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Canadian
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Agenda

A Strategy for a Competitive Canada: Three New Trends in Global Competition

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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. The course is offered in an intensive format as a core requirement in the final semester of the two-year program. *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.

CANADIAN PRIORITIES AGENDA

A STRATEGY FOR A COMPETITIVE CANADA: THREE NEW TRENDS IN GLOBAL COMPETITION

Fardowsa Hashi

CANADA'S TRIUMPH OVER THE GLOBAL FINANCIAL CRISIS

The 2008-09 global financial crisis has been described as one of the worst recessions since the Great Depression. The crisis led to the collapse of large financial institutions, the bailout of banks by national governments and the downturn of stock markets around the world. It contributed to the failure of important businesses, declines in consumer wealth and to a substantial decrease in world economic activity. Though it all began with the United States, the rapid pace of the "global spillover" ensured that no advanced, industrialized nation was left unscathed.

Standing out amidst the chaos has been the superior performance of Canada, perhaps the only developed country that was able to avoid the intensity of the crisis. It is widely accepted that Canada has fared considerably better than most economies during the global financial crisis. By 2010, Canada was well on its way to recovering from one of its "mildest" recessions on record, while the rest of the developed world struggled to keep from plummeting into economic turmoil[1]. Canada's recession was also the weakest amongst the G-7 nations, lasting for only three quarters, as compared with the staggering four and six quarters experienced in the rest of the G-7[2].

Much of Canada's success was the result of a strong and sound regulatory framework: Canada's banks and financial institutions were far better capitalized and less leveraged than those of their international peers going into the global financial crisis[3]. In addition to the stability of its financial sector, Canada benefitted from a number of core economic competencies, notably strong corporate balance sheets, a myriad of tax cuts for businesses, and the solid fiscal positions of all orders of government[4]. As a result of a strong economic performance, both during and after the recession, Canada soon became the first G-7 country to have entirely recouped the output lost during the global financial recession[5].

It has now been five years since the global recession began, and while Canada remains remarkably resilient[6], the rest of the developed world continues

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[1] 'The Charms of Canada,' *The Economist,* 2010, http://www.economist.com/node/16059938.
[2] Philip Cross. "How did the 2008-2010 recession and recovery compare with previous cycles?" *Statistics Canada,* last modified December, 19, 2012, http://www.statcan.gc.ca/pub/11-010-x/2011001/part-partie3-eng.htm .
[3] Department of Finance Canada. "Canada is Leading the Way", Last modified June 18, 2010, http://www.fin.gc.ca/pub/report-rapport/2010-6/cgel-lemc2-eng.asp.
[4] *Ibid.*
[5] *Ibid.*
[6] According to the Department of Finance's *Update of Economic and Fiscal Projection* in November 2012, Canada's real GDP growth has been the best in the G-7 since the global recession (p. 32). Canada has also outperformed all other G-7 economies in job creation, with a robust labour market performance; to date there are over 820,000 more Canadians working today than at the time of the recession (p. 28). And the federal government is successfully moving

to stumble from crisis to crisis. The United States only recently escaped the "fiscal cliff", which had the potential to tip the U.S. economy back into recession and into even higher unemployment[7]. Similarly, the EU's sovereign debt and banking crises, along with major structural deficits and unemployment, continue to pose significant challenges for the Eurozone. Although the substantial rise of the debt is contained to a few countries – namely Greece[8], Ireland[9] and Portugal[10] – the possible spread of the contagion has led to speculation about the potential collapse of the entire Eurozone region.

BECOMING COMPETITIVE IN A NEW GLOBAL CONTEXT

Now is the perfect opportunity to leverage our newfound success to become one of the great competitive nations of the world. But we must do so in light of the shifting dynamics of the global environment. There is no doubt that global economic competition is taking place in a new global arena, and Canada would do well to take notice. First, the competition has expanded to include a multitude of players, and the centre of economic gravity is shifting to Asia. And though this shift brings plenty of uncertainties, it also offers a wealth of economic opportunities. Second, demographic trends pose a significant problem for Canada's economy, but the same is true for the economies of the rest of the developed world, which collectively face the consequences of an aging population. This inevitably means that developed nations are refusing to take a passive approach to immigration, and are instead refining their policies to attract and retain the world's best and brightest talents. Third, most of the developed world is no longer turning a blind eye to the threats of climate change and many reputable nations seeking to excel in economic competitiveness are moving

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toward a speedy plan of a balanced budget by 2015.

[7] Congressional Budget Office (CBO). "Economic Effects of Policies Contributing to Fiscal Tightening in 2013", 2008, http://cbo.gov/publication/43694.

[8] "Greece and the EU: The Battle of the (third) Bail Out," *The Economist,* http://www.economist.com/blogs/charlemagne/2012/11/greece-and-eu.

[9] "Ireland and the Euro Crisis: Dawn in the West," *The Economist,* http://www.economist.com/news/leaders/21569034-why-irish-deserve-helping-hand-leave-their-bail-out-programme-dawn-west.

[10] "Portugal's Budget: Constitutional Difficulties," *The Economist,* http://www.economist.com/news/europe/21576144-court-ruling-could-force-portugal-seek-second-bail-out-constitutional-difficulties.

toward the narrative of 'prospering' through climate change rather than simply 'coping' with it.

DOMESTIC CHALLENGES

In addition to the changing global context, Canada must make note of its own domestic challenges. Canadians are growing increasingly concerned that emerging pressures in the domestic economy could bring an end to the relative prosperity that the country has enjoyed since the beginning of the recovery. Household debts have risen[11], the looming fiscal squeeze now burdens provincial balance sheets[12], and consumer spending is on the decline[13]. And all of this is occurring at a time when federal and provincial governments are following the blueprint of fiscal austerity in order to restrain deficits.

Therefore, it is in this critical and challenging context that I have assembled my five-part policy package for a Canadian Priorities Agenda. In this package, I recommend the following options:

- Continue to participate in the Trans-Pacific Partnership (TPP) negotiations;
- Fix the *Canada Investment Act*;
- Eliminate the Pilot project for workers with lower levels of formal training (hereafter referred to as the Pilot Project);
- Expand eligibility for settlement and integration services for temporary entrants and international students;

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[11] The Department of Finance's *Update of Economic and Fiscal Projections in November 2012* identifies that the main domestic risk for Canada since the recession has been increased levels of household debt. However, recent government action to tighten government-backed insured mortgage standards works to help prevent household debts from becoming overextended (p.41).

[12] The *fiscal squeeze* is the result of an aging population leading to declining government revenues (as more people retire and fewer people contribute to the tax base) while concurrently putting upward pressure on government expenditure for age-related programs such as elderly and health care benefits. The *2012 Fiscal Sustainability Report* by the PBO highlights that fiscal squeeze most affects the fiscal sustainability of provinces who carry the burden of health care related expenditures (p.21).

[13] 'On Thinning Ice', *The Economist,* 2013, http://www.economist.com/news/americas/21574481-disappointing-exports-stalled-investment-and-fiscal-austerity-leave-overstretched-consumer.

- Implement a carbon tax on all domestic greenhouse gas (GHG) emissions.

In discussing the package, I reference particular elements of how these options are designed, some of which are more important to specific options, over others. These design elements are political feasibility; administrative feasibility; cost effectiveness; and intergovernmental implications. After presenting my policy package, I evaluate the package as a whole, focusing specifically on how it meets a set of selection criteria and how my package aims to make Canada a more economically competitive nation. I conclude with a discussion of how to measure the success of my policy package.

GLOBAL TREND ONE: A NEW ECONOMIC CENTRE

From our historical roots of shipping timber and furs, to our current status as a leading exporter of natural resources, our prosperity continues to be inextricably linked with international trade. Canada's recent move to join the Trans-Pacific Partnership (TPP) negotiations highlights the Canadian value of free trade, but it also underscores the reality that the world's economic centre of gravity is undeniably shifting east[14]. The rise of emerging markets in Asia is reshaping the global economy and challenging the traditional dominance of the United States and other advanced nations. The speed of Asia's transformation is remarkable: six of the ten largest cities are located in Asia, and prior to the global financial crisis Asia accounted for more than one-fifth of the world's GDP[15]. That share has now increased to one-quarter[16]. And, in just twenty years, three of the four largest economies (China, India and Japan) will be in Asia[17], so it would be strategically wise for Canada to deepen trade ties with Asia.

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[14] Danny Quah. "The Global Economy's Shifting Centre of Gravity*". London School of Economics Department*. 2010. http://econ.lse.ac.uk/%7Edquah/p/GE_Shifting_CG-DQ.pdf.
[15] Wendy Dobson. "Canada, China and Rising Asia: A Strategic Proposal", p.7, http://www.ceocouncil.ca/wpcontent/uploads/2011/10/Strategic-proposal-ENGLISH-25-oct-lowresolution.pdf.
[16] *Ibid.*
[17] *Ibid.*

But while Canada is at the TPP negotiating table, a formal agreement has yet to be reached. This means that Canada must manoeuvre quickly to ensure that the negotiation process moves in our favour, securing TPP membership and an agreement that incorporates Canadian interests. Yet, the goals of the TPP are ambitious, and some Canadian practices are unacceptable under its rubric. One of the most significant concerns is Canada's supply management practice, which not only lags in global standards but is also considered by many to be "archaic"[18]. Supply management creates obvious market distortions and is perceived to be a major barrier to Canada's external trade opportunities. If not mitigated, this system of protection will prevent Canada from successfully gaining entry into the TPP agreement.

Canada must therefore take the necessary measures to reassure fellow TPP participants that it will phase out supply management. We should begin by stating our plans to phase out protection with respect to the dairy market, since the liberalization of trade in dairy products has been one of the most prominent "sticky points" in the TPP negotiations[19]. Though the complete phasing out of supply management would be ideal, starting with a compromise on the most volatile topic of dairy protection would allow Canada some leverage during the negotiations. As an opening negotiation strategy, Canada should ask: in exchange for our expedited efforts to eliminate the protection of our dairy market (and possibly supply management all together), what would other TPP members offer?

With regard to the most effective approach to eliminating supply management, Canada should model itself on Australia. When Australia decided to eliminate all dairy support prices and quotas in 2000, it utilized a number of structural adjustment programs – for instance, providing farmers with quarterly

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[18] Wendy Dobson. "Canada, China and Rising Asia: A Strategic Proposal", p.25, http://www.ceocouncil.ca/wpcontent/uploads/2011/10/Strategic-proposal-ENGLISH-25-oct-lowresolution.pdf.

[19] Peterson Institute for International Economics. "Understanding The Trans Pacific Partnership: Sticky Points in the TPP Negotiations", 2012, http://www.piie.com/publications/chapters_preview/6727/04iie6727.pdf.

installments over eight years, with exit payments (for those who chose to leave) and with additional assistance for farmers who were the most affected[20]. Key to this phasing out was that most of it was funded not through government spending but through a levy of an additional 11 cents on all retail milk sales[21]. While the levy kept dairy prices higher than international free market prices for consumers and processers, they were nonetheless lower than the prices under supply management[22]. Canada should adopt this approach and aim to fully phase out support for dairy within an eight to ten year time span – which is roughly the same amount of time it took other TPP members (such as Australia and New Zealand)[23] to eliminate their own supply management practices.

Although political opposition to the removal of supply management is widely known, there is an encouraging aspect: the beneficiaries of supply management – the dairy, poultry and egg farmers – make up only 10 per cent of all Canadian farmers. This implies that 90 per cent of all other farmers are not benefiting from supply management, and most of them, in fact, support the elimination of supply management for greater access to export markets[24]. Also encouraging is the wide publicity that Canada's participation in TPP negotiations has sparked, making the general public and the media more aware of the negative impact that supply management has on Canada's overall competitiveness.

Moreover, the greater international access that a TPP agreement provides must be complemented with a more open domestic economy. It is widely accepted that a country's economic competitiveness over time is determined to a great extent by its political, institutional and legal environment[25]. Countries with

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[20] Martha Hall Findlay, "Supply management; Problems, Politics and Possibilities," University of Calgary, The School of Public Policy, 2012, p.17, http://policyschool.ucalgary.ca/sites/default/files/research/m-hall-findlaysupply-mgnt-final.pdf.
[21] *Ibid.*
[22] *Ibid.*
[23] Martha Hall Findlay, "Supply management; Problems, Politics and Possibilities," University of Calgary, The School of Public Policy, 2012, http://policyschool.ucalgary.ca/sites/default/files/research/m-hall-findlaysupply-mgnt-final.pdf.
[24] *Ibid,* p.22.
[25] Organization for Economic Cooperation and Development (OECD). "Measuring Regulatory Quality," 2008, http://www.oecd.org/regreform/40395187.pdf.

successfully growing economies have been more open, encouraging both the inflows and outflows of foreign direct investment[26]. Yet, the OECD ranks Canada as one of the most restrictive places for foreign investment[27]. Most of the restrictions are attributed to the design of the *Investment Canada Act (ICA)*, the primary tool for the regulation of FDI in Canada. Most limiting to FDI inflows, however, is the *ICA*'s "net benefit" test which is meant to assess the potential effect that any foreign investment will have on Canadian employment, exports and productivity[28]. The net benefit test places the "burden of proof" on prospective employers, who are often required to disclose confidential business plans to show how their investment will affect the Canadian economy[29]. It is highly restrictive and has acted as a barrier to beneficial inflows of investment to Canada. It acts as intrusive government intervention and, when coupled with excessive administrative and compliance costs, the foreign investment process in Canada has been perceived as "extortionate", leading potential foreign investors to abandon their plans of investing in Canada[30].

Therefore, the *ICA* must be reformed. The net benefit test should be replaced by a "national interest" test[31]. Unlike the narrow scope of the net benefit test, which only assesses direct economic impact, the national interest test takes a broader, conceptual and less intrusive approach[32]. It simply assesses the effect that potential foreign investments might have on the ability of Canada to impose broad policy objectives, including effects on the national interest. And, unlike the net benefit test, a national interest test would place the burden of proof on the

[26] Philippe Bergevin & Daniel Schewanen, "Reforming the Investment Canada Act: Work More softly, Carry a Bigger Stick," *C.D. Howe.* 2011, p.5, http://www.cdhowe.org/pdf/commentary_337.pdf
[27] *Ibid.*
[28] Philippe Bergevin & Daniel Schwanen, "Reforming the Investment Canada Act: Work More softly, Carry a Bigger Stick," *C.D. Howe.* 2011, p.8, http://www.cdhowe.org/pdf/commentary_337.pdf
[29] *Ibid.*
[30] *Ibid.*
[31] Philippe Bergevin & Daniel Schwanen, "Reforming the Investment Canada Act: Work More softly, Carry a Bigger Stick," *C.D. Howe.* 2011, p.8, http://www.cdhowe.org/pdf/commentary_337.pdf
[32] *Ibid.*

federal government[33] and lessen the red tape, while ensuring that foreign investments continue to be aligned with Canadian interests. The national interest test has worked successfully in Australia and, in 2006, the OECD cited Australia's regulatory standards as a best practice benchmark for other OECD countries[34]. Ultimately, a broader and less intrusive foreign investment review framework would encourage investment inflows, increasing Canada's share of global FDI, to bring Canada into line with its more open peers.

GLOBAL TREND TWO: THE HUNT FOR TALENT

The global environment with regard to immigration has changed. It is no longer the case that skilled immigrants and international workers simply "walk in the front door"[35] to work and settle in any receiving country. Rather, immigrants are increasingly viewed primarily as assets of talent that bring a wealth of experience, skills and knowledge to host countries that have the best to offer. The hunt for global talent is competitive. The quest for international talent with tertiary education in science and engineering, for example, is intense; the U.S. continues to capture 45 per cent of this cohort, while Canada captures only 10 per cent[36].

Considering the global hunt for talent, international governments are strategizing toward the most effective policies to attract and retain the best and the brightest of the world. The European Union, for example, recently introduced an immigration strategy similar to the U.S. green card program, calling it the "blue card", to attract skilled international talent[37]. Australia has also adopted selective

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33 *Ibid,* p.17.
34 "Business Friendly Regulatory Environment." *Australian Trade Commission*. Accessed March 15, 2013. http://www.austrade.gov.au/invest/whyaustralia/business-friendly-regulatory-environment/default.aspx
35 Douglas Watt, Tim Krywulack, & Kurtis Kitagawa, "Renewing Immigration Towards a Convergence and Consolidation of Canada's Immigration Policies and System". *Conference Board of Canada,* 2008, p.5, http://www.conferenceboard.ca/Libraries/NETWORK_PUBLIC/lri2008_research_renewingimmigration.sflb.
36 *Ibid.*
37 Maastricht Graduate School of Governance, "Making Europe More Competitivefor Highly-Skilled immigration – Reflections on the EU Blue Card," Accessed March 16, 2013.http://i.unu.edu/media/unu.edu/publication/000/028/799/PB2.pdf.

migration policies that place greater emphasis on human capital[38]. And, many other European countries – namely, Spain, France and Denmark – are considering moving toward a system of immigration that better attracts and retains skilled international talent[39]. It seems, then, that the most competitive countries will be those that best adjust their selection, settlement and migration policies to meet the needs of their economy while also addressing the needs and interests of potential international talent.

Canada must respond quickly to this global competition, particularly in light of our historical position as the inventor of the widely modelled point system, a keystone of Canada's 1967 immigration policy. Additionally, Canada's triumph over the global recession displays the prospects of living in Canada in the most favourable light.

But we must match this ripe opportunity with immigration policies that attract and retain the best and brightest talent of the world. Recent conflicting policies, programs and legislative changes in the Canadian immigration area highlight the need to reassess the role and effectiveness of Canada's immigration system. The Pilot Project, in particular, does not fit under the rubric of a talent-based immigration approach. Not only is this program inefficient, but it also raises serious equity concerns, as low-skilled workers are the most vulnerable and have the highest risk of exploitation when compared with all other temporary foreign workers[40]. This program sends the wrong message and certainly does not reflect the increasing significance that immigrants have taken on in the global world. The proposal to eliminate the Pilot Project will probably result in political push back from employers who have relied on the program

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[38] Douglas Watt, Tim Krywulack, & Kurtis Kitagawa, "Renewing Immigration Towards a Convergence and Consolidation of Canada's Immigration Policies and System". *Conference Board of Canada,* 2008, p.6, http://www.conferenceboard.ca/Libraries/NETWORK_PUBLIC/lri2008_research_renewingimmigration.sflb.

[39] Charles M. Beach, Alan G. Green & Christopher Worswick, "Toward Improving Canada's Skilled Immigration Policy: An evaluation Approach," *C.D. Howe,* 2012, p.2, http://www.cdhowe.org/pdf/Immigration%20Book_Ch1.pdf.

[40] Naomi Alboim & Karen Cohl. "Shaping the Future: Canada's Rapidly Changing Immigration Policies," *Maytree,* 2012, p.48, http://maytree.com/spotlight/shaping-the-future-canadas-rapidly-changing-immigration policies.html

since its inception in 2002. And as the use of low-skilled workers varies from province to province, some provincial governments may also have objections. Alberta, for example, has relied heavily on low-skilled workers: the number increased from 1,626 in 2002 to 16,583 in 2008. This is an increase of over 920% in 6 years and surpasses the number of higher-skilled temporary foreign workers[41]. Given these concerns, the Pilot Project should be phased out gradually by introducing limits on the number of low-skilled workers entering under the temporary foreign worker stream. The set limits on temporary entrants should vary in accordance to how it might impact particular provinces. Alberta, for example, should be granted higher numbers of low-skilled workers as the Pilot Project phases out.

And, as experience in European countries has shown, the elimination of temporary worker programs will most likely result in increased numbers of undocumented workers. Germany, for example, had a significant number of temporary workers who went "underground" after the official end of the country's guest worker program in 1973[42]. To avoid similar consequences, permanent residency should be given to those temporary workers who, in the past, arrived under the Pilot Project and those who will be arriving as the project phases out.

Furthermore, some of the best talent entering Canada has been international students, many of whom are equipped with Canadian credentials, have strong English or French language capacity and also have the Canadian work experience necessary for a smooth labour market transition. Similarly, many professors, scientists, and successful business leaders have come to Canada as temporary entrants.

While Canada has made necessary policy changes to attract greater numbers of international students and temporary entrants, matching settlement and services support for these people, once they arrive, is severely lacking.

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[41] "Summary Report: Temporary Foreign Worker's Program: Consultation withSt akeholders." *Citizenship and Immigration Canada,* Accessed March 14, 2013, http://www.cic.gc.ca/english/department/consultations/tfwconsultations stakeholders/index.asp.
[42] Delphine Nakache & Paula Kinoshita, "The Canadian Temporary Foreign Worker Program," *Institute for Research on Public Policy (IRPP),* 2010, p.6, www.irpp.org/pubs/IRPPStudy/IRPP_study_no5.pdf.

Neither international students nor temporary foreign workers are eligible for federally funded settlement services until they are approved in principle for permanent residence[43]. This has evidently made Canada a less attractive place for international talent to settle. The Conference Board of Canada indicates that a significant proportion of skilled workers have been lured away from Canada by other countries: 40 percent of migrants who entered under the skilled worker and business classes moved from Canada within ten years of arriving[44].

To keep our pool of international talent, it is imperative that Canada's immigration policies not only align with the needs of the economy but also recognize the growing global demand for skilled workers. Without adequately investing in the integration of these potential Canadian citizens, well-intentioned immigration policies may fail to deliver the desired results, and international students, along with many other skilled people, will inevitably settle elsewhere. Canada must change this approach and ensure that settlement and integration services are expanded to include international students and temporary entrants.

GLOBAL TREND THREE: "PROSPERING" THROUGH CLIMATE CHANGE

The global dialogue with regard to climate change has also taken a turn. The most competitive economies have moved beyond the idea of *coping* with climate change, and competition is now based on nation's capacity to *prosper* through climate change[45]. A low-carbon economy is thus no longer a concept of the future, and many competing nations have already implemented low-carbon growth plans[46]. Thus, Canada's response to climate change will have profound

[43] Naomi Alboim & Karen Cohl. "Shaping the Future: Canada's Rapidly Changing Immigration Policies," *Maytree,* 2012, http://maytree.com/spotlight/shaping-the-future-canadas-rapidly-changing-immigration policies.html

[44] Douglas Watt, Tim Krywulack, & Kurtis Kitagawa, "Renewing Immigration Towards a Convergence and Consolidation of Canada's Immigration Policies and System". *Conference Board of Canada,* 2008, p.20, http://www.conferenceboard.ca/Libraries/NETWORK_PUBLIC/lri2008_research_renewingimmigration.sflb.

[45] National Roundtable on the Environment and the Economy, "Framing the Future: Embracing the Low-Carbon Economy," 2012, http://collectionscanada.gc.ca/webarchives2/20130322185857/http://nrteetrnee.ca/wp-content/uploads/2012/10/framing-the-future-report-eng.pdf.

[46] *Ibid,* p.6.

effects for not only the sustainability of our environment, but also for our position as a global competitor.

Yet, as the Canadian and U.S. economies are deeply integrated, a central question for Canada's climate policy has been: "What of the United States?"[47] Harmonizing the two countries' climate policies is often argued as the best approach to managing competitive risks, achieving real emission reductions, as well as driving the development of new clean energy and low-carbon technology. But this approach will be far more difficult than it seems, as the two countries differ in their energy economies, as well as their GHG emissions profiles[48]. As well, the position of the U.S. on climate policy is highly uncertain, and though a lack of action from the U.S. will inevitably pose challenges for Canada, this does not mean that Canada should hold back. Rather, we should use this as an opportunity to become the North American leader in climate change policies.

Many countries have successfully implemented measures that promote clean energy and discourage fossil fuel emissions. Sweden, for example, has used a carbon tax to reduce GHG emissions since 1991[49]. Although it has used the tax in conjunction with other regulatory policies, its Ministry of Environment estimated that the carbon tax alone was responsible for cutting emissions by an additional 20 percent, which helped to put the country on target to achieving its commitments under the Kyoto Protocol[50]. And while some critics argue that a carbon tax damages the economy, Sweden's economy has grown by more than 44 per cent since the introduction of the tax[51], and the country was recently ranked second in the world in the 2010-11 Global Competitiveness Report from

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47 National Roundtable on the Environment and the Economy. "Parallel Paths: Canada-U.S. Climate Policy Choices". 2011, p.17, http://publications.gc.ca/collections/collection_2011/trnee-nrtee/En133-40 3-2010-eng.pdf.

48 *Ibid*, 29.

49 Swedish Greenhouse Gas Emissions are Declining". Swedish Ministry of Environment. Accessed March 18, 2013. http://www.government.se/sb/d/10123/a/117559-and-trade/.

50 Swedish Greenhouse Gas Emissions are Declining". Swedish Ministry of Environment. Accessed on March 18, 2013. http://www.government.se/sb/d/10123/a/117559-and-trade/.

51 Larisa Nakrsenko, "European Experience of Ecological Taxes Reform", 2012, http://essuir.sumdu.edu.ua/bitstream/123456789/26654/1/Nekrasenko.pdf.

the World Economic Forum[52].

Indeed, a carbon tax system would provide Canada with the lowest risk and the greatest flexibility while ensuring that it stands out as a nation that has taken bold leadership on climate change policy. A carbon tax would also be more advantageous than the widely cited cap-and-trade system. A carbon tax is easier and quicker for governments to implement than cap-and-trade, which would require a complex regulatory framework and would be more susceptible to lobbying and loopholes[53]. A carbon tax can also rely on existing administrative structures for taxing fuels and can therefore be implemented in a shorter time span[54]. And in the event that Canada and the U.S. decide to harmonize their climate policies, a carbon tax could complement any cap-and-trade systems set up by the U.S.[55].

It is, however, imperative that Canada adopt a flexible and competitive carbon pricing system that does not harm the parts of the economy that are emission-intensive and trade-exposed[56]. The tax should also be revenue neutral such that there is no net increase in tax levels. The overall revenue generated from the tax should be distributed to the provinces, which would then return the revenue to taxpayers through tax deductions. A broad tax base and a tax rate that starts low and increases gradually would allow individuals and businesses time to make adjustments. Measures that protect low-income individuals and families must also be considered; British Columbia, which has successfully implemented a carbon tax regime, included a tax credit to offset the tax paid by people of lower income[57]. B.C. would also be a good reference point for Canadian success: since introducing the tax in 2008, by 2010 B.C. had reduced

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[52] "Global Competitiveness Report, 2010-2011," *World Economic Forum,* p.14, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf.

[53] *Congressional Budget Office (CBO),* "Policy Options for Reducing CO2 Emissions Congress of the United States." 2008, p.15, http://www.cbo.gov/ftpdocs/89xx/doc8934/02-12-Carbon.pdf.

[54] *Ibid*, p.16

[55] *Ibid*, p.20.

[56] National Roundtable on the Environment and the Economy. "Parallel Paths: Canada-U.S. Climate Policy Choices". 2011, p.17, http://publications.gc.ca/collections/collection_2011/trnee-nrtee/En133-40 3-2010-eng.pdf.

[57] British Columbia, Ministry of Finance, Accessed March 19, 2013, http://www.fin.gov.bc.ca/tbs/tp/climate/A1.htm.

its GHG emissions by 6.4 per cent more than the rest of Canada, and yet it remains one of the most competitive provinces[58].

There is no doubt that a carbon tax is politically contentious and that there may be pressure for exemptions, as has already occurred in B.C[59]. On this front, however, Canada must be bold: a carbon tax is the price we must pay for the health of our environment and the broader prosperity of Canada. It is widely known that good policies have often conflicted with good politics. The fact that free trade was once considered a politically radical proposal is, today, almost unimaginable. Yet, it was only in the 1980s and early 1990s that this dialogue took place in Canadian public debates. Perhaps in another twenty years, Canadians will reflect back and find it unimaginable that there existed a time when governments did nothing for the environment.

EVALUATION OF THE PACKAGE

In this section, I evaluate the package as a whole with respect to four criteria, presented here in order of importance relative to my package:

1. Economic efficiency (Does this package utilize scarce government resources in such a way that maximizes social welfare?);
2. The role of government (Does this package state a clear role for government?);
3. Equity (Does this package aim to make the less advantaged better off, or at the very least, not any worse off?); and
4. Fiscal sustainability (Is this package cost effective and affordable?).

This package is inherently economically efficient as it utilizes very few government resources while ensuring greater social and economic outcomes. Expanding our current trade to a comprehensive 21st century strategic free trade

[58] Stewart Elgie, "British Columbia's Carbon Tax Shift: The First Four Years," *Sustainable Prosperity, University of Ottawa*, 2012, p.3, http://www.sustainableprosperity.ca/dl872&display.
[59] Sustainable Prosperity. 'British Columbia Carbon Tax Review'. 2012. http://www.sustainableprosperity.ca/dl891&display.

agreement, such as the TPP, will provide efficiency gains and ensure Canada's economic competitiveness in a changing global economy. In addition, modifying inefficient areas in our domestic regulations, such as the *Investment Canada Act* and parts of our immigration system, certainly allows for technical efficiency gains.

Moreover, my package requires that government take a strong leadership role that will propel Canada forward in the face of an increasingly global world. At a time when effective government action is limited by budgetary constraints, government must take note of both the challenges and the opportunities posed by global competition. In addition to securing Canadian national interest in the global economic arena, the government must respond with an open domestic economy that is not fraught with massive red tape that prevent us from forming closer ties with new and emerging markets.

And, although this package places a greater emphasis on efficiency, it does not entirely disregard the principle of equity. My objective for a more globally competitive Canada values an equitable immigration system that places greater emphasis on quality over quantity**.** A focus on providing better settlement and integration services and eliminating the Pilot Project would not only attract more of the world's greatest talent, it would ensure that the most vulnerable members of our Canadian society are not left out.

Finally, with regard to fiscal sustainability, my package, consisting mostly of regulatory policy options, hardly requires excessive government spending. With the exception of expanding settlement and integration services to international students and temporary entrants – an option that would be low-cost relative to its potential benefits – I do not propose any excessively costly options, particularly because my package relies more on a shift in government thinking, rather than government spending.

MEASURE OF SUCCESS: PRODUCTIVITY

I select a **declining productivity gap between Canada and the U.S**. as a measure of success for the effectiveness of my policy package. I choose this measure for two reasons. First, competitiveness is defined as "the set of institutions, policies and factors that determine the level of **productivity** of a country"[60] and thus productivity seems to be the most logical measure of success, as it is inseparably linked to economic competitiveness. Second, while factors such as demography and shifting global dynamics affect most of the developed world, the challenge of productivity seems to be the most unique to Canada and is arguably the most troubling. Canada's struggle with a lagging productivity rate is most obvious when assessed against the U.S. Despite the highly integrated nature of the Canadian and U.S. economies, the productivity gap between the two countries has persistently widened, costing Canada $300 billion annually in lost income, foregone tax revenues, jobs and profits[61]. Therefore, the success of my Canadian Priorities Agenda is dependent on the extent to which it assists in closing the productivity gap between Canada and the U.S.

My recommended package could increase Canada's productivity in a number of ways. First, increasing Canada's share of FDI by fixing the *Investment Canada Act* has the potential to increase our productivity levels. Indeed, greater inflows of FDI would have a positive effect on productivity by increasing the benefits of specialization and scale and scope economies, raising competition intensity, as well as enhancing knowledge and technology transfers[62]. But more importantly, inflows of FDI would increase Canada's stock of physical capital – an important element of productivity growth. This is particularly important in light of Canada's low capital-labour ratio, which is considered as one of the main contributors to the widening Canada-U.S. productivity gap[63]. Second, the greater international linkages that a TPP agreement would provide will inevitably pressure less efficient Canadian companies to perform better or face the threat of

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[60] "Global Competitiveness Report, 2011-2012," *World Economic Forum,* p.51*,* http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_201 11.pdf.
[61] Kevin Lynch, "More Productive Today, More Competitive Tomorrow", *The Business Council of British Columbia,* January 21, 2011, www.bcbc.com/Documents/Business2011_KevinLynch.pdf
[62] Someshwar Rao, "Cracking Canada's Productivity Conundrum." *Institute for Research on Public Policy (IRPP),* 2011, p.17, www.irpp.org/pubs/IRPPstudy/IRPP_Study_no25.pdf.
[63] Andrew Sharpe. "Why are Americans More Productive than Canadians? *The Centre for the Standard of Living."* 2003. http://www.csls.ca/ipm/6/sharpee.pdf.

international competition. Through deeper trade and investment ties that extend all over the globe, Canada could access a plethora of international technologies and innovative practices – all factors that would enhance our productivity.

A declining productivity gap between Canada and the U.S. would be a sure signal of Canada's position as a globally competitive nation. And, the current global atmosphere presents the perfect time for the gap to decline. The fact that the U.S. is currently experiencing a more difficult economic environment allows for strong efficiency gains[64]. My proposed package allows Canada to capitalize on its strengths while pushing it to overcome the biggest threat to its productivity – the complacency of the comfortable. With a more open and diverse economy, the private and public sectors will have no choice but to take urgent actions to deliver more with less.

CONCLUSION

The path to becoming a more globally competitive nation is clear: a relentless focus on productivity through a comprehensive policy package that considers the global market orientation along with Canada's key challenges. It is this policy package that I propose for a new Canadian Priorities Agenda.

[64] The economic recovery of the U.S. "continues to at modest pace" (p.19), according to the Department of Finance's *Update of Economic and Fiscal Projections, 2012.*

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