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A Canadian Priorities Agenda: Securing the Fundamentals of Canada's Prosperity

Ryan Nichols

University of Toronto School
of Public Policy and
Governance

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The IRPP's *Canadian Priorities Agenda* project is the inspiration for the capstone seminar in the Master's in Public Policy program of the School of Public Policy and Governance at the University of Toronto. Taught by Wendy Dobson and Carolyn Hughes Tuohy, who were two of the judges in the original IRPP project, and Mel Cappe, former president of the IRPP, the course is offered in an intensive format as a core requirement in the final semester of the two-year program. The volume *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being* is the basic text for the course. It is supplemented by readings chosen by the instructors and guest presenters. The students take the role of judges, and for their final assignment they write a 5,000-word paper modelled on the judges' reports in the original project, in which they have to make the case for an agenda comprising five policies selected from options presented in the course. Every year the instructor selects the best student paper, and the IRPP posts it on its Web site. The current paper was chosen as the best paper for 2012.

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"If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them." - Henry David Thoreau, *Walden: Life in the Woods*, 1854.

INTRODUCTION – THE SOURCE OF CANADIAN EXCELLENCE

A coherent priorities agenda that seeks to enhance the economic and social well-being of Canadians is an ambitious undertaking, as it should be. For nearly two centuries Canadian excellence has been achieved through the persistent attainment of difficult goals. High-level aspirations, born out of the desire to overcome complex social and economic challenges, provide motivation to continually build a better country. At times, these challenges are thrust upon us by external factors outside of our control. Other times, Canadians take it upon themselves to improve deficiencies in Canada's domestic context. What is clear, however, is that the ruthless pursuit of forwarding-looking objectives, such as the enhancement of economic and social well-being, is what has driven Canadian greatness and will continue to do so.

Yet despite the importance of high-level focus, Canadian excellence must be built on a bedrock of foundational principles. Motivation devoid of fundamental capabilities yields little in the way of social or economic progress. Canadian policy-makers must understand that a strong foundation of capabilities is a necessary precondition to meaningful socio-economic development. Although challenges at home and abroad continually test the vitality of Canada's economic and social well-being, a strong foundation affords the ability not only to secure our current levels of social and economic prosperity, but also to enhance them over the long-term. It is the purpose of this paper to outline and build a priorities agenda that addresses current challenges to Canada's economic and social well-being by securing the core strengths of Canadian present and future prosperity.

Policy Narrative – Building a Solid Foundation

Naturally, then, the most pressing issue is to define the foundational underpinnings of Canada's social and economic well-being. Admittedly, this is controversial. The dynamic nature of Canada's social and economic interactions provides a rich and complicated socio-economic environment. A priorities agenda that focuses on particular factors will necessarily draw attention away from other important aspects of Canadian social and economic life.

Nevertheless, Canadian policy-makers must remain focused. Priorities matter. To address all things is to address nothing well. This paper assumes that at the core of Canada's socio-economic well-being is continued prosperity. It is the ability of Canada to flourish and to establish a thriving condition that drives the high-level aspirations of this paper. While my choices of policy are probably biased toward the tangible economic enhancement of Canadian's material standard of living, I will show that social and economic prosperity are interdependent.

Actualization of this goal, however, must be supported by a set of foundational principles. The four principles that I will outline here are mutually reinforcing and together seek to establish a solid footing for Canada's continued socio-economic prosperity.

Flip open any recently published macroeconomics textbook and you will see that in the long-run potential economic growth is determined by inputs of capital, labour, endowments of land and natural resources and technological change. The economy will expand for periods of time because of a growing population and added capital. In the long-run, however, sustainable growth depends almost exclusively on capabilities to find new and more efficient combinations of inputs and entirely new technologies. The challenge for policy-makers is to encourage such capabilities, since they enhance productivity growth. In colloquial terms, they enable us to get more "bang for the buck."¹ This represents the first pillar of Canada's socio-economic prosperity, namely, enhanced productivity.

One of the key economic inputs, labour, constitutes the second underpinning of Canadian social and economic well-being. People make up the social fabric of the country and drive the economy. Demographics, then, are a foundational factor in the pursuit of prosperity. A productive population is not only a necessary precondition to prosperity, it is also its focus.

Two less obvious factors, while extremely important in their own right, play foundational roles: the expansion of markets, and social and fiscal sustainability. With regard to markets, the question of Canadian economic and social well-being does not begin and end at our borders; as one observer says, "we are a single country in an increasingly globalized system of trade and capital exchange."² For now and for our future prosperity, global engagement, the third pillar of Canada's socio-economic prosperity, will continue to be an imperative. Trade opens markets to Canadian business beyond the local economy. This increase in volume potential enables specialization, which in turn reduces costs, increases variety and reinforces prosperity.³

Enhancement of the factors of prosperity, however, if not matched by reinforcement of the fourth pillar, sustainable growth, will be rendered useless in practicality. Excessive strains on social cohesion or fiscal expenditure could undermine the capacity of policy-makers and the Canadian populace to maintain, let alone improve, their prosperity.⁴ Policy-makers, then, must remain vigilant to ensure that prosperity is not pursued at the expense of stability.

Taken together, these four factors form a set of foundational objectives that Canadian policy-makers should pursue to enhance Canada's economic and social well-being. Metaphorically, productivity, demographics, global engagement, and sustainable growth constitute the pillars upon which Canadian prosperity rests. A priority policy agenda, then, must strengthen these pillars to ensure continued Canadian prosperity in the face of twenty-first century challenges.

POLICY CONTEXT – A TEST OF CANADA'S FUNDAMENTALS

Today, Canada faces a set of challenges that again threaten to undermine the economic and social well-being of the country. They are not wholly new or outright catastrophic. Yet, left unaddressed, they have the potential to weaken Canada's economic and social prosperity.

Firstly, Canada is experiencing a productivity gap compared to even its closest allies and trading partners, most notably, the United States (U.S.). The most telling indicator is Canada's subpar labour productivity growth, which has averaged a mere 0.6 percent over the 2000–2009 period, or less than half the average of 1.5 percent for all OECD countries.⁵ Relative to the U.S., labour productivity in Canada's business sector has fallen from approximately 93 percent of the U.S. level in 1984 to 71 percent in 2009.⁶

For the purposes of this paper, however, the important thing to note is the relationship between productivity and real wages. As Canadian economist Kevin Lynch points out, "productivity growth is as much a social issue as an economic one because it defines our aggregate living standards."⁷ Productivity growth drives real wages insofar as the labour's terms of trade are mediated by the labour's share of output.⁸ Put simply, the more Canadians can produce, the higher their standard of living. In this sense, the productivity gap threatens to undermine not only Canada's productive capacity, but also our socio-economic prosperity through our standard of living.

Secondly, Canada faces demographic challenges associated with an aging population. Over the past 50 years, the median age of Canadians has risen from 27.2 to 38.8, while the share of those aged 65 and over has

increased from 7.7 percent to 13.2 percent. Statistics Canada predicts that by 2026 – when much of the baby boomer generation will be retired – the median age will increase to 43.3 and the share of seniors will be 21.2 percent.⁹ As the pressure from those not in the labour force on the productive population – known as the dependency ratio – continues to rise, so too will the cost of a number of government expenditures, such as health care and retirement assistance. For example, average spending on public pensions across the OECD is now more than 7 percent of GDP, with conservative projections for 2040 of 15 percent of GDP.¹⁰ This raises important questions such as how to increase, or even maintain, the standard of living per person in Canada when the dependency ratio is rising and placing a strain on Canada's fundamental demographic and sustainable-growth pillars.

Given the interconnectedness of Canada's fundamental pillars, in addition to pressure on demographics and sustainable growth, an aging population will necessitate advances in productivity. As the labour force contracts in the coming years, GDP growth will become increasingly dependent on advances in productivity. In this sense, productivity as a fundamental factor of Canada's prosperity will increase in importance over the coming decades.

Thirdly, global uncertainty highlights the interconnectedness of domestic and international affairs. While this paper assumes that external factors, such as the health of the global economy, will remain reasonably stable over the medium term, risk remains tilted toward the downside. Without a firm policy response to the European sovereign debt crisis, the possibility of European default could lead to the contraction of global credit markets. Moreover, despite initially optimistic signs of a U.S. economic recovery with the creation of 200,000 jobs at the end of 2011, the situation remains precarious. The U.S. debt-to-GDP ratio has risen to 102 percent, thus limiting the range of fiscal levers available to policy-makers should another economic downturn occur.¹¹ These risks raise the possibility of an external shock to the Canadian economy, which could lead to higher unemployment and slower growth rates. In this sense, Canada has a vested interest in ensuring the stability of external markets.

Policy-makers must draw fiscal lessons from past Canadian experience. Following the recession of the early 1990s, the federal debt reached nearly 70 percent of GDP.¹² Policy-makers faced tough lessons that servicing the debt became a structural not a cyclical problem, which increased the interest rate on government borrowing and decreased investor confidence. In this sense, in line with the pillar of sustainable growth, a Canadian priorities agenda must remain committed to deficit reduction strategies to ensure medium- to long-term sustainable growth.

Yet, despite challenges to Canada's socio-economic well-being, the current policy context provides an opportunity to re-engage the fundamentals of Canadian prosperity. It is a time not for sober reflection but for action. Canadian policy-makers must work to support our social fabric and economic prosperity by delivering policies that strengthen the core determinants of Canada's economic and social well-being: productivity, demographics, global engagement, and sustainable growth. The remainder of this paper will outline a range of policy options that would afford policy-makers the opportunity not only to secure Canadian prosperity today but to enhance it in the future.

POLICY OPTIONS – DELIVERING CANADA'S FUNDAMENTALS

While a framework that outlines the fundamentals of Canadian prosperity is necessary, it is not sufficient. Canada's priority agenda must be rooted in evidenced-based reasoning. The following criteria represent a comprehensive external benchmark that provides a more comprehensive analysis that goes beyond not only each policy option's impact on the fundamentals of Canadian prosperity, but to assess its likely effectiveness when implemented. It should also be noted that the subsequent criteria and policy options are in no particular order, as it is encouraged that all policies be implemented concurrently.

Firstly, policies must be efficient. Put simply, they should streamline operations to achieve the greatest "bang for the buck."¹³ Secondly, Canada's priority agenda should promote equity. For the purposes of this paper, equity is taken to mean fairness; principally for Canadians but, when possible, also for our global partners. Thirdly, policies must be fiscally prudent. They must align with Canada's deficit reduction strategy to ensure sustainable long-term growth. Finally, where appropriate, the responsible role for government must be made clear. This includes aligning all levels of government toward a priorities agenda that strengthens Canada's fundamentals. These evaluative criteria, combined with Canada's four pillars of socio-economic prosperity, then, form a comprehensive, yet clear framework of analysis for Canada's priority agenda (see Figure A1 in the appendix).

Pursue the Perimeter

Given the importance of global engagement to Canada's social and economic well-being, it is the purpose of this option to strengthen Canada's largest and most important market – the U.S. Pursuing the perimeter is a foundational initiative for the prosperity of Canada and Canadians. Canada is one of the world's significant beneficiaries of economic openness.¹⁴ The Canada-U.S. border is one of the longest and most important border crossings in the world. It consists of 130 land crossings along the longest unfortified boundary in the world, at 8,890 km, in which 200 million crossing take place every year.¹⁵ Deeply integrated market forces and policies of

openness, such as those reflected in the North American Free Trade Agreement (NAFTA), have allowed Canada and the U.S. to form the largest trading dyad in the world. Trade under NAFTA increased by 95 percent from 1993 to 2001,¹⁶ while the total two-way trade of goods and services amounted to US\$525 billion in 2010.¹⁷ In this sense, the U.S. by far represents Canada's largest trading partner and source of economic growth.

Nevertheless, asymmetries exist in the trading relationship. Canada's exports to the U.S. accounted for 74.9 percent of Canada's global exports in 2010, whereas U.S. exports to Canada accounted for only 19.4 percent of America's total exports.¹⁸ This demonstrates a profound asymmetry in the trading relationship between the two countries. Canada, then, has the most to lose if the free flow of goods and services was restricted at the border.¹⁹

It is important to note that pursuing the perimeter does much more than strengthen global engagement through the security of a bilateral market. It also strengthens productivity. Canadian foreign direct investment (FDI) in the U.S. was more than C\$261.3 billion in 2009, while U.S. FDI in Canada was C\$288.3 billion in the same year.²⁰ This flow of FDI stimulates physical capital formation and production efficiencies, which increase productivity and, in turn, prosperity.

Despite efforts to outline a framework for negotiations surrounding cross-border agreements, several gaps exist in current initiatives. While agreements such as the Smart Border Declaration and the Beyond the Border agreement have made tremendous progress in signalling a general desire to limit restrictions to the flow of goods and people, policy-makers must remain vigilant in their strategic vision and implementation. Although improvements have been made through the establishment of the nexus pass and the sharing of cross-border information, these have largely been the result of ad hoc cooperation between individual departments such as Public Safety and Homeland Security in the U.S.

Increased institutional cooperation has included ad hoc efforts with no particular level of coordination between Canada and the U.S., despite the new reality of security-economic linkages.²¹ For example, with regard to administrative capacity, Canada has had difficulty centralizing even its own agencies under Public Safety Emergency Preparedness Canada (PSEPC). PSEPC is a coordinating agency covering a wide array of different partners, from the RCMP to emergency management of health threats. In practice, PSEPC has had great difficulty centralizing long-standing agencies with a "strong sense of bureaucratic turf protection."²² In this sense, authorities from agencies like PSEPC on both sides of the border need to work more closely not only to identify priority initiatives, but also to coordinate inter-departmental and inter-jurisdictional cooperative initiatives

to avoid duplication of services and ensure a coordinated implementation strategy for important Beyond the Border initiatives.²³

In assessing the policy, the increased harmonization of border security initiatives between the two countries seeks first and foremost to promote efficiency. Every initiative that allows Canadian goods, services and people to cross the border more quickly leads to greater efficiencies in the Canadian economy. With assurances of expedited and stable trading patterns, firms can better specialize, leading to comparative advantages and an improvement in the prosperity of large segments of both economies.

With regard to equity, undoubtedly certain industries that rely on domestic protection will be negatively affected. However, this deadweight loss is outweighed by the openness of the broader economy. Approximately five million jobs in Canada are directly linked to trade with the U.S. and depend on an easily accessible border.²⁴ A more open border affords a fair opportunity to Canadian and American firms, while demanding higher competitiveness in their operations.

Pursuing the perimeter is also fiscally neutral. It represents no additional government expenditure, but rather a reworking of existing resources toward the effective coordination of priority initiatives. Moreover, in relation to broader sustainable growth, establishing an enduring shared strategy between Canadian and American policy-makers would create long-term economic and defence stability. This would decrease the likelihood of future disruptions in the bilateral trading relationship should a shock similar to 9/11 occur in future.

Given the inter-jurisdictional nature of pursuing the perimeter, there is an obvious role for government to lay the groundwork in preparation for increased efficiency and trade in existing Canada-U.S. markets. One of the principle challenges related to any cross-border initiative is sensitivity to sovereign authority. By gaining a seat at the table, Canada actually minimizes the asymmetry of the bilateral relationship in a way that allows policy-makers to ensure fair economic and social concessions for Canadians, while still remaining autonomous.

There is also a role for sub-national governments. By working directly with sub-national jurisdictions, as well as regional groups such as the bi-national Great Lakes Partnership, Canada can draw on provincial and state expertise. Not only will local consultation make perimeter initiatives more comprehensive, it will encourage greater local buy-in during the implementation of complex, inter-jurisdictional initiatives.²⁵

Join the Trans-Pacific Strategic Economic Partnership and Accelerate Trade Diversification

In conjunction with pursuing the perimeter, Canadian policy-makers must also pursue trade diversification. While the U.S. is currently and will for the foreseeable future continue to be Canada's largest trading partner, this should not crowd out diversity in Canada's trade. In addition to alleviating the risk of overreliance on the U.S. market, diversifying trade to global markets also encourage FDI, which accelerates productivity growth.

International agreements such as the Trans-Pacific Partnership (TPP) represent a bold new opportunity for Canadian global engagement. Currently, the nine member states negotiating the TPP comprise a market of 600 million people, which had an annual economic output of US\$20 trillion in 2011, representing 28 percent of global GDP.²⁶ Long-term plans could see the TPP expand to include all the Asia-Pacific Economic Cooperation countries as well as China; a grouping that would constitute 54 percent of global GDP.²⁷ Membership in the TPP, then, would facilitate a more solid foothold in East Asia for Canadian businesses.

Aside from greater penetration of emerging markets, however, the TPP represents an additional opportunity to resolve productivity deficiencies. Logistically, the TPP seeks to cover a number of "leading-edge issues related to the effectiveness of trans-pacific business chains."²⁸ Given complex linkages associated with just-in-time production not only with the U.S. but also with Asia, the TPP can also modernize Canada's business links with parties involved in the negotiations.

Although the TPP is a strong opportunity for Canadian global engagement, supply management represents a formidable challenge to its actualization. The TPP requires that subsidies on Canadian goods such as dairy or eggs be removed to ensure a freely competitive market. Despite the potential for a strong political backlash, the abolition of supply management is in Canada's best interest to gain broader access to global markets. While a detailed discussion of supply management is beyond the scope of this paper, the Australian example provides encouraging lessons. In that country, after the abolition of dairy supply management in 2000, the number of dairy farms shrank, though they became more competitive and there was no drop in output.²⁹

In assessing the efficiency of Canada joining the TPP, like pursuing the perimeter, it will force all Canadian firms to be more competitive. In addition, with new markets, business linkages through supply chains, and FDI, firms also have the opportunity for higher productivity.

Regarding equity, again, as with pursuing the perimeter, some individual firms, particularly those under supply management, will be disadvantaged under the TPP. The government must work to stress the importance of the initiative in terms of Canada's broader economic and social well-being.

The abolition of supply management could make efforts to join the TPP costly. However, from the reduced cost to consumers of free trade products, such as dairy, a surcharge could be instituted to maintain existing prices for a pre-determined duration (Australia instituted a surcharge of 11 cents) to compensate farmers through quarterly payments amortized over a number of years.³⁰ In this way, if Canada was willing to be admitted gradually to the TPP, the policy may be fiscally neutral.

In addition to domestic responsibilities associated with supply management, government also has an important role in foreign diplomatic engagement. By leveraging Canada's interconnected North American dialogue through the pursuit of the perimeter initiative – including aligned policies such as product and labour standards – Canada can gain U.S. support for Canadian admission to the TPP. Moreover, by starting negotiations for entry now, as opposed to joining an already established partnership, Canada can shape the terms of the agreement and take advantage of early business expansion.³¹ In this sense, Canada can work to engage but also influence the rise of Asian economies toward sustainable growth to secure Canadian prosperity over the long-term.

Re-Tool Finance for Innovation

In addition to securing global markets for Canadian exports and the infusion of FDI, Canadian policy-makers must promote domestic direct investment to stimulate productivity. Through programs such as the Scientific Research and Experimental Development (SRED) tax credit, Canada has invested heavily in fundamental research in universities, and it has even begun tying it to commercial interests, but the results have been underwhelming. Although Canada has one of the most generous tax systems for research and development (R&D), Canadian firms spend only 1 percent of GDP on R&D, while the OECD average is a more robust 1.6 percent.³²

Despite shortcomings in the application of innovative investment, Canadian policy-makers have an opportunity to solve the root-cause problems of our productivity by balancing current innovation initiatives.³³ Tax policy should be focused on creating a “balanced and competitive tax environment across the entire innovation value chain, from initial R&D through commercialization to the development and production of new products and services.”³⁴ Current tax expenditures, such as SRED, are front-end loaded, pushing firms to undertake R&D

through upfront subsidies. However, policy-makers must recognize that the uptake of innovation is subject to both demand and supply forces. Support is needed beyond encouraging a demand for the discovery of new knowledge. Firms require assistance in translating R&D into the supply of improved products, services and processes.³⁵

In order to compete in the global market, then, Canada's innovation support requires a re-balancing of finances to address challenges beyond demand side intervention. By re-allocating a portion of tax expenditures like the SRED's C\$3 billion to much smaller direct support programs such as the Industrial Research Assistance Program, which promotes capital investment further down the value chain, firms would be incentivized to implement productive innovations throughout the production process. In this sense, the government would be supporting not only R&D but also its translation into productive improvements, which is a current weakness of the Canadian economy.

Regarding efficiency, re-tooling finance seeks to utilize existing expenditures and allocate them in a more effective manner. By addressing deficiencies across the entire value chain, policy-makers can redistribute over-investment in demand-side support and re-balance it with supply-side initiatives such as direct support.

As a design element, equity could be upheld by transparently allocating a certain provision of support for small, medium and large firms. All firms would be required to submit an application to determine their suitability for the support. In this sense, all firms would be treated fairly in the determination of financial support.

In terms of fiscal constraints, as with Canada's global engagement initiatives, re-tooling finance would represent no additional cost to government. Note, however, that funds would be distributed differently. Unlike current programs, such as SRED, which provide R&D support at the start of the fiscal year, a more balanced initiative would see funds released throughout the year to assist the multi-staged implementation of innovative practices across the value chain.

Undoubtedly, there is a responsible role for government. A reform of current tax systems requires strong federal leadership. It also demands comprehensive engagement with the provinces. Since all provinces, with the exception of Prince Edward Island, top up SRED with their own credits,³⁶ provincial support would also have to be adapted to accommodate a re-tooling of innovation financing.

Expand the Federal Skilled Worker Program

While advances in global engagement and productivity are foundational to Canadian prosperity, these policies must also be supported by a strong demographic base. A prosperous society depends in large part on the stable supply of a productive labour force. In light of demographic challenges associated with Canada's aging population, there are two sources of population growth. The first, an increased birth rate, is unlikely to occur. Canada's current and projected birthrate over the next century is 1.1 children per woman, well below the 2.1 needed simply to sustain the population.³⁷

This means it is left to immigration to carry the demographic burden. However, as with birth rates, current immigration levels will not enhance, let alone sustain, Canadian prosperity. If we add the birth rate and net immigration, at present Canada's population growth is 1.675, still well below the level of 2.1 needed to sustain prosperity.³⁸

What is important for the purposes of this paper is that the composition of immigration is undermining prosperity. In 2008, only 24 percent of immigrants to Canada were admitted through the skilled worker class.³⁹ While family reunification and refugee admission remain important social policies, the availability of skilled labour is a key determinant of investment decisions and the location of economic activity. Many countries have increased their focus on immigration to acquire the skills needed for prosperity in a more advanced and globally interconnected economy.

To meet the demographic and labour force productivity challenges facing this country, policy-makers must get serious about expanding immigration. Expansion of the Federal Skilled Worker Program (FSWP), then, represents a vital policy to secure Canadian prosperity. By far, the FSWP is Canada's most successful form of immigration with regard to Canadian prosperity. A 2010 Citizenship and Immigration (CIC) report evaluating the FSWP found that 89 percent of FSWP immigrants were fully-employed within three years of landing,⁴⁰ well above the 64 percent of all immigrants.⁴¹ Furthermore, 95 percent of employers indicated that FSWs met or exceeded expectations, while 63 percent of employers noted that the positions were difficult to fill ahead of time.⁴² In this sense, FSWs represent an injection into the labour force that not only meets current demand but adds an important influx of productive labour to meet Canada's demographic challenges and ensure long-term sustainable growth.

Regarding the efficiency of the policy, the 2010 CIC report found that FSW immigrants actually required fewer resources and took less time for CIC to make a decision on their applications.⁴³ FSWP applications are more transparent and objective, leading to greater efficiencies in processing.

The policy would also promote equity by recognizing the valuable contribution of Canadian immigrants. Expansion of the FSWP does not have to be at the expense of Canada's other immigration commitments, such as family reunification of refugees, it would merely be in addition to them. Moreover, while a small group of native-born Canadians may be negatively impacted by an expanded FSWP, FSWs fill an important role in the Canadian labour force, which enhances the prosperity of all Canadians.

Importantly, the FSWP is also fiscally sustainable over the long term. Despite the inevitable rise in costs of processing additional FSWP applications, the net benefit would more than outweigh the costs. With average FSW income of C\$44,200 for entrants with no formal job offer and C\$79,200 for those with a formal job offer, the tax revenue generated from the 89 percent of FSWP immigrants who are fully employed within three years allows the program to be self-sustaining.⁴⁴

Finally, there is a responsible role for CIC to ensure FSWP admittance targets and increased procedural activities are determined appropriately. In addition, the federal government must work with the provinces to ensure the interests and capacities of all jurisdictions are aligned toward the accommodation of additional FSWs.

Incentivize Social Impact Bonds

As a final policy option, social impact bonds (SIBs) would represent an opportunity for policy-makers to help ensure that the continued delivery of government programs is both socially and fiscally sustainable. Despite a period of fiscal austerity over the medium-term in Canada, SIBs could incentivize the delivery of not only more cost efficient, but more effective social programs. The SIB is a financial vehicle that brings together capital and expertise from the private and non-governmental sectors and could deliver both social value and public sector cost savings.⁴⁵

A pilot program in the United Kingdom, the Peterborough Prison SIB, launched in March 2010, serves as a useful model. Working with experienced social sector providers such as the St. Giles Trust, the Peterborough Prison SIB affords 3,000 prison inmates mentoring over a six-year period in order to decrease re-offending rates. The upfront investment from private actors was £5 million, while the government will share long-term

savings up to 13 percent if re-offending rates drop by 7.5 percent or more. It has been calculated that £1 pound of investment leads to £10 pounds in savings.⁴⁶ Similarly, the SIB Redirection Project, aimed at reducing juvenile incarceration rates in Florida, has resulted in a decline in youth offenses of 20 percent since 2010, along with a savings of US\$51.2 million.⁴⁷

Aside from the evidence, it is an opportune time for policy-makers to contemplate the utility of SIBs. The increasing trend toward academic, private sector and government cooperation is demanding a more collaborative approach to mitigate social challenges. The broad applicability of SIBs means that Canada can tailor programs to meet its own unique challenges and draw on the particular strengths of its civil society actors. Moreover, like FDI, SIBs encourage positive outcomes through profit. It is important to note, however, that they directly target social sustainability initiatives. In this sense, they combine strong incentive with socially desirable outcomes to more comprehensively address social challenges as diverse as correctional services, health care delivery and educational programs.

The main advantage of SIBs is that they encourage efficiency not only through cost-savings but also through more effective service delivery. This allows government to maximize allocative efficiency by only rewarding successful initiatives.

The broad applicability of SIBs also makes them highly equitable. SIBs can be utilized to facilitate a wide-range of targeted social initiatives. Moreover, as with any pilot program, if SIB best practices turn out to be particularly effective, they can be scaled-up to improve the delivery efficiency and social outcomes of large-scale initiatives.

With regard to fiscal prudence, like the four other policy options I have mentioned, SIBs are at the very least cost neutral. By identifying targeted programs in which it is appropriate to shift resources to community-based sanctions, the government can enhance social outcomes while reducing costs.

There is, of course, a role for government in the implementation of SIBs. Aside from coordinating SIB programs, government requires a strong review process. By reviewing lessons learned from SIB initiatives, government can implement best practices into other government programs, while strengthening relations with non-governmental actors.

POLICY OPTIONS NOT CHOSEN – RATIONALE FOR THE PATHS NOT TAKEN

I would be remiss to not at least briefly address the suite of policy options not selected. Beginning with productivity, the option of developing talent proposed by Kevin Lynch was a close runner-up. No doubt Canada requires advances in social capital to be successful in a globally competitive market. However, in light of the country's deficit reduction strategy, re-tooling inefficiencies in existing financial expenditures is of greatest importance. Not only can improvements be made in both social and physical capital investment, they can be achieved in a manner that enhances allocative efficiency.

Regarding demographics, the option to expand settlement services seems intuitive *prima facie*, given that unemployment levels among recent immigrants is typically twice those of native born Canadians.⁴⁸ However, the FSWP is a unique immigration class. Due to demographic and productivity challenges, FSWs represent an important injection of skilled labour to the Canadian economy. Moreover, the successful integration of FSWs compared to all other immigrant classes means that expansion of the FSWP will contribute more to aggregate Canadian prosperity than investment in settlement services.

In terms of global engagement, no policies apart from pursuing the perimeter or diversifying trade were applicable. It is important to note, however, that I emphasized global engagement by selecting these two options because it is closely linked with the other pillars of Canadian prosperity. Engagement with the globally competitive market has indirect benefits for productivity through FDI, demographics through the free flow of goods and people, as well as sustainable growth through the sharing of best practices and norms.

In relation to the pillar of sustainable growth, the options of enriching successful anti-poverty programs and investing in human capital through early childhood education (ECE) proposed by Mark Stabile are probably robust policies in improving social sustainability. I did not, however, dismiss them because they fail to properly address the second component of sustainable growth – fiscal sustainability. Put simply, these initiatives are extremely costly, with ECE representing a C\$1.5 billion investment in Ontario alone.⁴⁹ In keeping with Canada's medium-term deficit reduction strategy, SIBs are best placed to address social sustainability, with their broad applicability, as well as fiscal sustainability, with their focus on allocative efficiency.

Finally, it must be noted that there are important policy options that fall beyond the purview of this paper. For example, I did not explicitly address environmental policies. While important initiatives in their own right, market or regulatory environmental policies remain tangential to the fundamentals of Canadian prosperity. In fact, they depend on fundamental factors first being established. Resolving environmental collective action problems

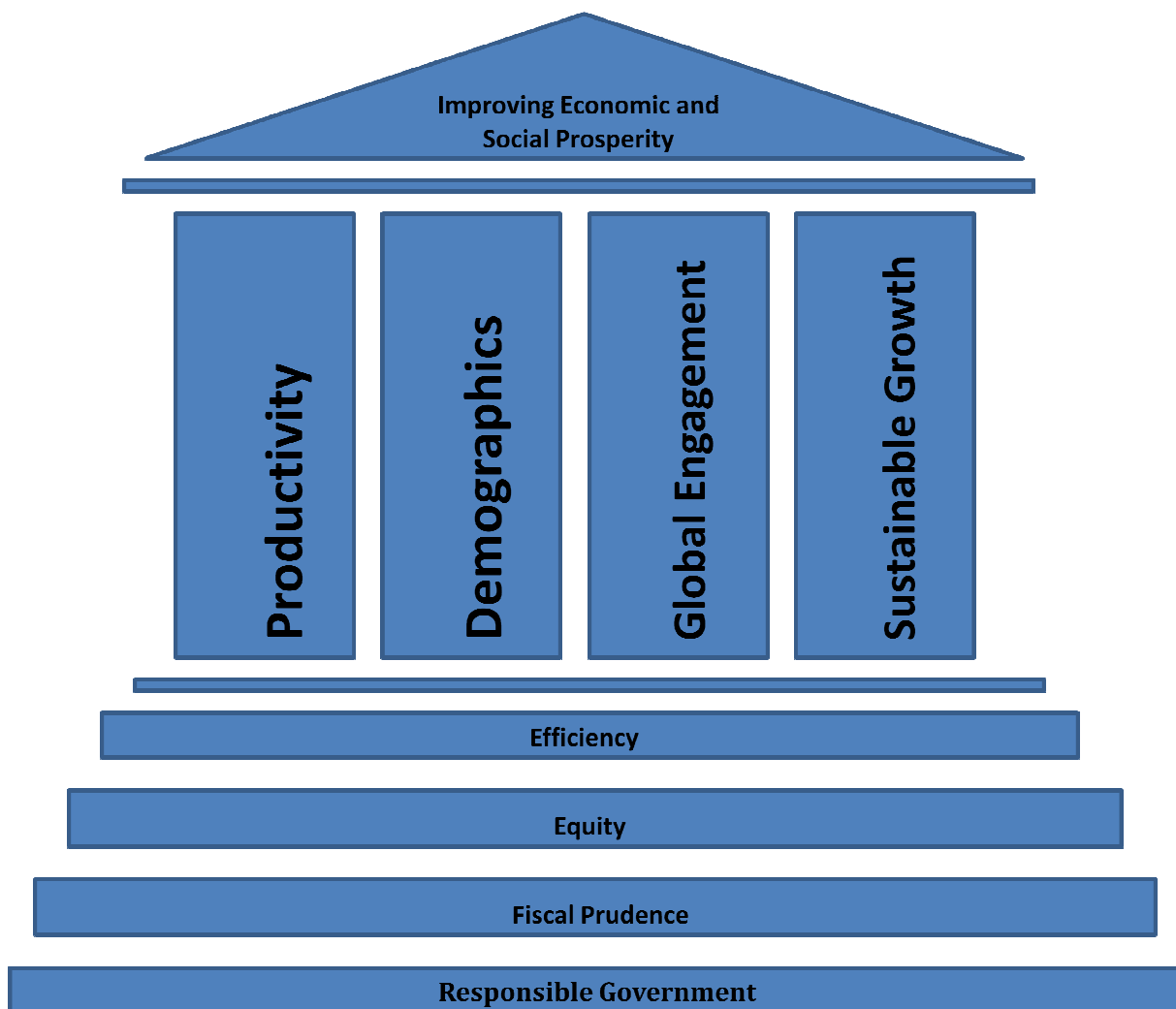
devoid of strong global engagement or a prosperous Canada would render the policies not only untenable, but likely unsuccessful. Curbing greenhouse gas emissions requires a stable base of priority capabilities to ensure continued prosperity during a transition toward tighter control of fossil fuels.

CONCLUSION – COHERENCE THROUGH FOCUS

The twenty-first century, like centuries before it, is a time of great challenge, but also great opportunity for Canada. Canadian policy-makers must strive to actualize high-level aspirations such as socio-economic prosperity. But in a context of domestic transformation and global uncertainty, this requires focus. It requires a focus on the fundamentals of Canadian prosperity that build a foundation for Canadian greatness. It necessitates a re-thinking of lagging productivity, an aging population and a precarious global economic recovery not just as challenges, but as an occasion to strengthen Canada's core capabilities. To support a productive economy that maintains and also enhances the socio-economic well-being of Canadians. To deliver a skilled labour force that drives Canada's productive economy today and for years to come. To strengthen partnerships at home and abroad. To ensure that Canadian prosperity is both fiscally and socially sustainable. Together, these priorities, as delivered through the policy suite outlined in this paper, provide the stable foundation necessary to secure the acme of Canadian prosperity.

APPENDIX

Figure A1: The Foundations of Canadian Prosperity



End Notes

- ¹ L.R. Wilson. "Compete to Win." Government of Canada, June 2008, <https://portal.utoronto.ca/bbcswebdav/courses/Winter-2012-PPG2003H-S-LEC0101/Wilson%20Report%20-%20Compete%20to%20Win.pdf>, 4.
- ² Deloitte. "The Future of Canadian Productivity: An Eight-Step Plan for Canada." 2011, http://media.deloitte.ca/flash/future-of-productivity/pdf/ca_en_future-of-productivity_full.pdf, 25.
- ³ Institute for Competitiveness and Prosperity. "Canada's Innovation Imperative." 2011, http://www.competeprosper.ca/images/uploads/Report_on_Canada_2011_FINAL.pdf, 53.
- ⁴ While a detailed explication of the point is beyond the scope of this paper, the point is simple: instability undermines collective prosperity. If the country is overburdened by social hostility or fiscal debt, the levers available to policy-makers to secure Canadian prosperity become severely limited.
- ⁵ Tom Jenkins. "Innovation Canada: A Call to Action." Government of Canada, 2011, [http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/\\$FILE/R-D_InnovationCanada_Final-eng.pdf](http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/$FILE/R-D_InnovationCanada_Final-eng.pdf), 2.
- ⁶ *Ibid.*, 3.
- ⁷ Kevin Lynch and Munir A. Sheikh. "Innovation Dividend = Stronger Productivity Growth." In *Policy Options*, Vol. 32, No. 8, September 2011, 23. To highlight the point, growth in Canadian real wages has fallen commensurately with productivity growth, with both falling from 3 percent annual growth between 1961 and 1980, to under 1 percent since 2000. See (Lynch and Sheikh, 23) for more details.
- ⁸ Andrew Sharpe and Peter Harrison. "The Relationship Between Labour Productivity and Real Wage Growth in Canada and OECD Countries." *Centre for the Study of Living Standards*, Research Report No. 2008-8, 2008, <http://www.csls.ca/reports/csls2008-8.pdf>, 1.
- ⁹ David K. Foot. "Canadian Priorities Agenda: Some Economic and Social Consequences of Aging." IRPP, 2008, <http://www.irpp.org/cpa/briefs/foot.pdf>, 3.
- ¹⁰ Peter Dungan and Steve Murphy. "A Population Projection for Canada with an Updated Application to Health Care Expenditures." Rotman School of Management. April, 2010, <http://rotman.utoronto.ca/riib/details.aspx?ContentID=103>, 26. Likewise, spending on health care is likely to increase with the dependency ratio. Although fiscal strains on health care spending are often overstated, Peter Dungan from the University of Toronto estimates that if the 2010 Ontario population has the same demographic structure as the population projected for 2025, Ontario's total health care expenditures would have been 16.1 percent or C\$16.7 billion higher at C\$120.7 billion. See (Dungan and Murphy, 28-30) for more detail.
- ¹¹ United States Department of Commerce, Bureau of Economic Analysis. "National Economic Accounts: Gross Domestic Product." Jan. 27, 2012, <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>.
- ¹² Kevin Lynch. "Stimulus. Austerity. We Can Have Both." In, *The Globe and Mail*, Nov. 1, 2011, <http://www.theglobeandmail.com/news/opinions/opinion/stimulus-austerity-we-can-have-both/article2220167/>.
- ¹³ Wilson, 4.
- ¹⁴ Wendy Dobson. "Shaping the Future of the North American Economic Space: A Framework for Action." In, *C.D. Howe Commentary*, No. 162, (April, 2002), http://www.cdhowe.org/pdf/commentary_162.pdf, 1.
- ¹⁵ Marie C. Therrien. "The Canada-US Border: Achieving An Efficient Inter-Organizational Policy Coordination." In *Perspectives on U.S.-Canada Relations Since 9/11*, Howard Cody, 60-79, Orono, Me.: The University of Maine Press, 2003, 60-61.
- ¹⁶ Howard Cody. "US-Canada Trade, Defense and Border Issues Since September 11: The View from Canada." In, *Perspectives on U.S.-Canada Relations Since 9/11*, Howard Cody, 4-23, Orono, Me.: University of Maine Press, 2003, 9.
- ¹⁷ Office of the United States Trade Representative. "U.S.-Canada Trade Facts: 2011." <http://www.ustr.gov/countries-regions/americas/canada>.
- ¹⁸ CIA. "The World Factbook : North America". <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>.
- ¹⁹ In the aftermath of September 11, 2001, American preoccupation with heightened security has called into focus Canada's vulnerability in the event of a thickening of the border between the two countries. With the closing of the border for 24 hours on 9/11, cross-border trade came to a halt. Given the necessity of just-in-time production, many firms on both sides of the border were forced to cut production because a tighter border meant there was nowhere for production to go. Therefore, the events of 9/11 demonstrate how significant an impact changes in border policy can have on key sectors of Canadian economic output.
- ²⁰ Government of Canada. "Canada/U.S. Trade and Investment." February, 2011. <http://pm.gc.ca/eng/media.asp?id=3935>.
- ²¹ Douglas Ross and Anil Hira. "Canada A Land of Deep Ambivalence: Understanding the Divergent Response to US Primacy After 9/11." Vancouver, Simon Fraser University Press, 2008, 26.
- ²² *Ibid.*, 26-7.
- ²³ Depending on the political climate, Canadian policy-makers can also seek to expand the strategic vision of cross-border agreements. With the increased volatility of global energy prices, Canada can leverage its supply capabilities in a proactive way by linking energy security to Canada-US border security agreements. Given the asymmetry of power between Canada and the U.S., it can be anticipated that if there is a disruption in the supply of foreign energy, the U.S. would expect Canada to fill the void. If Canadian

policy-makers are ready in advance, it would improve our chances of capturing the economic benefits, not only by securing an energy market at present, but one for the future.

²⁴ Ibid.

²⁵ Naturally, sub-national jurisdictions would play a small role. Nonetheless, as aforementioned, a working relationship with sub-national jurisdictions is critical to the success of perimeter initiatives.

²⁶ Laura Dawson. "Can Canada Join the Trans-Pacific Partnership? Why Just Wanting it is not Enough." *C.D. Howe Institute*, February, 2012, http://www.cdhowe.org/pdf/Commentary_340.pdf, 1.

²⁷ Ibid., 1.

²⁸ Ibid., 1.

²⁹ Montreal Economic Institute. "Reforming Dairy Supply Management in Canada: The Australian Example." January, 2006. http://www.iedm.org/files/janv06_en.pdf.

³⁰ In the Australian case, compensation took the form of 32 quarterly payments over the span of eight years. See (Montreal Economic Institute, "Reforming Dairy Supply Management in Canada: The Australian Example") for more detail.

³¹ Dawson, 1.

³² Lynch. "Stimulus. Austerity. We Can Have Both."

³³ Eric Cook. "Achieving Better Balance: Improving Canada's Innovation Performance With Balances Initiatives." *RPC Science and Engineering*, February, 2011. [http://rdreview.ca/eic/site/033.nsf/vwapj/sub161.pdf/\\$file/sub161.pdf](http://rdreview.ca/eic/site/033.nsf/vwapj/sub161.pdf/$file/sub161.pdf), 5.

³⁴ Mark Parsons. "Rewarding Innovation: Improving Federal Tax Support for Business R&D in Canada." *C.D. Howe Institute*, September, 2011. http://www.cdhowe.org/pdf/Commentary_334.pdf, 1.

³⁵ Ibid., 20.

³⁶ Support ranges from 10 percent in B.C. and Alberta, up to 35 percent for wages in Quebec. See (Parsons, 4) for more detail.

³⁷ Dungan and Murphy, 4-6.

³⁸ Ibid., 13.

³⁹ Deloitte. "The Future of Canadian Productivity: An Eight-Step Plan for Canada", 30.

⁴⁰ Citizenship and Immigration Canada. "Evaluation of the Federal Skilled Worker Program." August, 2011, <http://www.cic.gc.ca/english/pdf/research-stats/FSW2010.pdf>, 2.

⁴¹ Garnett Picot and Feng Hou. "The Rise in Low Income Rates Among Immigrants to Canada." *Statistics Canada*, June 2011. <http://www.statcan.gc.ca/pub/11f0019m/11f0019m2003198-eng.pdf>, 1.

⁴² Citizenship and Immigration Canada. "Evaluation of the Federal Skilled Worker Program." August, 2011, 2.

⁴³ Ibid., 3.

⁴⁴ Ibid., 3.

⁴⁵ Tim Draiman and Robin Cory. "Social Impact Bonds: Potential Applicability for Canada." *Social Innovation Generation*, 2010, http://socialfinance.ca/uploads/documents/SiG_SIBPotentialApplicabilityforCanada_2010.pdf, 4.

⁴⁶ Ibid., 12.

⁴⁷ Southern Poverty Law Center. "Fiscal Responsibility: The Key to a Safer, Smarter, and Stronger Juvenile Justice System." 2010. http://www.evidencebasedassociates.com/reports/SPLC_Report_122010.pdf, 3.

⁴⁸ Statistics Canada. "Study: Canada's Immigration Labour Market." September, 2007. <http://www.statcan.gc.ca/daily-quotidien/070910/dq070910a-eng.htm>.

⁴⁹ Charles E. Pascal. "With Our Best Future in Mind: Implementing Early Learning in Ontario." Government of Ontario, June 2009, http://www.ontario.ca/ontprodconsume/groups/content/@onca/@initiatives/documents/document/ont06_018899.pdf, 64.

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