

# The Canada We Want in 2020

## Summary of Phase 1 & 2

### **Canada 2020: Progressive Policy for a Modern Canada**

Canada 2020 is Canada's leading, independent, progressive think-tank. Canada 2020's objective is to inform and influence debate, to identify progressive policy solutions and to help redefine federal government for a modern Canada.

We do this by convening leading authorities from Canada and abroad, generating original policy thinking, and prioritizing effective communication.



## Introduction

Today, Canada faces challenges and opportunities that are quite unprecedented in our recent history. Our ability to overcome these challenges – and seize the opportunities – will determine the future trajectory of Canada’s economy and society over the next generation.

In early 2011 Canada 2020 launched a project focusing on these challenges and opportunities. The five interrelated areas that we identified as being critical to Canada’s future, and requiring strategic leadership from the federal government, are:

- increasing innovation and productivity
- meeting the Asia challenge
- reducing our carbon emissions
- addressing income disparities and polarization, and
- securing our health system.

Together these are the focus of our project: *The Canada We Want in 2020: Towards a Strategic Roadmap for the Federal Government*.

## Phase 1: Kicking off the debate (May – November 2011)

During phase 1 we identified authors to contribute short think-pieces to our first book. These pieces were intended to lay out the key issues and stimulate discussion around the federal government role. Authors – drawn from the business world, academia, the public service (retired), foundations, research institutes and trade unions – were asked to be prescriptive and provocative.

### *The Canada We Want in 2020* Authors

Income Inequality	Mark Cameron, Sherri Torjman and Ken Battle, Andrew Sharpe
Innovation & Productivity	Kevin G. Lynch, Lawson Hunter and Peter Nicholson, Jim Stanford
Carbon	Lorraine Mitchelmore, Stewart Elgie and Alex Wood, Ian Mallory
Meeting the Asia Challenge	Dominic Barton, Yuen Pau Woo, Rana Sarkar
Health Care	Philippe Couillard, Francesca Grosso and Michael Decter, Mark Stabile

*The Canada We Want in 2020: Towards a Strategic Roadmap for the Federal Government* was launched in both official languages, at The Arc Hotel in Ottawa on November 24<sup>th</sup> 2011.



## Phase 2: Communicating the issues (January – May 2012)

### Overview

Canada 2020 convened a series of five monthly panels to launch a discussion about the issues raised in the book. All authors spoke, as did the following guest panelists:

- Income inequality: Chrystia Freeland, Digital Editor at Thomson Reuters
- Income inequality: Alessandro Goglio, Economic Counselor, OECD
- Income inequality: Keith Neuman Executive Director, Environics Institute
- Asia: Peter Wilkinson, Senior VP of Government Relations, Manulife Financial
- Carbon: Joe Aldy, Asst. Professor of Public Policy, Harvard University

The panels, held at the Château Laurier Hotel in Ottawa, were moderated by Canada 2020 Advisory Board Chair, Don Newman. Each drew between 300–400 people. They were live-streamed on our website and questions were taken both from audience members and through Twitter.

For full video coverage of panel events, interviews with the authors and panelists, event summaries and issue analysis in each area, please see our website: [www.canada2020.ca](http://www.canada2020.ca).

Below is a brief summary of each panel, the issues that arose and our early thoughts about future work in the area.

### Reducing Income Inequality and Polarization

Featuring *Mark Cameron, Sherri Torjman and Ken Battle, Andrew Sharpe, Chrystia Freeland, Alessandro Goglio and Keith Neuman.*

January 19 2012

This is a concern that has risen rapidly up the agenda since we began our project in the summer of 2011. Income inequality is increasing globally, in middle income as well as richer countries. This shift in income distribution is largely due to greater wage disparities, driven by the twin forces of technological change and globalized trade, as well as domestic deregulation and flattening tax structures.



The trend towards increasing inequality has been accelerating in many countries since the 1990s but was, until the last few years, somewhat masked by the credit bubble. Since this buffer has been removed, recognition of the problem has increased significantly, with the Occupy movement bringing it to the top of mind throughout the US and, to a lesser – but rising – extent in Canada.

Earlier this year the World Economic Forum identified income inequality as a top global risk and in late 2011 President Obama called growing inequality “the defining issue of our time”.

## **Main Issues**

Canada sits more or less in the middle of OECD inequality rankings. However, by some measures, inequality here is actually rising faster than in the US and we are number three in the OECD (behind the US and UK) in terms of concentration of income in the top 1%. The super-rich in Canada are pulling away from the middle classes, just as in other countries.

At the same time, as a society, we are not as polarized as the US. Rich people live in nice neighborhoods but not, in general, in gated communities and we generally come together to participate in the institutions that underlie the state, such as healthcare and the education system. Economic mobility (the degree to which people move around in income terms) is still high here, whereas it has fallen dramatically in the US in recent years.

If left unattended, inequality is a problem that is likely to grow, both in real terms and in political significance. Addressing income inequality is not simple and is not the same as addressing poverty, though there are links. It will likely take a range of policies in different areas – ranging from education to labour market policies, tax changes to healthcare, asset distribution to providing support for shared institutions – to craft a response. It will also take a sophisticated understanding of the overall societal impact of inequality.

## **Future Directions**

Canada 2020 will work to understand what an equality of opportunity agenda would look like in Canada and which policy levers would play the greatest role in implementing this. We will also examine the institutions that have enabled us to maintain good economic mobility and the degree to which these are being sustained.



## Reducing Income Inequality and Polarization

Featuring *Peter Nicholson & Lawson Hunter, Kevin Lynch, Jim Stanford.*

February 23 2012

In Canada we are in the midst of a long period of decline in relative productivity vis-à-vis the US and most of our major competitors. Between 1984 – 2007 relative Canadian productivity fell from 90% of the US level to 76% and between 2005 and 2009 we saw no growth at all in business sector productivity.

This is a widely acknowledged policy challenge for Canada (it should be noted that we are not alone in this: many other countries feel they have an innovation deficit). It is also an area in which there is intense disagreement about both the nature of the problem and the solution. From Canada 2020's perspective there are also limitations: the federal government has a role to play, but policy alone cannot solve the country's innovation and productivity problems. Business-level decision-making is critical.

### Main Issues

There are two broad lines of thought in this area. The first is that it is the constraints on the free market in Canada that are largely responsible for our woeful innovation and productivity performance. Proponents of this line of thinking want to see smarter regulation, fewer protected market sectors, more trade deals and often a variety of specific changes in the way that governments support technology development.

The second school of thought – exemplified by Canada 2020 author, Jim Stanford, of the Canadian Auto Workers' Union – is that markets need to be constrained and managed and that this will provide the boost to productivity that Canada needs. Proponents argue that we should look to our own history and the masters of state capitalism, e.g. various Asian countries, for inspiration and examples to follow, rather than seeking to extend liberalization.

There is also a third group of commentators that does not identify significant structural reasons for our failings but that points, instead, to the need to make Canada a better place to live and do business. Those in this camp note the importance of ensuring that entrepreneurs receive the right training, are able to produce products that people want, can access capital both for their own companies and to buy in technology, and are not afraid of failure.



The issue of innovation within the public sector – a key theme of one of the papers in our book – has also become increasingly prominent over the past year. Budget and personnel cuts within the civil service have underscored the need to innovate or lose services. Nonetheless there is, at present, little evidence that innovation is really being spearheaded in the public sector within any level of government, although there are some glimmers of hope in the healthcare area. There is also no compelling evidence of governments using their own purchasing power to nurture innovation (something that was highlighted as an opportunity in the recent ‘Jenkins Report’, *Innovation Canada: A Call to Action*).

## Future Directions

It is our contention that solutions in the area of innovation and productivity are likely to lie in a combination of supporting strategic sectors in which there are significant opportunities for growth and competitiveness, and removing remaining foreign ownership restrictions. We will elaborate a research/debate agenda around these twin ideas, at the same time working to gain a better understanding of how micro decision-making responds to changes in policy.

## Carbon – The Economy and the Environment

Featuring *Lorraine Mitchelmore, Stewart Elgie and Alex Wood, Ian Mallory, Joe Aldy*

March 19, 2012

Since the start of our project, there has been little good news on the carbon front. Canada has withdrawn from the Kyoto Protocol, TransAlta has cancelled its Pioneer carbon capture and storage project (that was to have taken 1 million tons of carbon out of the atmosphere each year) for cost reasons, BC has ordered a review of its carbon tax and the federal government has reaffirmed its opposition to any national carbon pricing plan.

It is true that economic growth and carbon growth seem to have been delinked – emissions remained steady for 2009–10 despite 3.2% economic growth – but we still have a mountain to climb if we are to come close to reaching our Copenhagen targets (17% below 2005 levels by 2020). Current actions take us only about one quarter of the way and the plan for achieving the remaining three quarters of the reductions is ill-defined at best (especially given projected increases in oil sands extraction).



This lack of progress is concerning for a number of reasons. The first is the obvious threats that climate change poses. The second is that lodging ourselves at the back of the pack environmentally is tantamount to choosing the last place in the lineup for the economy of the future, missing opportunities to develop, deploy and export clean technologies. Third, Canada's stated preference for a slower, regulatory approach is perceived as a 'do nothing' stance and is drastically reducing our international standing.

## **Main Issues**

It is widely acknowledged that the most economically efficient way to reduce carbon emissions is to put a price on carbon. There is, though, disagreement on the desirability and viability of doing this. Some argue that a regulatory approach – if effectively implemented – would be a reasonable substitute for a carbon price and would have the advantage of being more viable, politically, even if more expensive.

One glimmer of hope in the carbon area is provided by the various provincial, and US state-level, efforts to address emissions. It is feasible that building on these – working from the bottom up as opposed to the top down – might result in meaningful action country-wide. The results of the current BC carbon tax review are likely to be critical in determining the viability of this strategy.

In the meantime, all commentators agree that there are still 'low hanging fruit' in this area and that far more effort needs to be invested in energy efficiency and in regulation of the very highest point-source emitters. These actions would form part of a 'go smart' approach to carbon regulation, as advocated by our authors from Sustainable Prosperity.

## **Future Directions**

Canada 2020 will be closely monitoring the current efforts of the western provincial premiers to develop a national energy plan. As pointed out by Shell Canada President Lorraine Mitchelmore in our publication, such a plan should interweave with any future emissions reduction policy or plan.

It is our contention that the possible parameters of a national energy plan are not well understood in this country, and should be explored, as should the extent of the clash between our carbon emissions targets and our current growth strategy.

We may also explore how alternative justifications for carbon regulations, such as health benefits, could become important. This resonates with Ian Mallory's argument in our book that carbon



reducing measures that also have a strong ‘non carbon justification’ are likely to be more feasible to implement.

## Meeting the Asia Challenge

Featuring *Dominic Barton, Rana Sarkar, Yuen Pau Woo, and Peter Wilkinson*

April 11, 2012

This is another area in which there have been significant developments since Canada 2020 began work on *The Canada We Want in 2020* in the summer of 2011. The Prime Minister has taken two trips to Asia, the federal government has started or restarted trade negotiations with several Asian countries and Canada has secured a seat at the table for the Trans Pacific Partnership trade discussions. Budget 2012 had a strong Asia theme, prioritizing trade deals with Asian countries as a key component of a *Refreshed Global Commerce Strategy*.

We have also seen a recent flurry of activity around the Northern Gateway Pipeline, which, if built, would enable us to move ahead aggressively on exporting oil to Asia. This would reduce our energy export dependence upon the US, and help us achieve closer to global prices for our oil. If managed well, energy exports could stand as the foundation of a much broader trade relationship with Asia.

### Main Issues

Asian countries, and China in particular, are playing an increasingly critical role in influencing geopolitical relations and defining the global architecture. This makes it ever more critical for Canada, which has been a laggard in the area, to reassert itself in Asia.

This is a first step if we wish to take advantage of economic opportunities in Asia. China and India are housing the equivalent of the entire population of Canada every 18 months. In parallel, a massive new middle class is being formed, growing by 70 million people each year and representing a fast-rising share of global demand for all types of goods.

Canada needs to find ways to keep ahead of the curve as competition will be fierce. We will also need to ensure that Canadian public opinion and Canadian businesses are moving in the same direction. This raises difficult questions of human rights, environmental, legal and intellectual



property standards and our openness to Asian investment in key sectors of the Canadian economy, notably natural resources.

Canada 2020's panel discussion underlined the need to build a web of relationships at every level (cultural, economic, educational, etc.) with Asian countries. Despite all our apparent natural advantages and our close people-to-people links, we are well behind the competition at present. If we are to deploy our most obvious asset – energy exports – in the medium term, we need to make sure that all the other pieces of the puzzle are in place so we gain maximum advantage.

Panelists called on governments to lead by being steadfastly supportive, by facilitating and curating relationships, by strategically supporting sectors and substantially increasing the Asia content of education here in Canada. But we also need to persuade companies and individuals that readying ourselves to pivot towards Asia is a necessity, not a luxury, in the world of 2020 and beyond.

## Future Directions

Canada 2020 anticipates bringing greater clarity to the debate about trade agreements with Asian countries: at present there is little discussion about the costs and benefits to Canada of the most ambitious free trade agenda in a generation. In addition, we anticipate focusing on certain key sectors, such as agriculture and infrastructure and examining the scope for increased Canadian economic participation in the growing Asian economies. Thirdly, we may look at issues around foreign investment in Canada.

## Securing our Health System for the Future

Featuring *Francesca Grosso & Michael Decter, Mark Stabile, Philippe Couillard*

May 11, 2012

The challenges facing our health system are enormous: the population is aging, resulting in an increased demand for chronic care in a system that was designed to provide acute care; the institutional structure of the system is unwieldy and inefficient; cost increases are outstripping inflation and the provinces' attempts to address this are resulting in stand-offs with medical associations; and the disparity of care across the country is troubling. Health decisions are too often taken in the public sphere, in response to media pressure, rather than being built on real medical evidence.



If Canada is to prosper in 2020 and beyond, we need to have an effective and affordable health system in place. It is part of what makes Canada a great place to live (and work) and is thus an important factor in the productivity debate. Public healthcare is also a key tool in the fight against inequality.

We should be able to achieve positive outcomes. Canada's spending on health is approximately 2% higher than the OECD average but, at present, our health outcomes are generally no better, and in some cases are markedly worse (especially for certain groups, such as aboriginal people).

Since the start of this Canada 2020 project, the health landscape has changed more profoundly than that of any of the other four areas. In December 2011 the federal government took the unilateral decision to withdraw from all but a funding role in health. It agreed to provide continued funding to the provinces with 6% annual increases in federal transfers until 2017, after which transfers will be pegged at the rate of nominal GDP growth with a guaranteed base of 3% a year. Payments will be *per capita* based with no provision to differentiate according to population characteristics (age, etc.).

## Main Issues

The federal role in health is now limited to funding and a taking responsibility for aboriginal, the military and veterans' healthcare.

Panelists at our healthcare event were broadly optimistic about the federal withdrawal. A key benefit is that provinces have stable funding for several years and that they will be obliged to take responsibility for the future of healthcare – in short, they have nobody else to blame. Already there has been a good deal of activity and even some efforts at coordination and collaboration between provinces on health.

Residual concerns include the disparity of care across the country and provinces' ability, or willingness, to learn from each other. There is a good deal of innovation apparent in healthcare, but learning from best practices has typically been very poor, as was also referenced in Peter Nicholson's paper on innovation.

Whether there will again be a stronger federal role in health remains to be seen. However, it is assured that the debate about funding healthcare will not disappear. Sometime in the next decade we will have to address the question of where the increased funds required for continued progress in healthcare will come from. Increased efficiencies cannot achieve everything. And if



further money is not raised, healthcare will likely continue to crowd out spending in other critical areas, notably education and infrastructure.

## Future Directions

Canada 2020 will be closely monitoring the healthcare area to assess progress. We will pay particular attention to the provinces' efforts to work together in the health area and will consider health as a key component of a stronger, more equal and more prosperous Canada. We may also look at the role that health plays in defining the society in which we choose to live, and the trade-offs between health spending and other areas of public sector spending.

If appropriate, we will also examine international experience with raising revenues for health (including imposing dedicated health levies) and defining the way in which health services are purchased.

## Next Steps

*The Canada We Want in 2020* will continue as a core focus for Canada 2020 until at least 2014.

In late 2012 Canada 2020 will produce a document that builds on this Phase 1 and 2 summary of *The Canada We Want in 2020*, updating it and laying out our research/panel agenda for 2012 – 2013 and beyond.

Priorities for the next phase include:

- Continuing to examine and bring into the public debate critical issues in the five areas.
- Filling in gaps by undertaking/commissioning our own research.
- Focusing more on the links between the five areas of federal policy in which we are working, to extend the overall progressive vision for Canada.
- Extending debate by hosting and participating in more events beyond Ottawa.
- Extending our network, especially through increased use of social media to reach younger, engaged Canadians.
- Defining meaningful, progressive policy options in the five areas.
- Increasing our influence in the national policy debate and with policy makers.