U crowd embraced Trump’s religiosity as a sign of political seriousness.

As Republican voters and delegates evaluate candidates’ moral fortitude, policy prowess is becoming further sidelined, a troubling tale for a country founded on intellectually charged, democratic principles.

Thus we have the Trump paradox. Though many moderates cannot stomach his temperament, there is a strong contingent of Americans that believe Trump – regardless of his pious impropriety – is their guy, because he has the capacity to evangelize America back to greatness. \*

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**Elaine Carsley** is counsellor-in-chief of collegial and a lecturer at McGill University and Concordia University. Her doctoral research focuses on the media's role in American presidential campaigning. She has served as a policy adviser to international companies, local, state and federal governments, and collaborated with prominent North American think-tanks.

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## Proportional representation (Leuprecht)

*Continued from page 25*

when the AfD scores popular support in the teens and twenties right out of the gate. SMP would not have prevented the AfD from getting a seat here and there, but PR translates into far more seats for the AfD than would have otherwise been the case. It is proportional representation, after all.

Obviously, the rise of the AfD is a multivariate problem, including a social-democratic Chancellor whose leadership has orphaned some conservatives. However, the AfD draws not just on alienated conservative margins, but, the aforementioned electoral results replicate, on the whole political spectrum. If voter-migration patterns in Europe are any indication, contrary

to common wisdom, the NDP and Liberals might fare no better under PR yet give inadvertent license to the rise of right-wing populism in Canada. Think there is no Trump constituency in Canada? Canadians voted Union Nationale and Social Credit in the past. About two-thirds think Trump would be bad for Canada. Some of the rump would vote Trump. Proportional representation risks begetting an “Alternative for Canada.” Does Canadian democracy really need to put that hypothesis to the test? \*

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**Christian Leuprecht** is professor at the Royal Military College of Canada and Queen's University, a senior fellow at the Macdonald-Laurier Institute, and currently a fellow at the Hanse-Wissenschaftskolleg in Germany.

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## Polar partners (Pickford and Collins)

*Continued from page 26*

tional security environment is starting to emerge. The first decade of the 21<sup>st</sup> century saw the divergence between a camp of largely Western nations who viewed Polar Regions as a site of scientific and environmental collaboration and an alternate group including China, Russia, India, and Brazil that are seeking more influence and access which could potentially include resource extraction.

Neither peace nor conflict is a predetermined outcome. Yet, assuming that arrangements in Polar Regions will remain unchanged is naïve. This fails to grasp realpolitik decisions by powers that do not benefit from existing arrangements.

With potential energy riches in both regions as well as other yet to be identified natural and biological resources, attention will return when commodity prices again spike. These drivers have already prompted China to take a more active presence in both poles.

Hence, a change to the status quo and competition over Polar Regions represents a significant challenge to Ottawa and Canberra but is also an opportunity here for both countries to create a framework for cooperation. Both countries must plan for all contingencies, especially resource competition as well as potential militarisation of these zones.

To help develop respective capabilities and maintain influence of these zones, we recommend that Canadian-Australian cooperation in the Polar Regions proceed along three key themes: personnel exchanges; joint procurement of equipment; and mutual recogni-

tion of territorial claims.

With Canada's years of experience in operating air, naval and coast guard assets in the Arctic, Australian personnel could gain valuable Polar operational experience through exchanges with their Canadian counterparts. With procurement, the different hemispheric calendar cycle allows for Canada to possibly rent out Australia's soon-to-be built icebreaker while Ottawa awaits the building of the CCGS *Diefenbaker*, thus plugging a capability gap and saving money by allowing for the retiring of the 46-year old CCGS *Louis St. Laurent*, the largest icebreaker in the Canadian Coast Guard.

Finally, both countries stand to benefit in mutually recognizing each other's territorial claims in the Antarctic and Arctic, respectively. Considering that no other state accepts the respective polar claims of Canberra and Ottawa, a small but nevertheless significant diplomatic victory could be achieved, paving the way for possible additional international recognition by other states. While none of these recommendations is a fail-safe from great power contestation in the Arctic and Antarctic, both countries need to maximize their limited resources.

Cook's expeditions resulted in an expansion of the British Empire that displaced earlier claimants and owners of land. Ambitious powers of the 21<sup>st</sup> century might similarly have little interest in the status quo. They may even undertake scientific expeditions to polar regions which include military and mining personnel. ■

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**Andrew Pickford** is an Australian defence and security analyst based in Canada and **Jeffrey F. Collins** is a Canadian-based defence and security analyst.

## Cyber overhaul (Findlay)

*Continued from page 28*

gence against malicious hackers and working to counter them and the technologies they use rather than waiting until they strike again.

Fighting a global threat with a local response is neither smart nor effective, and clinging to what used to work because the prospect of starting anew is monumental is not prudent. Long-standing beliefs and their venerations have boxed us into repeating cyber policy history. We also need to ensure that we seek out expert opinion in industry and academia rather than relying on a bureaucratic approach in order to develop a framework

that directly addresses the common features of cyber threats and the interconnectivity of our systems. Only then can Canada be prepared to respond effectively to those who would do us ill on this new global battlefield. ■

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**Valarie Findlay** has nearly two decades of senior expertise in Canadian federal government and is President of HumanLed, Inc. ([www.HumanLed.com](http://www.HumanLed.com)). She is a research fellow with the US-based Police Foundation and is currently developing a Threat Information Gathering and Incident Reporting System and its algorithm. She has a Masters in Terrorism Studies and is currently working on her doctoral thesis, the sociology of terrorism and the Elias' process of civilisation. She can be contacted at: [vfindlay@humanled.com](mailto:vfindlay@humanled.com)



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