True North in
Canadian public policy

A Work and Opportunity Agenda for Canada

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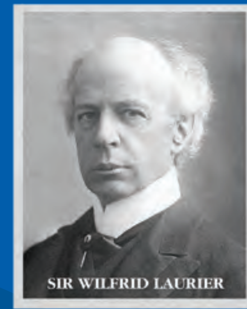

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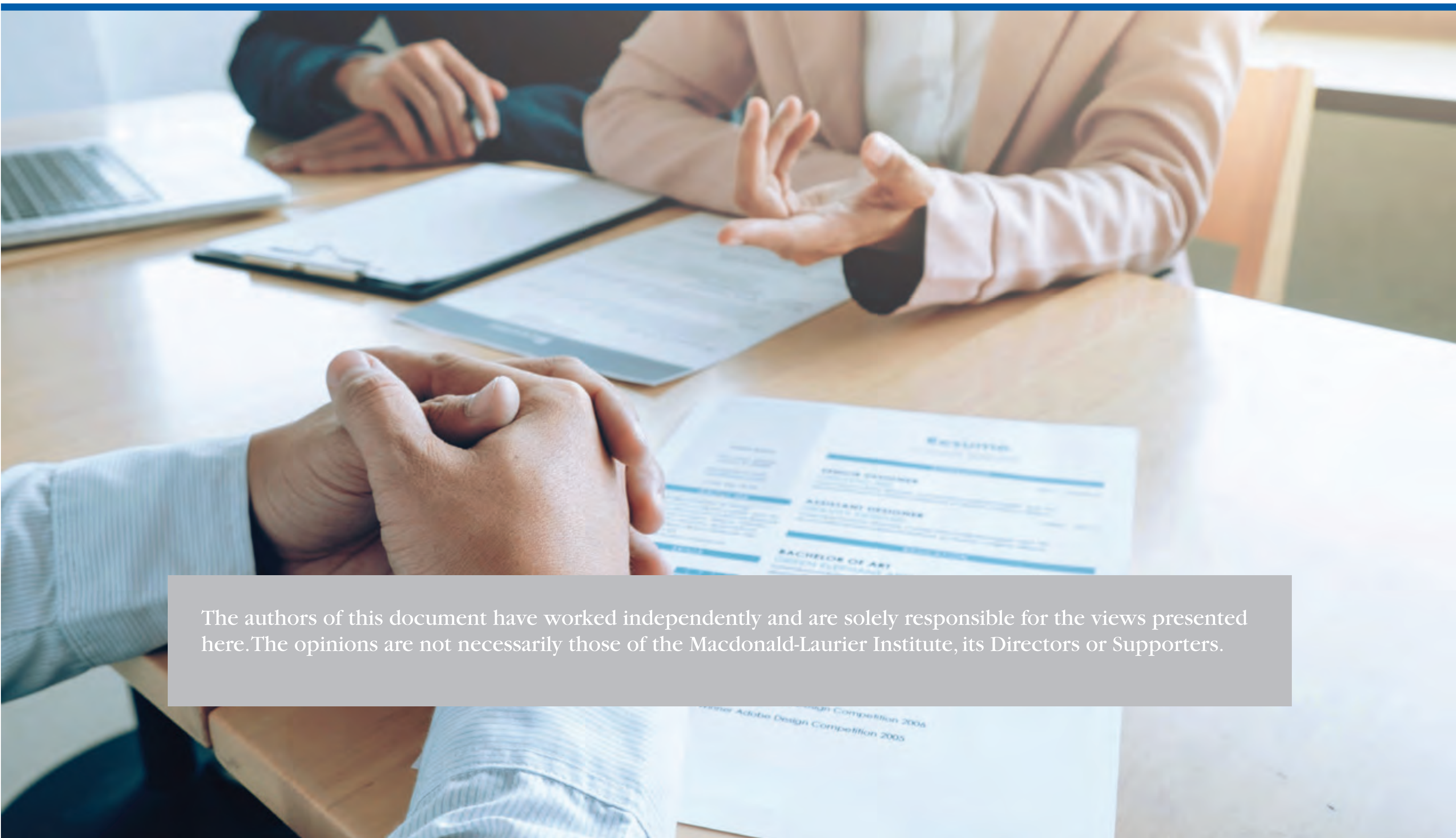


EXECUTIVE SUMMARY

We are living in a moment of economic, social, and political disruption. The overhang of the global financial crisis and the Wall Street bailout still looms large in our politics 10 years later. The refugee crisis has provoked difficult questions about immigration policy and social cohesion. Automation, artificial intelligence, and other forms of productivity-enhancing technology have produced widespread concerns about the "future of work." The attendant rise of political populism in western countries has policy-makers flummoxed and struggling to respond.

One common response – including here in Canada – has been a renewed focus on income redistribution and new forms of welfarism including experimentation with a guaranteed annual income. The working assumption seems to be that political populism is merely an expression of income disparities and economic insecurities, and that raising taxes on high-income earners and redistributing the cash will solve the problem and restore political tranquility.

Equity has thus come to trump growth. Fairness has been given primacy over dynamism. And unconditional cash payments are viewed as a substitute for paid work.

> "Not only is a policy of higher taxes and higher government spending economically harmful, it misunderstands and poorly serves the people it is ostensibly aiming to help."

This MLI paper argues that this policy approach and its underlying thinking is wrong. Not only is a policy of higher taxes and higher government spending economically harmful as we document in the paper, it misunderstands and poorly serves the people it is ostensibly aiming to help. A high-tax, high-transfer agenda is bound to do more harm than good.

The truth is most people are principally concerned about work and opportunity. They do not want unconditional payments from government. They want to feel like they are contributing. They want to be able to care for themselves and their families. They want to be needed.

Reconceptualizing how we think about the current economic and political challenges as a demand for work and opportunity rather than redistribution has significant policy implications. It is no longer about slicing up the economic pie and instead about making it larger. It is no longer about a "zero-sum" formulation and instead about expanding opportunity for everyone. And it is no longer about advantaging certain industries or valuing certain types of work over others and instead about recognizing the importance and dignity of all work.

A pro-work and pro-opportunity agenda is both more effective, and, as we argue, a more compassionate response to low- and middle-income demands for work, opportunity, and, what US economist Arthur Brooks calls "neededness."

What might such an agenda involve?

The first and foremost priority must be a renewed focus on dynamic and sustained economic growth. Policy-makers should set maximizing economic growth over the long-term as their top objective. A higher rate of compound growth is the best means of extending opportunity to as many people as possible.

The best means for achieving this goal is to liberate the market economy from the dead hand of government. Canada's economic and fiscal experience in the 1990s – what the Macdonald-Laurier Institute has dubbed the "redemptive decade" – is a useful case study in this regard. Sweeping reforms to government spending, taxation, and the welfare state reduced the burden and cost of government and left more resources in the hands of investors, businesses, and consumers who were then able to deploy them to create new economic activity, investment, and jobs.

The results speak for themselves: Canada experienced world-leading growth and in turn high levels of business investment and job growth. Canadians from all regions, sectors, and income groups benefited from this growth-enhancing agenda and the work and opportunity that it catalysed. The experience proffers lessons for how to enable strengthened economic growth and expanded opportunity nearly two decades later.

The paper also sets out a series of additional policy reforms – including to Indigenous education and social services, natural resource development, intellectual property, housing and homeownership, labour market policies, interprovincial trade, and intergovernmental spending – to complement a heightened focus on fiscal discipline and economic competitiveness. This pro-work, pro-opportunity agenda can help bolster economic growth, business investment, and job creation, and ultimately expand opportunity to all Canadians.

But it will require a big change. Policy-makers will need to place a greater emphasis on economic growth and opportunity and less on equity and redistribution. This may sound like a simple adjustment to policy-making. But it is a major recalibration. It is a different set of objectives and requires a different mindset.

The paper thus outlines a markedly different agenda than the one that is dominating policy discussions in Ottawa, Washington, London, and various other parts of the world. We would argue, however, that it is both more effective and more compassionate than the redistributive policies that have so captured the collective imagination of policy-makers. Nor is our alternative pie-in-the-sky theory. It builds on Canada's world leading experience of the 1990s that harnessed the precise forces of growth and opportunity whose virtues we are extolling. We have done it before and can do it again.

SOMMAIRE

Nous vivons actuellement une période de perturbations économiques, sociales et politiques. La crise financière mondiale et le sauvetage de Wall Street ont encore de grandes répercussions sur notre vie politique dix années plus tard. La crise des réfugiés a soulevé d'épineuses questions en matière de politique d'immigration et de cohésion sociale. L'automatisation, l'intelligence artificielle et d'autres formes de technologies d'amélioration de la productivité ont suscité des préoccupations de tous côtés à propos du « travail de demain ». La montée connexe du populisme politique dans les pays occidentaux a déconcerté les décideurs qui ont peine à répondre à ce courant.

De manière générale, on a répondu – y compris ici au Canada – en se concentrant une nouvelle fois sur la redistribution des revenus et de nouvelles formes de l'État-providence, et notamment sur l'expérimentation relative à un revenu annuel garanti. Selon l'hypothèse de travail avancée, le populisme ne serait que l'expression des disparités de revenu et de l'insécurité économique, tandis que l'augmentation des impôts des contribuables à revenu élevé et la redistribution de l'argent permettraient de régler le problème et de restaurer le calme politique.

L'équité est donc venue l'emporter sur la croissance. L'égalité a eu la primauté sur le besoin d'activité. De plus, les sommes d'argent versées sans condition sont maintenant considérées comme un substitut au travail rémunéré.

Dans ce document de l'Institut Macdonald-Laurier, on argue que cette approche politique et la réflexion qui la sous-tend sont mauvaises. Non seulement la politique visant à accroître les impôts et les dépenses gouvernementales est préjudiciable sur le plan économique, comme nous l'illustrons, mais elle présuppose une conception erronée des intérêts de la population qu'elle souhaite aider ostensiblement et la sert très mal. Tout programme axé sur les impôts et les transferts élevés fait plus de mal que de bien.

La vérité, c'est que la plupart des gens se préoccupent principalement du travail et des possibilités à saisir. Ils ne souhaitent pas des paiements inconditionnels du gouvernement. Ils veulent avoir l'impression d'apporter leur contribution. Ils veulent être en mesure de prendre soin d'eux-mêmes et de leur famille. Ils souhaitent qu'on ait besoin d'eux.

Redéfinir la façon dont nous percevons la conjoncture économique et les défis politiques de manière à pouvoir offrir du travail et des débouchés plutôt que des mécanismes de redistribution a d'importantes implications politiques. Il ne s'agit plus de répartir la tarte, mais plutôt de l'agrandir. Il ne s'agit plus de formuler un « jeu à somme nulle », mais plutôt d'élargir les chances pour tous. Et il ne s'agit plus d'avantager certaines industries ou de valoriser certains types de travail par rapport à d'autres, mais de reconnaître l'importance et la dignité de toutes les professions.

Un programme axé sur l'emploi et la création de débouchés serait doublement plus efficace et, comme nous l'expliquons, une réponse plus humaine aux demandes formulées par la population à revenus faibles et moyens pour le travail et la création de débouchés, ainsi qu'à l'égard d'un besoin que l'économiste américain Arthur Brooks a dénommé le « neededness » (sentiment de dignité et de compétence).

Qu'est-ce qu'un tel programme nécessite?

La priorité doit être accordée avant tout au renouvellement d'une croissance économique dynamique et durable. Les décideurs doivent définir comme premier objectif à long terme l'atteinte d'une croissance économique maximale. Un taux composé de croissance plus élevé est le meilleur moyen d'étendre les possibilités à un maximum de personnes.

Le meilleur moyen d'atteindre ce but est de libérer l'économie de marché de la lourde mainmise du gouvernement. L'expérience économique et financière canadienne des années 1990 – la « décennie rédemptrice » comme l'a surnommée l'Institut Macdonald-Laurier – est une étude de cas utile à cet égard. Les réformes de fond des dépenses publiques, de la fiscalité et de l'État-providence ont réduit à l'époque la lourdeur et les coûts du gouvernement et laissé plus de ressources entre les mains des investisseurs, des entreprises et des consommateurs, qui les ont déployées dans le but de créer de nouvelles activités économiques, de relancer l'investissement et de générer des emplois.

Les résultats ont été éloquents : le Canada a été un des pays qui a connu la croissance la plus forte et, par la suite, un niveau élevé d'investissement des entreprises et des progressions de l'emploi. Les Canadiennes et Canadiens de l'ensemble des régions, secteurs et groupes de revenu ont bénéficié de ce programme de soutien à la croissance, s'appropriant les emplois et les débouchés qu'il a catalysés. Cette expérience nous permet de tirer des leçons près de deux décennies plus tard sur la manière de renforcer la croissance économique et d'élargir les débouchés.

> “ La priorité doit être accordée avant tout au renouvellement d'une croissance économique dynamique et durable.”

Ce document définit également une série de réformes politiques supplémentaires – dans les secteurs de l'éducation et des services sociaux destinés aux collectivités autochtones, l'exploitation des ressources naturelles, la propriété intellectuelle, le logement et l'accès à la propriété, les politiques du marché du travail, le commerce interprovincial et les dépenses intergouvernementales – en complément de l'orientation accrue en faveur de la discipline budgétaire et de la compétitivité économique. Ce programme axé sur le travail et les débouchés peut aider à stimuler la croissance économique, l'investissement des entreprises et la création d'emploi et, au bout du compte, élargir les possibilités pour l'ensemble des Canadiennes et des Canadiens.

Cependant, il faudra prendre un important virage. Les décideurs devront se concentrer davantage sur la croissance et les possibilités économiques plutôt que sur l'équité et la redistribution. Ceci peut ressembler à un simple rajustement de politiques. Or, il s'agit en fait d'un calibrage majeur qui fait appel à un ensemble différent d'objectifs et implique un changement des mentalités.

Ce document décrit donc un programme très différent de celui qui domine les discussions en matière de politiques à Ottawa, Washington, Londres et ailleurs dans le monde. Nous sommes d'avis, toutefois, qu'il est à la fois plus efficace et plus humain que les politiques de redistribution qui ont accaparé l'imaginaire collectif des décideurs. Notre alternative n'est pas non plus qu'une vague théorie. Elle s'appuie sur l'expérience du Canada à titre de leader mondial durant les années 1990 en ce qui a trait aux forces précises de croissance et d'opportunités que nous avons harnachées et dont nous saluons les vertus. Nous l'avons déjà fait et pouvons le faire à nouveau.

INTRODUCTION

Concerns about economic dislocation, working-class anxieties, and "the future of work" have led to a renewed political focus on income redistribution and new forms of welfarism including the guaranteed annual income. The working assumption for many politicians and commentators is that present-day political populism is merely an expression of income disparities and economic insecurities, and that higher tax rates for high-income earners and larger cash transfers for everyone else will solve the problem and restore political tranquility. Put bluntly: Higher taxes on the rich and larger, more generous cash transfers to those farther down the income scale is presumed sufficient to buy off the silence of the so-called "angry Trump voter" (Rattner 2017).

The Trudeau government's first budget in 2016 was imbued with this type of thinking (Morneau 2016) and it is increasingly prevalent in the United States (Riedl 2018), the United Kingdom (Cowburn 2018), and elsewhere. US progressive thinker Annie Lowrey's new book, *Give People Money*, is symbolic of this intellectual trend. The political discussion has become singularly focused on redistribution rather than growth, work, and opportunity.

This is problematic because, as we will set out in this paper, it misdiagnoses the problem and in turn prescribes the wrong solution. A big source of this misdiagnosis is that politicians are imposing their own ideological assumptions on people rather than actually listening to them. Research shows that people are not galvanized by unequal outcomes. They are principally expressing concerns about fairness, work, and opportunity (Starmans, Sheskin, and Bloom 2017). They do not want government handouts. They want to feel needed (Sunde 2017), they want to feel like they are contributing, and they want to be able to care for themselves and their families.

> "A pro-work, pro-opportunity agenda is a more effective and, a more compassionate response to low- and middle-income demands for greater economic empowerment."

Thinking of the problem as a public demand for work and opportunity changes the proper policy response. It no longer is about slicing up the economic pie and instead becomes about making it larger. It is no longer about a "zero-sum" formulation and instead about expanding opportunity for everyone. And it is no longer about advantaging certain industries or valuing certain types of work over others and instead about recognizing the importance and dignity of all work. A pro-work, pro-opportunity agenda is a more effective and, as we will argue, a more compassionate response to low- and middle-income demands for greater economic empowerment.

The substance of such an agenda is no mystery. Canada's economic and fiscal experience in the 1990s when federal and provincial governments cut spending, reduced deficits, lowered taxes, and circumscribed welfare eligibility is a useful case study for present-day policy-makers. These reforms reduced the burden and cost of government and left more resources in the hands of investors, businesses, and consumers who could deploy them to create new economic activity, investment, and jobs. The result was world-leading economic growth and in turn high levels of business investment and job growth. Canadians from all regions, sectors, and income groups benefited from this growth-inducing agenda and the work and opportunity that it catalysed. The experience proffers lessons for how to enable strengthened economic growth and expanded opportunity nearly two decades later.

This paper draws on these lessons to set out a pro-work, pro-opportunity policy agenda for Canada. It proposes a major shift in policy thinking from an overemphasis on redistribution in to a greater focus on work, opportunity, and what US economist Arthur Brooks calls "neededness" (Sunde 2017).

The paper has two sections. The first describes and analyses the "high-tax, high-transfer agenda" including the current focus on higher taxes for high-income earners and growing support for unconditional cash transfers. The second describes and analyses an alternative "work and opportunity agenda" including the lessons from Canada's experience with economic and fiscal reforms in the 1990s and drawing on these lessons to prescribe a new set of pro-work, pro-opportunity reforms for today. The commentary ultimately makes the case for policy-makers to place an overriding emphasis on economic growth in order to support higher levels of business investment and job creation and to expand opportunity to *all* Canadians.

SECTION 1 - A HIGH TAX, HIGH TRANSFER AGENDA

Redistribution is a broadly accepted part of economic policy-making. There is even evidence that certain types of redistribution policies such as education and public health can contribute positively to economic growth.

But redistribution also imposes economic costs. Deadweight loss of taxation is an economic concept that refers to the harm caused to economic efficiency and production due to taxation. This should be intuitive. Extracting financial resources from the private economy for public purposes (including redistributive goals) necessarily means that these resources are not available for productive activities such as savings, investment, and improved productivity. Former chairman of the Council of Economic Advisers Arthur Okun described the redistributive transfer from rich to poor as a "leaky bucket . . . some of it will simply disappear in transit" (Dahlby and Ferede 2013).

This basic insight seems often neglected in our political debates. One gets the sense that policy-makers see the private economy (including investors, small businesses, and large corporations) as a perpetual revenue machine that will continue to invest, produce, and hire irrespective of regulation, taxation, and other government policies. There is seemingly no threshold where government policy produces a negative response from industry, investors, and workers. A large body of evidence confirms that this is manifestly false as we discuss in the next section.

Remember the government spends roughly 40 percent of our economy. Where do these resources come from? They are skimmed from the wealth generation of the other 60 percent of the economy comprising the non-government sector. This means that three fifths of the economy – the entrepreneurial part – needs to be dynamic and productive enough to pay its own way (including renewed investment) and generate in addition the revenues to pay for the other two fifths.[1] Government policies such as high tax rates that harm the productive, revenue-generating portion of the economy are akin to bailing water into the boat, to extend Okun's analogy. It is ultimately counterproductive as France and New Brunswick, both of whom had to lower their top marginal tax rates, have demonstrated in recent years (Speer 2017e).

Another major challenge with debates about redistribution is that they are often at their core less about economics and more about politics. That is not meant to be a derisive observation. Politics is how we seek to reconcile competing ideas about freedom versus equality, efficiency versus equity, and redistribution versus reward. The point is that there are limits to how much economics and economic insights can ultimately guide philosophical debates about what people do, what they want, and a society's collective priorities. As Harvard economist Ed Glaeser (2011) explains:

> Economics has much to say about income redistribution – Do taxes reduce efforts? Does inequality hurt growth? – but economists have no special wisdom about the biggest question: Is it right to take money away from richer people to give it to poorer people? That is a matter for philosophers, politicians and the heart of voters. (250)

Still, there is plenty of evidence calling into question the utility of a hyper-focus on redistribution. Poorly designed, it is destructive of growth and opportunity, focusing as it does on dividing up existing production rather than on how to create more for all. This of course does not mean that we should not have progressive taxation or redistributive transfers. MLI has in fact proposed various recommendations over the years to focus government spending on low-income Canadians (Cross 2015). But there are limits. A high-tax, high-transfer agenda cannot ultimately deliver the economic opportunity and financial empowerment that people are seeking for themselves and their families.

"Soak-the-rich": A growing tax burden for high-income earners

Past MLI research has documented the heightened emphasis on tax progressivity and income redistribution in Canadian politics (Speer 2017e). A focus on "fair shares," the so-called "1 percent," and the need for them to "pay more" have become dominant ideas in Ottawa and several provincial capitals. The result is a series of tax rate hikes as well as various changes to income thresholds across the country.

The upshot is that we now have a combined (federal-provincial) top marginal tax rate for individuals that approaches or exceeds 50 percent in every province. Table 1 shows the top marginal tax rate and the income threshold at which it applies for each province. Nova Scotia is the highest at 54 percent. The lowest income threshold is shared among several provinces based on the level set by the Trudeau government for its own increase to the federal top marginal tax rate (Morneau 2016).

TABLE 1: COMBINED FEDERAL AND PROVINCIAL TAX BRACKETS AND RATES, 2018

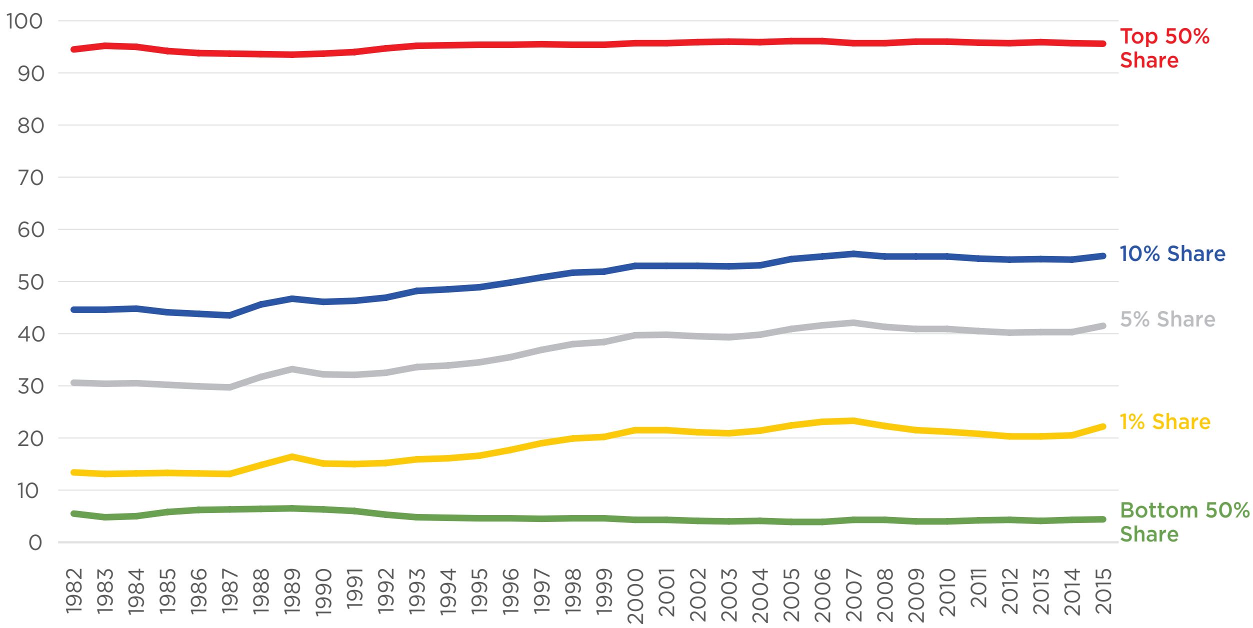
	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD
Income Threshold	$205,842	$307,547	$205,842	$205,842	$220,000	$205,842	$205,842	$205,842	$205,842	$205,842
Combined Tax Rate	49.80%	48.00%	47.50%	50.40%	53.53%	53.31%	53.30%	54.00%	51.37%	51.30%

Source: Boat Harbour Investments Ltd. 2018.

These changes to top personal income rates, in addition to the raising of the basic personal exemption and other reforms that have removed low-income earners from the tax rolls, have led to high-income earners paying a growing share of federal and provincial income tax revenues. The current distribution might surprise many Canadians who frequently respond in public polling and other surveys that high-income earners should pay more taxes (CBC News 2015).

The top 1 percent of income earners (representing about 275,000 people) paid nearly one quarter of federal and provincial income taxes in 2015. The top 10 percent paid 54.9 percent. The bottom 50 percent paid only 4.4 percent. Chart 1 illustrates how these different shares have evolved over more than 30 years. The trend-line is clear: it is difficult to argue that high-income earners do not already pay a significant and growing share of personal income taxes paid.

CHART 1: SHARE OF FEDERAL AND PROVINCIAL INCOME TAXES PAID BY INCOME GROUP (%), 1982–2015



Source: Statistics Canada 2018.

These policy choices are not costless. Higher tax rates extract resources from the market economy to finance the costs of government and in so doing reduce the financial resources available for productive activities. This is not really a controversial observation. There are state functions such as enforcing property rights and the rule of law and providing for certain public goods that are critical to support mutual exchange in the market economy. Economists dating back to Adam Smith have therefore recognized that we must skim a bit off the top of these mutual exchanges to pay for the enabling functions of government (Roberts and Boettke 2018).

But this skimming comes with a cost. It removes resources from individuals and firms that could otherwise be used to create new economic activity in the form of entrepreneurship, investment, and job creation. The risk, of course, is that the skimming becomes greater and greater and the state activities that it is used to fund come to destroy the ability to create wealth rather than enabling us to create wealth. As now-*Washington Post* columnist Megan McCardle wrote in 2009: "There's undoubtedly economic loss from every cent of tax (though liberals would argue, at least as much economic gain from the resultant spending)."

A considerable body of research finds that at least the first part of her formulation is correct. There is an efficiency trade-off in imposing higher taxes on the economy in general and high-income earners in particular. Such trade-offs in the name of equity and fairness please some for ideological reasons. That is a different matter than the evidence about the harm they do to the economy. Rising income tax rates (as well as changes to income thresholds) are no economic free lunch.

This is the subject of a broad consensus in the economic literature, particularly as it relates to high-income earners who tend to be more responsive to tax changes than other income groups (Murphy, Clemens, and Veldhuis 2013). While there is some debate among economists about the *extent* to which high marginal tax rates influence individual decisions and in turn impose costs, there is no real dispute over the basic premise. The consensus is sufficiently broad to include long-time Republican economic adviser Martin Feldstein (1995) and former Obama administration adviser Christina Romer (Romer and Romer 2012).

These economic costs manifest themselves in various forms, including with regards to entrepreneurship, investment, innovation, and work.[2] Those costs have to do with marginal incentives. Think of your own life. Would you pick up another work shift if any additional income was taxed at 20 percent? Almost certainly. But what about 53 percent, as is the case in Ontario, where the government gets richer from your work than you do? Or 75 percent, as it was briefly in France? That people respond to high marginal tax rates is not only well-rooted in the theory and evidence, it is also intuitive from our own experiences.

> "Raising tax rates on high-income earners not only can carry considerable costs, but also may not generate as much government revenue as proponents anticipate."

The federal Department of Finance's (2010) own research affirms this intuition. It finds that high tax rates discourage people from productive activities such as investment and work and encourage unproductive activities such as tax planning and tax avoidance. The department's estimates for how much high tax rates influence these individual decisions is the subject of some debate. The fact that it happens is not.

The point is that all taxes impose economic costs and a key part of tax policy is about generating sufficient revenue to fund government spending while minimizing costs and distortions (Clemens 2008). Raising taxes on the top 1 percent is no different. High tax rates on high-income earners are, in fact, a good (or bad) example of this tax policy principle in practice. Raising tax rates on high-income earners not only can carry considerable costs, but also may not generate as much government revenue as proponents anticipate. A key consideration for Canadian policy-makers and the general public is how much Canadians are willing to pay to achieve progressivity and redistributionist goals. We need to be clear about this implicit trade-off.

This is especially so since there is new evidence that higher marginal tax rates can fail to produce the government revenues that policy-makers envision. The Trudeau government's experiment with higher tax rates seem to bear this out. Not only did Ottawa's new top tax rate fail to generate the roughly $2 billion in new revenues projected for 2016 (Department of Finance Canada 2015), it actually led to a net fall of $4.6 billion in revenue from the top 1 percent earners (Curry 2018). This is a classic case of the principle that raising tax rates too much can actually result in less government revenue. Bail enough water into the boat and it sinks or at least lists dangerously.

Guaranteed Annual Income: A deeply mistaken policy

While some may support highly progressive taxation as an end in itself, most see it as a means for redistributing income from high-income earners to low-income earners. This emphasis on redistribution manifests itself in various ways – ranging from social assistance to student grants to means-tested old-age benefits. The most recent idea is large, unconditional cash transfers known as a universal basic income or guaranteed annual income.

This current focus on various forms of redistribution, including large-scale income support programs, is motivated in part by correcting for income inequality and in part by growing concerns about precarious work and joblessness due to productivity-enhancing automation. Much of this policy discussion is fruitful and justified. MLI has published commentaries and papers on the role for targeted programming to help low-income families and support workers affected by industry dislocation.[3] We have also written in particular about the case for expanding the Working Income Tax Benefit (now Canada Workers Benefits) to help the working poor scale the "welfare wall" and take on more employment hours or accept a new job without being financially penalized (Gillezeau and Speer 2016). There is no doubt plenty of room to improve and reform current policies to better support low-income Canadians to access post-secondary education, obtain health insurance, receive skills training, or cover their living costs as we discuss later in this paper.

"The basic income model sets aside income-based targeting and an underlying focus on supporting employment for able-bodied adults and replaces them with universality and unconditionality."

But the recent focus on large, unconditional cash payments in the form of a guaranteed annual income (called "basic income" henceforth) is something quite different. It represents a fundamental break from the typical, targeted model for social programming and benefits. The basic income model sets aside income-based targeting and an underlying focus on supporting employment for able-bodied adults and replaces them with universality and unconditionality. The previous Ontario government's basic income pilot project is a high-profile example of this trend. But the concept of a basic income has received increasing attention in several countries particularly among (but not limited to) centre-left politicians. It is, in our view, a deeply mistaken policy idea.

There are several problems with the basic income model. We have seven reasons justifying our scepticism.

1. Affordability

The most practical critique of the basic income model is its exorbitant cost. UBC economist Kevin Milligan has set out illustrative scenarios for a basic income model that range from $165 billion (which is the rough equivalent of total government spending on income transfers) to $600 billion (which would cover a $1,500 per month universal transfer with no means testing) per year. The Parliamentary Budget Office has more recently estimated the gross cost of scaling up the Ontario model across the country would be roughly $75 billion per year (Smith and Ammar 2018).

These cost variations reflect different assumptions about the program's design and generosity. The higher costs are driven in large part by the challenges of designing a program that does not leave some people worse off relative to the current mix of targeted programs (Morneau 2018). One example: The federal government currently spends more than $50 billion on elderly benefits. Consolidating this spending to establish a common basic income for both seniors and non-seniors could lead to a marked reduction in resources for seniors in exchange for new benefits to others. The cost of a basic income is therefore dependent on the extent that policy-makers seek to minimize these effects. As Milligan (2016) shows, the design of basic income involves trade-offs between cost, complexity, and generosity.

> "It is notable that these high costs of the basic income model are generally accepted even by its proponents."

But the general point is still the same: any basic income policy would be highly costly at a time when every government (except for British Columbia and Quebec) is already running budgetary deficits. These costs would necessarily involve a significant increase in taxation, large-scale spending cuts, further deficit financing, or some combination of the three.

The PBO's estimate of net costs (after accounting for pre-existing federal income support programming) is still $44 billion. An additional $44 billion in annual revenue is roughly the equivalent of doubling the GST from 5 percent to 10 percent or hiking the federal corporate income tax rate from 15 percent to 40 percent. The former is likely politically unpalatable. The latter would put Canada further offside our international competitors such as the United States and invariably have significant employment effects (Bazel, Mintz, and Thompson 2018). And the evidence is even if we put up the tax rate, the hoped-for revenue would not materialize, for reasons we will discuss later.

It is notable that these high costs of the basic income model are generally accepted even by its proponents. They might argue that some or all of these costs can be recouped in the form of corresponding fiscal savings elsewhere but, as we discuss next, this assumption is likely false.

One of the possible outcomes of the basic income's high costs is that it can come to crowd out other, important public spending. Adding a $44-billion expenditure to the federal budget would invariably lead to fewer resources available for national defence or infrastructure or scientific research or other federal priorities.

But a real perversity is that providing everyone with a basic income may preclude the government from directing more generous, targeted benefits to those in need such as Canadians with severe disabilities. Spending less on people in real need so we can spend more on able-bodied, working-age people is far from compassionate. It is an indefensible use of scarce public resources.

Instead we should follow the example of the Trudeau government's reforms to federal child benefits. The government's signature policy redesigned federal child benefits by replacing universality with more targeted spending based on a family's means to ensure that scarce public resources were directed to those who need them. The prime minister frequently said the government should not send payments to "families like mine" and instead focus scarce public resources on those who needed it the most (Bryden 2018). He was right. It was a smart policy reform. A basic income would unhelpfully move in the opposite direction.

2. Low probability of intergovernmental cooperation or bureaucratic efficiencies

The extraordinary cost of the basic income is not the only reason that it is a bad idea. It is not even the most compelling. There are various others including (but hardly limited to) the unlikelihood that the huge cost will be partly or fully recouped by rationalizing or consolidating existing income support programming or other public benefits.

Remember the premise of the basic income model envisions it fully replacing the panoply of income support and other welfare programming and benefits at all levels of government. The aim is to reduce complexity for citizens and governments and in turn realize savings in bureaucracy and government spending.

It seems intuitive: if we eliminate the dozens and dozens of programs and benefits (including the multitude delivered through the tax system) and replace them with a single, unconditional cash payment, we should be able to reduce markedly the number of public service employees involved in the administration, delivery, and oversight of the current system. This potential to significantly reduce bureaucracy is the principal reason that high-profile conservative scholars such as Charles Murray support the basic income model.[4]

> "But there is good reason to be skeptical about the likelihood that a basic income would involve a full or even significant consolidation of pre-existing programming and benefits and that the bureaucracy associated with affected spending would be eliminated."

But there is good reason to be skeptical about the likelihood that a basic income would involve a full or even significant consolidation of pre-existing programming and benefits and that the bureaucracy associated with affected spending would be eliminated. It also seems highly unlikely that we could achieve full cooperation between the federal, provincial, and municipal governments in such an endeavour.

Ontario's basic income pilot program exhibited the limits of consolidating pre-existing programs and benefits. Recipients continued to be eligible for the Ontario Drug Benefit, geared-to-income housing, child-care subsidies, and so on. This layering of programming is not only contrary to most conceptions of a basic income program, it would have necessarily skewed the results of the pilot program. Testing whether recipients like more generous welfare benefits is different than understanding the costs and benefits of shifting to a single, unconditional cash transfer (Crowley and Speer 2018c).

Yet compared to securing intergovernmental agreement on a federally-delivered basic income program, this problem is minor. The breadth and scope of intergovernmental complexity is overwhelming and that is before politics are added to the equation.

A 2015 paper estimated that total spending on income support programming by all three levels of government was roughly $185 billion per year. The federal share was the highest due to Old Age Security ($43 billion), the Canada Pension Plan ($38 billion), and Employment Insurance ($28 billion). Total provincial spending on social services (including through the tax system) was nearly $50 billion (see table 2) (Lammam and MacIntyre 2015).

TABLE 2: ESTIMATED TOTAL COMBINED FEDERAL, PROVINCIAL, AND LOCAL INCOME SUPPORT, 2013 ($ MILLIONS)

Federal spending programs	117,697
Federal tax expenditures	13,624
Provincial spending programs	38,001
Provincial tax expenditures	11,169
Local government social benefit spending	4,637
Total combined income support	185,128

Source: Lammam and MacIntyre 2015.

But, overall, government spending on "social benefits" – including cash and in-kind transfers – represents about 22 percent of total program expenditures. This means that the textbook basic income model would amount to consolidating and restructuring nearly a quarter of government activity in Canada based on total program spending. It would be a massive undertaking involving all 13 provinces and territories and more than 3600 municipalities (Lammam and MacIntyre 2015).

That Quebec has refused to permit the federal government to deliver student loans in the province and would not accept federal administration and collection of the harmonized sales tax is a good sign that such an agreement is improbable. The challenges in reaching an agreement on a common securities regulator is another example. The ongoing negotiations on the latter proposal have lasted for several years in large part because the provinces have insisted that an eventual agreement involves protecting most or all related jobs in each province and territory (Tuzyk and Churchill 2018). Even if the common securities regulator ever comes together, it is unlikely to produce any meaningful efficiencies as a result.

A basic income would have the same outcome. The result would be the worst of all worlds: we would end up with a new, generous entitlement program resting on top of the pre-existing panoply of programming, benefits, and attendant bureaucracies. The system would merely be costlier and more complex.

3. Work disincentives

The basic income model envisions removing all conditionality such as work requirements for recipients. This is not a tangential feature of the basic income model. A shift to unconditionality is at its core. The assumption is that this provides recipients with greater flexibility based on their own needs and priorities. Proponents see the elimination of conditional transfers (such as social housing or child-care subsidies) as key to granting more autonomy to recipients and their families.

This impulse may be well-intended, but it can have significant, negative effects on one's willingness to work. This should hardly be surprising. Common sense dictates that giving people large, unconditional cash payments is bound to make work less attractive and rewarding, not least because now recipients are only working for the difference between their basic income entitlement and wages. Atlantic Canada's experience with Employment Insurance (which has worked at times as a de facto basic income due to EI's low eligibility thresholds) is a lamentable example of what happens when government policy neglects the work effects.

The same applies to the basic income model. A body of research on experiments with different forms of the basic income model finds varying evidence of work disincentives. There were five experiments with the model in Canada and the United States in the 1960s and 1970s. Decreased workforce participation was generally identified in each case though there was a degree of variation. The decline in hours worked for males ranged from 1 percent to 9 percent. The decline for women ranged from 33 percent to a small increase in one of the cases (Lammam and MacIntyre 2015).

A recent longitudinal study on Seattle's experiment with a basic income in the late 1960s found that the short-term negative effects on work attachment translated into long-term reductions in employment and earnings. As the authors explain:

> Where that literature shows that involuntary job displacement can cause lower earnings far into the future, we find that the voluntarily decreased hours experienced by SIME/DIME participants are also associated with lower earnings later in life (although those lower earnings may be mediated by factors other than the decreased work, such as changed preferences.) (Centre for Social Justice 2018)

> "The results of these experiments indicate that basic income can reduce people's desire to work and reward from work."

This anti-work bias inherent in the basic income is a serious problem that its proponents have not adequately addressed. That the research seems to show that it can have long-term effects is even more concerning. Pilot projects of a short duration can never capture the long-term damage that can be created by generations-long shifts in attitudes and behaviours. It is a reminder that short-term policy thinking can have long-term costs.

The results of these experiments indicate that basic income can reduce people's desire to work and reward from work. The exact magnitude of the impact is less certain and partly depends on program design (including the amount of the basic benefit and reduction or "claw-back" rate). But the important take-away is that a cash transfer without any work requirements leads recipients to reduce the amount that they work.

4. Non-financial benefits of work

Maybe discouraging work would not be the end of the world if people only worked for the paycheque. We know, however, that work is a great deal more than that. It brings important non-financial benefits such as a sense of purpose, self-worth, dignity, and valuable social interaction. The basic income model's inherent materialism fails to recognize these benefits. Put differently: governments do not impose work requirements on public benefits to be mean-spirited but rather because we know that work is good for people who are capable of it. Work is itself a benefit.

> "Unconditional cash payments to able-bodied adults – particularly childless adults – is contrary to our conception of the values that underpin the liberal-democratic social contract."

That paid work provides significant economic and social benefits – including lower incidences of poverty, greater financial security, better health outcomes, and so on – is hardly contentious (Speer 2017c). But what is less frequently recognized is that it also contributes to improved personal well-being because of its non-financial benefits. People get great rewards from the social interaction of work (including with co-workers and customers), or the sense of financial autonomy, or the dignity that comes with work and caring for oneself and one's family (Waddell and Burton 2006). An unconditional cheque from the government is no substitute for feeling needed (Brooks 2017).

The 2013 film, *The Grand Seduction*, about a fictional Newfoundland town where a large share of the male population is unemployed and collecting public benefits due to a decline in fishing, poignantly captured the corrosive effects of non-work and government dependency. It manifests itself in alcoholism, family breakdown, and other social ills such as the opioid crisis ravaging parts of the United States. A 2017 study found that a 1-percentage point increase in unemployment in a given county is associated with a 3.6-percent increase in the opioid death rate and a 7-percent increase in emergency room visits (Khazan 2017). Welfarism is not just bad for the pocketbook. It is bad for the soul.

That is why the idea that those who favour sending no-strings-attached cheques to low-income citizens are somehow more compassionate than those who want to incorporate them into mainstream economic life is simply wrong. Paying able-bodied people not to work is not an act of compassion. It is an act of surrender. It is about managing a liability rather than seeing people as valuable assets to be developed, as Arthur Brooks (2017) has put it.

5. Presumption of mass joblessness is false

A big part of the push for the basic income model is the presumption that technological innovation (including artificial intelligence) will lead to a massive increase in unemployment and underemployment. The basic income will essentially cover our bills when the robots take our jobs.

The truth is this is hardly the first time that such claims have been made. John Maynard Keynes lamented "technological unemployment" in the 1930s. President Kennedy's council of economic advisers were certain that the greatest domestic challenge of the early 1960s was to "maintain full employment at a time when automation . . . is replacing men." The 1973 Nobel Prize winner Wassily Leontief speculated that people would be permanently displaced by technology, like horses were by vehicles (Cross 2017).

These claims were all wrong. Precisely the opposite has happened. The total number of jobs has risen significantly. The introduction of disruptive, labour-saving technology has contributed to large-scale economic growth and a greater diversity of occupations. We should therefore be skeptical about much of the handwringing about the "future of work." As one of us has written: "Work is necessary to satisfy human wants and needs, and these are infinite" (Crowley 2017b).

What is the upshot? The argument that we must adopt a basic income because we are poised to experience widespread technology-induced unemployment is almost certainly wrong. It does not mean that there will not be dislocation or that we should not ensure that our training and income support programs are relevant for the evolving economic environment. But the answer is not a basic income. Robots are not going to take all of our jobs.

6. Poverty is not merely an "income problem"

It is also wrong to treat poverty or economic want as merely an "income problem" as some basic income proponents do. An effective strategy must recognize the underlying causes of poverty and ensure that the solutions are properly targeted. Unconditional cash transfers to someone with a drug abuse problem, for instance, could self-evidently be a problem.

A loss of income, financial insecurity, or other material issues are no doubt critical components of poverty. But endemic poverty typically occurs when non-financial disruptions – such as family breakdown, drug addiction, and sustained unemployment – are present.

"An effective strategy must recognize the underlying causes of poverty and ensure that the solutions are properly targeted."

As Isabel Sawhill (2016), a leading social policy scholar at the centre-left Brookings Institution, writes:

> many of the poor and jobless are lacking more than just cash. They may be addicted to drugs or alcohol, suffer from mental health issues, have criminal records, or have difficulty functioning in a complex society. Money may be needed but money by itself does not cure such ills . . . In the end, the biggest problem with a universal basic income may not be its costs or its distributive implications, but *the flawed assumption that money cures all ills* [emphasis added].

The key takeaway then is that anti-poverty policies must be "bespoke" rather than general and support must be active rather than passive. This limits the utility of large, unconditional transfers as an anti-poverty tool. It may help some people – particularly those experiencing episodic poverty or those with severe disabilities who are unable to work. There may, in fact, be scope to use variations of the basic income model in the latter circumstances. But, as a general rule, a basic income is not the answer.

7. Moral expectation of work

There is also a value-based case that society can reasonably expect able-bodied citizens receiving means-tested benefits to be pursuing employment. Not everyone will necessarily agree with this statement. But there is an invariable normative aspect to these questions. As economist Michael Strain (2018) rightly observes: "the issue is more about political and moral philosophy than economics."

Why should we not expect an able-bodied person in his 30s or 40s to be in job training or searching for work or at least volunteering and contributing to the community? What is unreasonable about such an expectation – especially in light of the evidence above about the financial and non-financial benefits of work? Put differently: why is it compassionate not to have any expectations of such an individual?

It seems reasonable to us that we have some collective expectations of those who are drawing on public resources. This does not mean that we ought to judge them unfairly or subject them to unreasonable conditions. But there is certainly room for establishing fair, reasonable, and transparent responsibilities including basic work requirements.

We do not tend to discuss the moral foundations of public policy. But, for us, the basic income model fails a basic "values test." Unconditional cash payments to able-bodied adults – particularly childless adults – is contrary to our conception of the values that underpin the liberal-democratic social contract.

Conclusion

We should be clear that our seven-point critique of the basic income model does not preclude scope for consolidating or reforming various parts of the current welfare state. Concerns about the effectiveness of different programs or the complexity of current system are legitimate. There is certainly room to consolidate programs with similar objectives to reduce administrative complexity and better support the targeted recipients. MLI authors have endorsed the Trudeau government's consolidation of federal child benefits and caregiving-related tax credits as examples (Speer 2017b). There is also a good case for improving and enriching income support for Canadians with severe disabilities (Mendelson et al. 2010). There is a moral imperative to ensure that these fellow citizens can live in comfort and dignity.

But these types of reforms are different than moving in the direction of large, unconditional cash transfers for able-bodied Canadians. As we have set out here, such transfers would be an economic, a moral, and a social mistake with potentially far-reaching and damaging consequences, both for those who pay and those who purportedly "benefit."

SECTION 2 - A WORK AND OPPORTUNITY AGENDA

The previous section has set out the reasons that we think an increase in tax rates on high-income earners and an expansion of unconditional cash transfers is a poor policy response to the economic anxieties and insecurities reflected in the rise of populism. But this does not mean that we believe that policy-makers should ignore these issues or concerns. Perceptions of political neglect is one of the principal reasons that large swaths of voters have turned to unconventional political candidates and parties. There is certainly a role here for public policy. It is just not what has been mostly on offer thus far.

The high-tax, high-transfer agenda's flaws are partly a result of misreading what the public is actually saying. A major 2017 study by a group of Yale psychologists sought to understand people's perceptions of inequality, its sources, and the role of government to correct for unequal economic outcomes (Starmans, Sheskin, and Bloom). Their analysis produced interesting and underappreciated findings. The public is prepared to accept unequal outcomes if it believes that the system is fair, and that people have similar opportunities to pursue their goals and achieve success. In fact, the researchers found that people "prefer" high levels of inequality as a sign of a merit-based, dynamic economy. But the key is economic fairness. As the authors put it: "we argue that humans naturally favour fair distributions, not equal ones, and that when fairness and equality clash, people prefer fair inequality over unfair equality."

The key takeaway from this research is that policy-makers should be more focused on economic opportunity and less on correcting for unequal outcomes. This may sound like a simple adjustment to policy-making. But it is a major recalibration. It is a different set of objectives and requires a different mindset. We are describing a markedly different agenda than the one that is dominating policy discussions in Ottawa, Washington, London, and various other parts of the world. We would argue that it is both more effective and compassionate.

> "The key takeaway from this research is that policy-makers should be more focused on economic opportunity and less on correcting for unequal outcomes."

More attention should be paid to economic growth and enabling the conditions for paid work and opportunity. These should be the motivating priorities for policy-makers. One might think these priorities to be self-evident. Who would argue with them? But the truth is governments too frequently neglect them. US economist Tyler Cowen argues that "today we are doing a very bad job at maximizing the rate of economic growth" (Roberts and Cowen 2017). He is not wrong.

Cowen's call to restore a focus on economic growth is the right remedy to the public's current economic anxieties and insecurities. Raising the rate of compound growth over the long-term will improve the economic circumstances for the vast majority of people and their families.[5] Of course, this does not mean that there will be no dislocation or people in need. But, from a practical point of view, virtually all people are better off in a society experiencing a compounding rate of sustained, high levels of economic growth. Canadian governments should thus aim for more demanding levels of economic growth over the long-term. The best means for achieving such growth-oriented goals is to skim less from investors, firms, and workers and enable them to use their capital and ingenuity to drive investment, innovation, and job creation.

There is certainly room for governments to skim less. But this will require a significant change from the current policy approach in Ottawa and across the provincial and territorial capitals. Governments will need to be limited and more focused on core public goods. But liberating the forces of economic growth and opportunity from the drag of an overweening state can help to realize Cowen's ambitious goals for economic growth and broad-based opportunity.

As part of such an agenda, we would also add to his general prescription a greater emphasis on enabling paid work. We have discussed the financial and non-financial benefits of work in an earlier section. But it cannot be emphasized enough. Working is perhaps the most important social role that people play besides raising a family. It is imperative therefore that policy-makers apply a "job lens" to different policy choices to better understand if they are enabling or obstructing people from getting into paid work. The former should be single-mindedly pursued, and the latter should be discarded.

> "It is imperative therefore that policy-makers apply a "job lens" to different policy choices to better understand if they are enabling or obstructing people from getting into paid work."

A forthcoming book by Manhattan Institute scholar Oren Cass goes even further.[6] He argues that a labour market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy. One might quibble with the chicken-and-egg relationship between work and prosperity but the fact that policy-makers need to get back to a focus on growth, work, and opportunity is precisely right.

We submit that a "work and opportunity agenda" is the proper response to the populist politics of the moment. The solution to people's anxieties and insecurities is not to give them a basic income and basically write them off as contributing members of society. People are not clamouring for more redistribution. They want work, opportunity, and ultimately to be needed. The Trudeau government's notion of "inclusive growth" may be a reasonable framework for thinking about such an agenda. But that requires placing as much emphasis on the noun as the adjective in the prime minister's formulation. Ottawa needs to populate its agenda with the right mix of pro-growth policies.

Lessons from the "redemptive decade": Canada's experience with economic and fiscal reform

The good news is we do not need to conceive of such policies from scratch. Canada's own experience in the 1990s is a powerful blueprint for governments aiming to strengthen the economy and expand work and opportunity.

The Macdonald-Laurier Institute's award-winning book, *The Canadian Century* (Crowley, Clemens, and Veldhuis 2010), documents this "redemptive decade" during which federal and provincial governments led by political parties from across the political spectrum enacted major reforms to restore our public finances and create the conditions for highly inclusive economic growth. It started with a fiscal crisis and ended with a world-leading economic performance.

It has been more than 20 years since these multi-partisan reforms galvanized business confidence, unlocked private investment, and catalysed a sustained period of job creation and falling poverty rates. Today's policy-makers would benefit from reacquainting themselves with this experience. We will focus on the federal experience here but previous MLI research covers how several provinces, led by governments from across the political spectrum, also enacted similar ambitious reforms. Ideology was temporarily set aside. Putting Canada on a path to economic growth became the overriding objective.

> "Canada's own experience in the 1990s is a powerful blueprint for governments aiming to strengthen the economy and expand work and opportunity."

The "redemptive decade" started with serious economic and fiscal challenges. Overwhelming public debt brought about by normalized overspending and budgetary deficits became a huge weight on the Canadian economy. The debt-to-GDP ratio hit nearly 70 percent in 1996. Debt-servicing costs were consuming 30 cents of every federal tax dollar. Canada was called a "Third World country" and our currency derided as the "Northern peso." We were in a crisis.

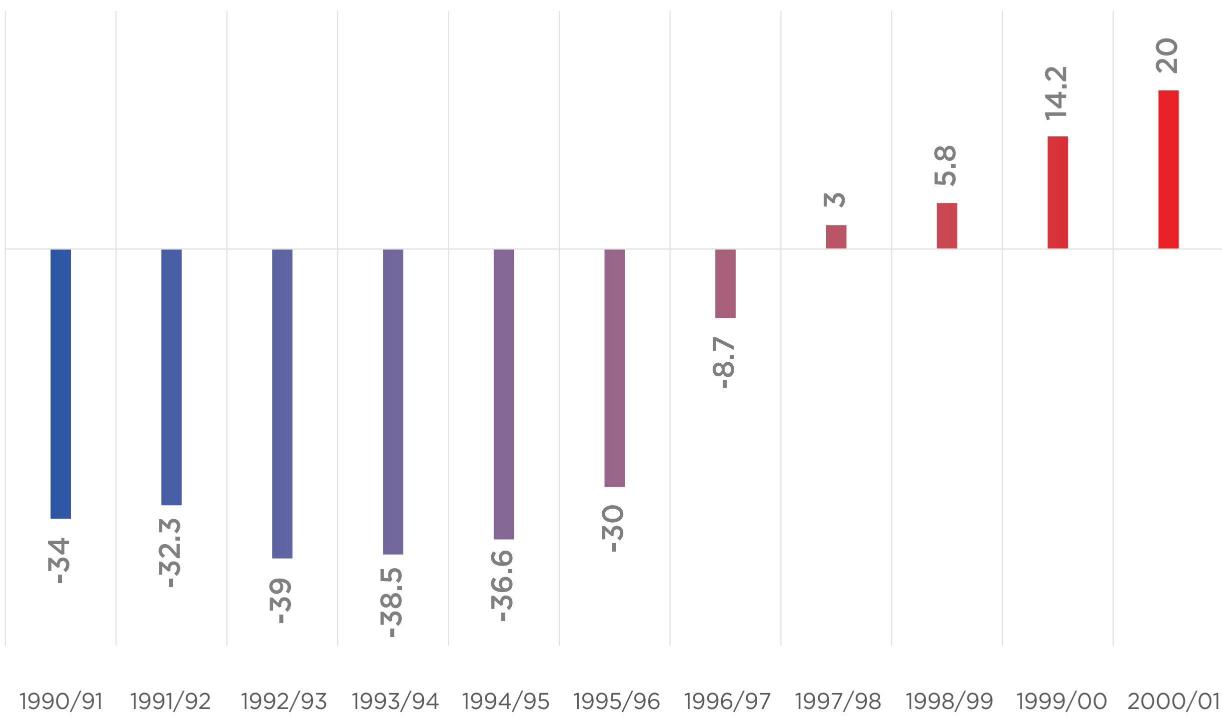
It was a highly predictable crisis. Federal program spending grew by an average of 15 percent throughout the 1970s. The annual budgetary deficit averaged 5.9 percent of GDP throughout the 1980s. Ottawa spent more than it collected in revenues for a quarter century (Speer 2017a). Policy-makers may not have known when our high-tax, high-spending program would become unsustainable. But in hindsight it is obvious that it was not a matter of "if" but only of "when."

Eventually the crisis hit. The then-Chrétien government needed to break the cycle of overspending, deficits, and debt accumulation. But it was hardly inevitable. It required hyper-focus, difficult choices, and political risks. But the government stayed disciplined and focused. Finance Minister Paul Martin promised to balance the budget "come hell or high water" (Palmer and Egan 2011). He stuck to his commitment.

It involved a comprehensive process for reviewing and evaluating government spending and deep cuts. Every part of the federal government was scrutinized as part of this Program Review exercise according to basic tests about the public interest, the proper role of the government, and the scope for devolution to the market or civil society. The exercise produced significant fiscal savings.

Program spending fell by nearly 10 percent between 1995/96 and 1996/97. These ambitious reforms – including the divestiture of Crown corporations, a restructuring of agriculture programs, and cuts to business subsidies – redesigned federal spending and lowered the budgetary deficit. Ottawa's budget went from a $36.6-billion deficit (4.8 percent of GDP) in 1994/95 to a $3-billion surplus in just three years (Crowley, Clemens, and Veldhuis 2010, 78). It was a remarkable turnaround (see chart 2).

CHART 2: FEDERAL BUDGETARY BALANCE, 1990/91 TO 2000/01 ($MILLIONS)



Source: Department of Finance Canada 2017a.

The key here is that the exercise was not merely about cutting spending. The government used its Program Review exercise to rethink what government did, how it did it, and how it could be done more efficiently. Ottawa and several of the provinces enacted structural changes to the functioning of the government. The result is Canada's total government spending as a share of GDP fell from 53 percent in 1992 to 39 percent in 2007 (Speer and Lammam 2014).

Reducing the size of government, eliminating the federal deficit and reducing its debt levels were not just ends in themselves however. It had important economic effects in two key ways.

The first is that it produced a "fiscal dividend" that enabled the government to lower taxes and introduce targeted spending to help the economy to grow and establish the conditions for work and opportunity.

The "fiscal dividend," which referred to the healthy fiscal surpluses produced by Ottawa's newfound spending control, was used to significantly lower taxes across the board including reducing the general corporate tax rate from 28 percent beginning in 1997 to 15 percent in 2012, cutting personal income taxes and indexing the thresholds to inflation, dropping the federal sales tax from 7 percent to 5 percent, and so on. The result is that federal revenues have fallen as a share of GDP to their lowest level in 50 years even after accounting for Ottawa's recent tax hikes (Oliver 2015). Of course, there is still plenty of work to do in this regard – including Canada's uncompetitive personal income taxes rate, particularly for high-income earners (Murphy and Palacios 2017).

Canada's fiscal discipline also freed up budgetary resources for growth-enhancing activities. The end goal was not a "pretty balance sheet" as Mr. Martin puts it in a 2018 MLI commentary. It was to "boost key basic research and enhance important social programs" in a sustainable fiscal framework. We witnessed massive, new investments in infrastructure, scientific research, and post-secondary access.

> "The 'redemptive decade' should be understood as a period of shifting the focus from taxation and redistribution (including public employment) to fiscal discipline, de-regulation, investment, and growth."

The second effect of these ambitious reforms is that they rebalanced the respective roles of government and the market economy. Remember governments pay for their costs by skimming a portion of market exchanges in the economy. Reducing the size and scope of government enabled investors, businesses, and workers to keep a greater portion of their resources for productive activities including investment, innovation, and job creation. The "redemptive decade" should be understood as a period of shifting the focus from taxation and redistribution (including public employment) to fiscal discipline, de-regulation, investment, and growth.

This is a key point: Program Review and deficit reduction were thus not merely about Canada's public finances. It was part of a much broader economic program that liberated the forces of growth and opportunity from the dead hand of the state.

The progress that has been made was enabled by these sweeping fiscal and economic reforms of the 1990s and contributed to Canada's relative economic strength over the past decade. This is another key point: Canada's fiscal reforms did not precipitate an economic downturn or net job losses or higher rates of poverty as some predicted. Quite the contrary.

Ottawa's powerful recipe of fiscal discipline, low competitive taxation, and targeted public investment produced positive results for Canadians – including a world-leading record of economic growth, investment, job creation, and poverty reduction. The evidence over the 10-year period between 1997 and 2007 speaks for itself:

- Canada led the G-7 in average economic growth and exceeded the OECD average during this period.

- Its GDP growth per capita (inflation adjusted) of 2.3 percent over this period was second among G-7 countries and exceeded that of the US, which recorded GDP per-capita growth of 2 percent.

- Canada's average employment growth was sixth among the 30 OECD countries between 1997 and 2007 and more than double the OECD average. It also led the G-7 and nearly doubled the United States.

- Canada experienced an average annual increase in business investment of 5 percent (adjusted for inflation), which was the highest in the G-7 and markedly higher than the 4.6 percent increase recorded in the U.S.

- The poverty rate in Canada fell from 7.8 percent in 1996 to 4.9 percent of the population in 2004 and the child poverty rate declined from 10.9 percent to 5.8 percent.

It is worth acknowledging some have attributed Canada's fiscal turnaround and positive economic performance during this period to the resource boom, falling interest rates, and other extraneous factors. But past MLI research has demonstrated that this perspective is wrong (Crowley and Murphy 2012). It confuses causality. The resource boom and falling interests were more a result of the government's fiscal reforms, the economic confidence they produced, and the capital they freed up than the other way around.

Some of the economic and fiscal progress achieved during this period was hurt by the global financial crisis in 2008/09 but it is important to note that, while Canada experienced a recession like most of the rest of the industrialized world, its economy was more resilient and recovered faster than most countries. It was for instance the first G-7 country to recover all of the jobs lost during the recession and the first to return to a balanced budget in 2014/15 (Beltrame 2013). It is also home to the world's richest middle class according to recent analysis by the *New York Times* (Speer 2016c).

"The 'redemptive decade' offers a window onto a better path forward."

Why do we rehash this story? It is a reminder that the best way for governments to foster economic growth is to stick to basics. A pro-growth strategy is not that complicated. It essentially amounts to minimizing how much governments extract from the private economy, focusing these scarce resources on growth-oriented activities, and avoiding spending more than they collect. The only test is whether governments can resist the temptation to become consumed with short-term imperatives such as special interest pleading or election-induced spending, and in so doing skim more and more off the top of the market economy for counterproductive government activities and spending (Speer 2018). The "redemptive decade" shows the broad-based benefits of a hyper-focus on economic efficiency and long-term growth and in turn leaving more resources in the hands of individuals, firms, and workers who know better than politicians and bureaucrats how to productively deploy them. It required discipline and a long-term focus.

Contemporary policy-makers would be wise to learn the lessons from this experience. The circumstances may be a bit different. But it still has considerable relevance for the present moment when federal deficits are projected until mid-century according to the Department of Finance's (2017b) public reporting, our corporate tax advantage relative to the United States has disappeared, and growth is still subdued.

The "redemptive decade" offers a window onto a better path forward. It shows the benefits of eschewing short-termism in favour of a long-term perspective, minimizing government's draw on the economy, rooting public spending in a sustainable fiscal framework, and focusing scarce public resources in growth-oriented areas such as education, scientific research, and public infrastructure. It also reminds us that the right conditions for a growing, dynamic economy must be the first priority. Economic growth is a precondition for work, opportunity, and financial empowerment. Everything else that people – including populist voters – expect can only follow from it.

The contours of a work and opportunity agenda

The lesson of the "redemptive decade" is both important as a set of specific policy prescriptions and for the principles that underpinned the era's policy choices. The last section highlighted some specific policies – including sound public finances and low competitive taxation – that ought to be re-adopted by current policy-makers to help unlock investment, innovation, and job creation. This section will focus on applying the "redemptive decade's" insights and principles to our current challenges and in so doing produce a fuller agenda to expand work and opportunity.

Our focus here is the role of the federal government. We recognize that the provinces and territories also play a key role in areas associated with work and opportunity including education and vocational training, labour market regulation, social welfare spending, and so on. We have also sought to identify federal policies and policy areas that could find broad political support and carry minimal fiscal cost. This agenda is not meant to be exhaustive or a substitution for the key framework policies evident in the "redemptive decade." It will require a wide range of complementary policies with a solid pro-growth foundation including sound public finances and low, competitive taxation. But these incremental, micro policies can help to buttress a broader pro-work and pro-opportunity agenda rooted in a stretch goal of realizing greater economic growth over the long-term.

"The key distinguishing feature of this policy agenda is that it prizes dynamism over equality and opportunity over redistribution."

The key distinguishing feature of this policy agenda is that it prizes dynamism over equality and opportunity over redistribution. The goal is to create the conditions for as many Canadians as possible to find work, opportunity, and Brooks's notion of "neededness" (Sunde 2017). We have sought to apply his proposed policy test, which is to ask: "Does this policy make people more or less needed – in their families, their communities, and the broader economy?" Policy-makers could do much worse than to follow this rule.

We would propose that federal policy-makers focus on seven key areas (in no particular order) as part of a work and opportunity agenda.

1. Improving Indigenous education and social services

No population group in Canada is more in need of work and opportunity than Indigenous Canadians living on reserves. The conditions that enable poverty and social maladies are durably present in these communities. Statistics Canada (2015) data show that those on-reserve face low employment, high levels of family breakdown, low relative levels of education, high rates of substance abuse, and so on. Simply put: These communities are leading the country in the wrong categories and lagging behind it in the right ones.

> "A top priority must be to work with Indigenous communities to improve service standards related to water quality, fire protection, housing, education, and health care."

Changing these conditions must be a priority for Ottawa. It is both a rightful area of federal jurisdiction and a moral, economic, and social issue – what a former *Globe and Mail* columnist has called a "stain on the country" – that must be forcefully addressed (Simpson 2015). A high-tax, high-transfer agenda will do virtually nothing to change these circumstances. It will require at least in part a greater focus on strengthening basic infrastructure and services, supporting Indigenous families, and improving education quality and standards.

A top priority must be to work with Indigenous communities to improve service standards related to water quality, fire protection, housing, education, and health care. The woeful condition of basic infrastructure and services in many communities is a major barrier to economic and social opportunity.

The federal government has effectively doubled general infrastructure spending over the next decade, but it remains unclear what share will be earmarked for on-reserve projects (Canada 2016). A significant percentage of these federal infrastructure dollars should be dedicated to investments in Indigenous communities. It is difficult to justify funding "green infrastructure" or "social infrastructure" in non-Indigenous communities when there are still 75 First Nation communities with drinking water advisories (Canada 2018). Scarce public resources should be targeted where the need is highest – especially when Ottawa continues to encounter difficulties even delivering on its infrastructure commitments (Press 2018).

There may be opportunities to use the public-private partnership model for project management and operation of infrastructure projects on reserve (Quesnel and Green 2017). The Indigenous-led Wataynikaneyap Power Grid Connection Project in Northern Ontario is a great example of this model. It should be expanded elsewhere where community support and capacity exist (Jeffords 2018). This would enable the government to draw on private sector expertise particularly in rural and remote communities, and address some of the past problems with project management and post-completion operations.

Ottawa must also place greater emphasis on pre- and post-natal services and care for Indigenous families and their children. Evidence shows that early development is critical for a student's long-term success. By the time a student reaches intermediate or high school age, it is frankly too late for this level of intervention (Coates 2015a). The reality is that young First Nations students often come from traumatic home environments without adequate nutrition, sleep, or personal support.

> "We need an ambitious pro-family agenda for Indigenous Canadians living on- and off-reserves."

Dealing with the causes that contribute to the risks so many Indigenous children face – poverty, poor housing, poor diet, domestic turmoil and the like – will be extremely difficult. There is a large inter-generational cost, however, of not improving the conditions for present-day youth. Such an agenda likely involves day care arrangements, community nutrition programs, pre-and post-natal care for expectant mothers and babies, and various other interventions that are ideally managed, designed, and delivered by the community. Failure to look after children before they go to school reduces educational outcomes and undermines individual prospects and opportunities.

But fundamentally it is about strengthening Indigenous families and communities. We need an ambitious pro-family agenda for Indigenous Canadians living on- and off-reserves. This focus has a range of public policy implications including direct payments for child-care, better education and support for new parents with respect to nutrition and health, and effective programming related to substance abuse and other social pathologies. Income support programs must be carefully designed to ensure that they do not inadvertently reward family breakdown by reducing the relative financial contribution that a husband may bring to a marriage and in so doing effectively price fathers out of the marriage market (Baer 2018).

There is also, of course, a great need to improve educational standards and attainment on reserve. The previous government's *First Nations Control of First Nations Education Act* represented a good-faith attempt to address both curriculum and funding gaps in on-reserve education. That bill will likely not return in its previous form, but there may be an opportunity to proceed with a version of the law on a regional or opt-in basis, which would help improve education and skills among Indigenous youth.

The overall point is that no opportunity and work agenda is worth a damn if it does not improve the conditions for Indigenous Canadians, particularly those living on reserve. There is plenty of work to do of course. But the immediate focus should be basic infrastructure and services, an expansion of child-care supports and supporting families, and an emphasis on improving K-12 education quality and standards.

2. Supporting resource development

Resource development has been a bulwark in Canada against the wage stagnation and economic dislocation affecting low- and middle-income workers in other jurisdictions. It is not hyperbole to say that the natural resource sector has sustained our middle class for the past 15 years (Milligan 2018).

But it is presently facing challenges. The recent setbacks on the Trans Mountain pipeline project are signs that Canada's regulatory and legal framework for major energy projects is too cumbersome and unpredictable. That a well-financed, private sector firm chose to abandon what should be a profitable project shows that the system is basically broken.

This is disastrous for several reasons. Not only does it mean that Canada is not receiving adequate value for our natural resources because of our singular reliance on the US market, it means that a significant number of jobs – including for Indigenous Canadians – will not now come into being. Rural communities (including the 500 such communities dependent on mining, forestry, and energy) (Natural Resources Canada 2013) and low- and middle-income workers are disproportionately affected. Policy-based barriers to resource development therefore must be viewed as key obstacles to work and opportunity for working-class and Indigenous Canadians.

> "Working-class people in rural communities have fewer options and are often forced to uproot their families."

The recent drop in oil sands investment illustrates this point. The loss of jobs among lower-income earners and blue-collar workers is nearly quintuple the losses among the highest-paid workers according to one estimate (Crowley 2017a). Bankers and lawyers in major cities move on to the next deal. Working-class people in rural communities have fewer options and are often forced to uproot their families.

This is especially true in Indigenous communities. But it is wrong to see resource development as a source of jobs for these communities alone. It is at the centre of Indigenous business activity, investments by Indigenous economic development corporations, and community efforts at developing economic self-sufficiency. There are now more than 300 impact and benefit or collaboration agreements between Aboriginal communities and mining companies alone (Newman 2014). These agreements (which are often confidential) provide the basis for community benefits for specific projects, including employment and training commitments and social spending. Arrangements can include joint venturing provisions or equity positions for Aboriginal communities, as well as partnering on environmental monitoring or impact assessment. These deals are intended to produce a win-win solution for the community and the project proponents. A paper authored by MLI Munk Senior Fellow Ken Coates and others (2015) highlights 10 case studies where companies have worked with Indigenous communities to advance resource projects with significant benefits for the communities and their residents.

The upshot is that federal policy-makers must approach natural resource development with much greater urgency and focus. Past MLI work has set out various recommendations to bring greater rationality and predictability to the legal and regulatory process in order to unlock more investment and jobs (Coates and Speer 2016).

The most pressing area for reform is the process and mechanisms for Indigenous consultation and participation in natural resource development. This should start with a recognition that the federal government and project proponents have handled this file clumsily in the past. Consultation was lacking and the benefits available to affected communities were inadequate. We should set and over-leap a higher bar as companies and among governments. First Nations do not want short-term deals. They want lasting benefits. Energy projects can and should be the foundation for a new Canadian partnership and the first real prosperity sharing in Canadian history.

The first step is clarifying what *consult* means and what the expectations are with regards to the "duty to consult." The current lack of clarity not only creates uncertainty for project proponents, it often becomes an obstacle to entering into meaningful negotiations. The government's vague musings about the *UN Declaration on the Rights of Indigenous People* and its concept of "free, prior, and informed consent" have further confused the issue (Coates and Favel 2016).

> "The most pressing area for reform is the process and mechanisms for Indigenous consultation and participation in natural resource development."

The "duty to consult" is triggered more than 100,000 times per year and generally works reasonably well (Baines and Ishkanian 2016). Indigenous people are much readier to collaborate than most Canadians appreciate when their rights and title are recognized and respected. Still, there needs to be an orderly means for consulting with Indigenous communities in the spirit of partnership. MLI has published path-breaking policy work on how to transform the duty to consult and accommodate from an obstacle to development into a source of trust and stronger relationships (Newman 2014). There is a growing case for setting out clear expectations for the duty to consult and accommodate in federal and provincial legislation as political scientist Tom Flanagan (2018) recently argued. This could create greater legal clarity and wrestle discretion away from activist courts. It could firmly establish who is responsible for what parts of the consultation, how consultations should be executed depending on a community's claim, and the timelines and process for the consultations to occur (Newman 2017).

The next step is to produce options that ensure that all affected Indigenous communities derive real benefits from resource development. MLI has analysed one proposal to extend equity stakes in resource projects to affected communities and found that it may be part of the solution (Coates 2015b). There is potential for this type of arrangement to become a means of creating long-term wealth and sustained opportunity. It is an option that the government ought to prioritize and explore with interested Indigenous communities in the short-term.

These reforms would not only benefit the affected communities and their residents, but the entire country if they helped enable more investment and job creation in the resource sector. This is why these reforms firmly belong in a work and opportunity agenda.

3. Strengthening Canada's intellectual property regime

Work and opportunity cannot be sustained by natural resources alone. It will require that Canada is able to compete for investment and jobs across the economy. Past MLI research has shown that our weak intellectual property regime is a barrier to bringing investment and R&D mandates to the country particularly in the high-tech and pharmaceutical sectors (Owens 2017).

This has contributed to Canada's underperformance on a range of innovation-related measures, including R&D spending, patent applications, productivity, and so on (Owens and Robichaud 2017). Our consistent underperformance has occurred in spite of billions of dollars of public "investments" in the form of tax credits, repayable loans, direct subsidies, and state-sponsored venture capital (Speer and Robichaud 2016). Ottawa's new "superclusters" program is only the most recent example and, according to early signs, is bound to produce similar, underwhelming results (Speer 2017d). This continuation of ineffective innovation-related spending is a reminder of the old adage that there is no education in the second kick of a mule.

"People will need to become more entrepreneurial as new technologies disrupt traditional industries and firms."

The one area of reform that successive Canadian governments have resisted is the intellectual property regime. It is a curious omission given that our intellectual property regime has frequently been ranked as weak by the Global Intellectual Property Center and other international organizations (Anderson 2013). A 2013 report by the Center, for instance, singled Canada out for being an outlier among developed countries for not "embracing robust and globally-accepted IP standards" (Anderson 2013). Intellectual property reform can be a low-cost, high-impact policy to support work and opportunity.

There is a large body of research that draws a clear relationship between a jurisdiction's intellectual property regime and various economic outcomes. A study by the Global Intellectual Property Center finds that countries that rank above the median for their intellectual property regimes produce, on average, 70 percent more technological, creative, and knowledge-based output than those scoring below it. These countries are also 50 percent more likely to exhibit high levels of private sector R&D spending and 30 times higher rates of patenting (Speer and Robichaud 2016). A stronger intellectual property regime can thus contribute to higher levels of innovation and productivity.

It can also support more entrepreneurship, which may become an even greater source of employment and wealth generation as we go through a process of worker dislocation caused by technological disruption. People will need to become more entrepreneurial as new technologies disrupt traditional industries and firms. We may see a proliferation of small, specialized businesses that draw on individuals' experience and expertise and bring value to a marketplace that relies more and more on intellectual property and less and less on physical assets. Entrepreneurship and small business formation depend on intellectual property rights now (Wiens and Jackson 2015). There is a good chance that they will depend on these rights even more in the future.

MLI Munk Senior Fellow Richard Owens has written extensively about how intellectual property reforms can bolster Canada's innovation record as well as better support entrepreneurship. His three-part study in 2017 examined the evolution of Canadian intellectual property policy and set out a comprehensive set of recommendations – 10 as a matter of fact – that the federal government should adopt as part of its much-anticipated Intellectual Property Strategy (Owens 2017).

The totality of these recommendations would improve the rewards for entrepreneurs, creative artists, and others who earn their living through intellectual output. Canada's work and opportunity will increasingly depend on these fertile minds. It is essential that we have the right policies in place to unlock this creativity and realize the economic benefits of Canadian ingenuity.

4. Supporting affordable and responsible home ownership

Housing affordability and home ownership are two related issues with key relationships to work and opportunity. Policy-makers need to ensure that exorbitant housing prices do not become an impediment to people relocating where jobs and opportunity are. It is also important that affordable and responsible home ownership remains an attainable aspiration for low- and middle-income families. MLI has written extensively in favour of a more ambitious federal policy on housing and home ownership (Crowley and Speer 2016a).

Pro-home ownership policies have fallen out of favour since the 2008/09 financial crisis. There is a perception that government policies to induce higher levels of home ownership were largely responsible for the US banking challenges and thus the whole experience is an indictment of such policies. The conclusion is that government should be neutral on encouraging or promoting home ownership.

> "There are few policy areas more likely to generate upward mobility and economic opportunity than housing and home ownership."

There is no question that the 2008/09 experience is a lesson about the pitfalls of poorly-conceived government policy. But it does not follow that government should be neutral on home ownership. It simply means that government policy to support home ownership should be designed to minimize possible negative effects. There is an important distinction between smart pro-home ownership policies and dumb ones. We should adopt smart policies and avoid dumb ones. But that does not change the fact that there are good reasons for public policy to support home ownership.

Why should government policy support home ownership? Notwithstanding post-financial crisis negativity, home ownership remains a powerful conveyor belt to the middle class. Home ownership is associated with a raft of economic and social benefits including better educational and health outcomes, stronger families, safer communities, higher levels of civic participation, and greater wealth accumulation (Crowley and Speer 2016a). There are few policy areas more likely to generate upward mobility and economic opportunity than housing and home ownership.

Yet unaffordable prices in key markets are an obstacle for millions of Canadians. What is driving these price spikes?

Housing prices are a function of supply and demand and government policies affect both parts of the market equation. Demand-side policies include government-backed mortgage insurance, financial subsidies for first-time home buyers, and the regulatory framework for home sales and mortgage borrowing. Supply-side policies primarily involve land-use regulations and building and construction codes that determine the quantity of land, the extent to which land can be used for residential homes, and construction costs. So much of the housing policy debate has focused on demand-side issues (such as foreign investment in the housing market) and neglected supply-side considerations. This is a clear case of policy-makers failing to look in the mirror and the extent to which government actions and policies are contributing to the problem.

> "It may not be the explicit goal of policy-makers, but the consequence of these policies is to effectively pit present home owners against aspiring home owners."

Restrictive land-use regulations or building codes that limit supply can lead to higher housing prices by minimizing supply or driving up the costs of development. The Canadian Housing and Mortgage Corporation has identified a lack of supply in Toronto and Vancouver – what it describes as "significantly weaker than other Canadian metropolitan areas" – as the principal culprit (Canadian Press 2018). The agency estimates that if these cities' housing supply grew at the same pace as Edmonton or Montreal, the Toronto region would see 3000 to 5000 more units per year (Clayton 2018).

Urban containment policies and strategies have limited low- and medium-rise housing supply for the past several years. The result has been to drive up the price of these housing types in both markets. It may not be the explicit goal of policy-makers, but the consequence of these policies is to effectively pit present home owners against aspiring ones. At its core, the question is one of inequality and opportunity as much as housing. This tension is increasingly causing problems in major urban centres such as Toronto and Vancouver. A recent poll found that more than half of Torontonians said housing affordability was the most pressing issue in the city (Angus Reid Institute 2018). As President Obama's former chair to the Council of Economic Advisers explains: "While land use regulations sometimes serve reasonable and legitimate purposes, they can also give extranormal returns to entrenched interests at the expense of everyone else" (Furman 2015).

These affordability challenges can also have broader economic consequences. Toronto and Vancouver are our two most dynamic, job-creating cities. Unaffordable housing (including in the rental market) (Better Dwelling 2018) can preclude people from living in these cities or relocating to them for work and opportunity. The labour market in these cities is shouting at the top of its lungs for workers. But housing policy is causing those cries to go unanswered. The US recently has found that similar challenges in cities such as San Francisco have produced a significant drag on the national economy (Hseih and Moretti 2017). Similar research does not exist for Canada but it certainly seems intuitive.

Policy-makers rarely discuss many of the trade-offs between opening up the market to greater housing supply and other objectives – ranging from the environment to other quality-of-life considerations. The result is that policies are made without a clear sense or justification of these trade-offs, especially to the extent that they affect low- and middle-income citizens.

The federal government has a limited role to play in urban policy such as land-use regulations. But Ottawa does transfer considerable sums to the provinces and municipalities for infrastructure and social housing. MLI has previously recommended that these funds should come attached with conditions that those governments assess the benefits and costs of land-use rules and building and construction regulations with a particular focus on their impact on low- and middle-income citizens attempting to enter the housing market and pursue job opportunities (Crowley and Speer 2016a). Increasing funding for so-called "affordable housing" (which generally means government-subsidized housing, which will always be in short supply relative to demand) while provinces and cities are contributing to unaffordable housing prices in the normal housing market risks throwing good money after bad.

"The final argument in favour of these reforms is that home ownership is closely linked to promoting a culture of savings and self-sufficiency."

We have also recommended in favour of ambitious reforms to federal support for home ownership. A 2017 MLI paper recommended that Ottawa consolidate the existing panoply of tax credits and direct and indirect subsidies (including mortgage insurance) and establish a new matching fund incentive to help aspiring home owners save for a down payment. This model would help prospective home buyers accrue more housing equity and assume less risk. It is a proposal that the government ought to consider as part of the 2019 budget (Speer and Londerville 2017).

The final argument in favour of these reforms is that home ownership is closely linked to promoting a culture of savings and self-sufficiency. This is frequently ignored in narrow policy debates about housing and home ownership. An agenda for affordable, responsible home ownership can give people the ability to build up equity in their homes and the various opportunities that unlocks. Economist Hernando de Soto has written extensively about how secure property rights unlock opportunity for those in the developing world (Arsenault 2016). His argument applies to prospective home owners in the developed world. Home ownership enables people to draw on equity for emergencies and to save in their home and later convert it into retirement income.

5. Pro-work labour policies

We wrote earlier in this paper about how we do not share the pessimism present in so much public commentary about the "future of work." The assumption that huge swaths of the Canadian economy will become dominated by robots strikes us as implausible. But that does not mean that we do not think there will be no dislocation or no role for government to support those affected. We are counselling proportionality and perspective rather than neglect and inaction.

Ottawa should aim to reform its labour market policies to better support paid work – particularly for those affected by economic dislocation. The current system of Employment Insurance, job training, and income support programming requires reform to both reflect the potential labour disruption caused by technology and emphasize paid work. The good news is that there are some new ideas presently being debated (such as wage subsidies and wage insurance) that ought to be seriously considered. The key here though is that the federal government needs to be more responsive to the needs of working-class Canadians – particularly men without post-secondary education. This is a cohort that frequently escapes Ottawa's talk about "gender-based analysis" (Crowley and Speer 2018a).

The truth is that underneath Canada's strong relative performance on unemployment, median wage growth, and social mobility are some concerning figures, particularly for blue-collar male workers. Research by leading Canadian economists Nicole Fortin and Thomas Lemieux (2015) finds that median earnings among males have stagnated or even fallen in many parts of the country. Similar research by MLI Munk Senior Fellow Philip Cross (2018) has found that Canada's low unemployment rate masks underlying issues such as a withdrawal from the work force by younger workers (who are staying in school longer) and older workers (who are retiring). Labour force participation among men with basic education or skill levels is essentially flat (Crowley 2017a). New analysis about the prospect of automation has people worried about the employment prospects of this cohort (Canadian Press 2017).

> "The key here though is that the federal government needs to be more responsive to the needs of working-class Canadians – particularly men without post-secondary education."

As we have discussed, the potential for large-scale dislocation for these workers has contributed to rising levels of economic anxiety. Perceptions about one's place in the middle class and his or her economic future have become increasingly negative (Duclos 2017). The US presidential election illustrates the political manifestation of these sentiments in practice.

Policy-makers must respond carefully to these growing public feelings. Dismissiveness is not only undemocratic and inegalitarian, it risks breeding political polarization and divisiveness. But an overreaction in the form of protectionism and corporate welfarism risks eroding the broad-based benefits of innovation and higher productivity. There must be a balance in determining how best to realize the benefits of dynamic capitalism while supporting those affected by the process of creative destruction.

We cannot flinch in face of dislocation and disruption. Dynamic capitalism has produced tremendous wealth and it would be a mistake to try to halt its churn in order to freeze the status quo. A "robot tax," or other barriers to innovation and productivity enhancements, risk making us all poorer (Kessler 2017).

It can be difficult to resist these temptations, however, because our collective imagination fails to foresee the new jobs, industries, and opportunities that "creative destruction" will produce in the future. It is the equivalent of asking an agricultural worker from the late nineteenth century about the advent of the Internet. We must therefore not succumb to a presentist fallacy in our policy-making.

But we must also ensure that dislocated workers – particularly blue-collar ones – are not dismissed or neglected. Pensioning them off with a guaranteed annual income is not the solution for the reasons that we have discussed. Policy-makers should consider a range of options to create the conditions for work and opportunity in an era of economic dislocation and financial insecurity.

The first order of business is to enable greater economic growth in general and resource development in particular. We have written elsewhere in this paper about importance of resource development for this cohort. Blue-collar workers do not expect handouts. But they also expect that their governments will not deliberately harm their economic and work prospects. Policies that jeopardize resource projects by adding greater costs or uncertainty disproportionately harm working-class people. Policy-makers should thus stop imposing new and larger regulatory burdens on resource projects. A "Hippocratic oath" approach of "do no harm" should guide governments on the natural resource file.

> "The first order of business is to enable greater economic growth in general and resource development in particular."

The second step is to redesign existing income support programs to better serve those affected by temporary dislocation or episodic unemployment and to help those seeking to transition back into full-time paid work. Every idea and option ought to be on the table. The only condition should involve applying a "job lens" to address how it affects incentives.

We should be clear here that the "job lens" does not necessarily mean that the role of public policy should be to support job creation directly. Decisions about capital and labour should be based on market dynamics. Government policy should generally be neutral and not tip the scales in favour of one or the other. But that is not currently how policy works. There are various examples – including minimum wages, payroll taxes, labour regulations, and so on – where government policy distorts business decisions in favour of less employment. It is another reminder that policy-makers should start with the Hippocratic oath as a first step. But, as mentioned, there are useful reforms and new policies that governments should consider to help the labour market function more efficiently as well.

Helping people relocate for new opportunities is something that Ottawa should seriously consider. Presently people who relocate for work can deduct their related expenses when they file their end-year tax returns. But relocating for work opportunities can be hugely expensive particularly if one is long-term unemployed. A tax deduction after-the-fact does not nothing to assist in covering moving expenses, first-and-last month's rent payment, and other upfront outlays that people must absorb. The risk is that unemployed Canadians are immobile and discouraged from relocating for new opportunities. Government loans or subsidies can help defray those costs at the time and help people pursue such work opportunities. It is much better than the alternative of having unemployed workers collect Employment Insurance and lose their connection to the workforce. Australia's Newstart Allowance, which provides upfront resources as high as $3000 to help defray the costs of relocating for work, is a model worth examining (Department of Human Services 2018).

> "Basically the key is for policy-makers to consider the full range of policy tools available to them that support those Canadians affected by economic dislocation and financial insecurities and need help returning to work."

The federal government has increased the Working Income Tax Benefit (now renamed the Canada Worker Benefit) but there is scope for even further experimentation with wage subsidies for people trying to return to work. As an example, we have previously written in favour of using Work-Sharing to essentially have Employment Insurance cover a portion of a person's wages as long as he or she is working (Speer 2017c). Work-Sharing was an effective strategy during the 2008/09 recession for keeping people working and attached to the labour force (Employment and Social Development Canada 2017). There is a case for expanding it further on a permanent basis as a form of wage subsidy for part-time or precarious workers.

Labour economist Miles Corak (2016) (who advised the Trudeau government on its recent poverty reduction strategy) has written in favour of individualized social insurance accounts that could be used to protect against large drops in wages or skills training costs. The model would essentially transform employment insurance (which protects against lost employment) to wage insurance (which protects against wage volatility even for those with employment). Another idea is to permit "income averaging" whereby people pay income taxes on an average income over a stipulated period in order to enable individuals and households to smooth out some of this income volatility. There would need to be serious analysis about the interaction with work and the risk of work effects for these reforms. But we are certainly open to these ideas as alternatives to the guaranteed annual income or the current form of Employment Insurance.

Basically the key is for policy-makers to consider the full range of policy tools available to them that support those Canadians affected by economic dislocation and financial insecurities and need help returning to work. This is our principal concern: any proposal must be subjected to the "job lens" and the test of "neededness." Does it make it more likely that individuals will be able to work and feel needed by their communities and families? If the answer is yes, then it should be considered. If the answer is no, it should be discarded.

6. Opening up internal trade

MLI has written extensively about the importance of liberalizing interprovincial trade. It is both an economic matter and one of basic principle. The nation-building project of 1867 remains incomplete until we have free and unencumbered trade between provinces. Jobs and opportunity are also lost.

That the Supreme Court has failed to strike down the panoply of interprovincial trade barriers – from beer to occupational licensing to provincial obstructionism to energy infrastructure – only reinforces the notion that responsibility for fixing the problem ultimately rests with the federal Parliament.

And make no mistake: it is a problem. Statistics Canada estimates that the totality of interprovincial trade barriers (such as New Brunswick's ban on bringing beer across its provincial line) amounts to the equivalent of a 7-percent tariff inside Canada's borders (Crowley and Speer 2018b). The net effect is that we have higher tariffs between provinces than we do on our trade with the United States and the dozens of other countries with whom we have free trade agreements. University of Calgary economist Trevor Tombe (2016) has estimated that the cost amounts to $7500 per household each year.

But it is even bigger than that. The real costs of interprovincial trade barriers are inherently paid by those Canadians whose livelihoods, hopes, and aspirations are unjustly obstructed. This includes hairdressers who are blocked from moving to one province from another due to occupational licensing or the small business that cannot bid on public contracts in certain provinces due to procurement restrictions or transportation firms who have to change their trucks from one province to the next due to superfluous regulatory differences. The list invariably goes on and on. We have previously written that this issue is ultimately about the "little guy" (Crowley and Speer 2018b).

> "MLI has written extensively about the importance of liberalizing interprovincial trade."

The Supreme Court decision in April 2018 puts the onus on the federal government to facilitate greater interprovincial trade and help the "little guy." The lack of ambition on a new intergovernmental agreement only reinforces this point (Crowley and Speer 2018d).

MLI has produced path-breaking work on how Ottawa can liberalize interprovincial trade and establish a true economic union. We have argued that the federal government has the constitutional power to introduce a sweeping statute — an economic charter of rights — to ensure that no government rules or policies unnecessarily restrict the free movement of goods, services, labour, and capital, and give individual citizens clear legal remedies against such restrictions. Such a law would be entirely in keeping with the Supreme Court's ruling which did not preclude the barriers from being torn down. It merely said that the court would not do it, and that provincial barriers whose real purpose was to restrict trade were vulnerable under the Constitution.

The charter would be faithful to the founders' vision and rooted in the principle that a Canadian has the right to seek employment, earn a living, and sell his or her goods and services anywhere in Canada without exception. It would have real enforceability in the form of an economic freedom commission with the power to investigate breaches of the economic charter of rights on its own initiative as well as in response to complaints. Provinces and territories would need to justify regulations or policies that impede the exercise of these basic rights. Otherwise people and businesses would be entitled to ask the courts for financial compensation for infringements.

The function would thus be somewhat similar to NAFTA's investor-state dispute mechanism. People would similarly now have real recourse to protect their economic and commercial rights within Canada. And the adjudicator would not, as is presently the case, be the same governments responsible for the barriers in question. It is ultimately the only way to keep the provinces' protectionist inclinations in check and the only means for ensuring that the bias is in favour of interprovincial commerce.

The good news is that the Trudeau government has recently signaled the potential for greater federal ambition on the file. The mandate letter for the new intergovernmental affairs minister (recently titled "intergovernmental and northern affairs and internal trade") now stipulates the following:

> Collaborate with provinces and territories to eliminate barriers to trade between each other, and work toward a stronger, more integrated Canadian economy. This work should be undertaken with a full exercising of federal jurisdiction as outlined by section 91(2) of the *Constitution Act, 1867*, and Supreme Court decisions on the regulation of trade and commerce. (Trudeau 2018)

This is a positive sign. It has taken more than 150 years for the Confederation project's goal of a unified, national economy to come to fruition. Now is the time. It can be a major plank in a work and opportunity agenda for the twenty-first century.

7. Eliminating interprovincial overlap and duplication

A final plank in a work and opportunity agenda would seek to reduce intergovernmental duplication and overlap in order to reduce costs on taxpayers and businesses.

Intergovernmental overlap is not a new topic of discussion. It has long been the subject of political and policy debate in Canada – ranging from the Rowell-Sirois Commission in the 1930s to more modern inquiries. One such example: The Special Joint Committee on a Renewed Canada (Beaudoin-Dobbie) recommended in 1992 "that federal and provincial governments examine ways to eliminate overlap and duplication and make more efficient use of public resources."

> "Intergovernmental overlap is not a new topic of discussion. It has long been the subject of political and policy debate in Canada."

The recommendation remains correct in its assessment more than a quarter century later. In fact, the problem has arguably worsened in subsequent years as successive federal governments have intervened back into files such as affordable housing and occupational training. The result is diminished accountability, higher costs for taxpayers and businesses, and less scope for experimentation and decentralized decision-making.

There are countless examples of intergovernmental overlap or "entanglement" – including (but not limited to): two Species at Risk Acts; duplicative environmental assessment processes; various environmental efficiency and conservation programs; multiple (and sometimes conflicting) health and safety regulatory standards; needlessly duplicative regulations of financial institutions and markets; a range of disconnected individual tax and transfer policies; tri-level streams of funding for infrastructure, affordable housing, homelessness, occupational training; innovation, and so on; and of course the design and funding levels of intergovernmental transfers (Mendelsohn, Hjartarson, and Pearce 2010).

The causes of such entanglements are complicated. It is a combination of shared jurisdiction, resource pooling, efforts to realize economies-of-scale or standardization, and of course politics. The effects are much clearer. Intergovernmental overlap can manifest itself in less accountability, higher costs, and limits on policy and service delivery experimentation. Taxpayers lose out when the system becomes too centralized and duplicative. So do businesses and workers due to the cost burden that the labyrinth of multi-jurisdictional regulations imposes on the economy.

One of the key outcomes of such intergovernmental overlap is the redundancy of various programs, services, and regulations. An outdated estimate puts the federal cost of intergovernmental overlap at $5 billion alone (Salvail 1992). There are no similar estimates for provincial or local governments or for businesses and individuals who must navigate the different regimes. But it is fair to say that the cost is substantial. The net effect is that governments are skimming considerably more from the market economy than is needed to provide necessary functions and services. Intergovernmental overlap and duplication can be seen not only as double-billing for investors, firms, and workers, but grossly inflated double billing at that.

> "The upshot is that there is a need for an evidence-based, systematic effort to think about the functioning of federalism."

Another problem is that multiple policies and activities at the various levels of government may not be aligned and can even act at cross-purposes. The interaction between different innovation policies or energy efficiency measures or countless other examples demonstrates the negative effects of layering and an overall lack of coordination. The left hand and right hand may not be in synch. The result is poorer outcomes and a lack of accountability and transparency that usually are marked by intergovernmental finger-pointing. Democracy functions best when to the extent possible the same level of government responsible for spending is also collecting the associated revenues. Clear lines of revenue collection and spending choices enable greater transparency and in turn political accountability.

A final challenge is the limits that intergovernmental entanglement can impose on policy and service delivery experimentation. One of the benefits of federalism is that it permits a degree of familiarity and localism in decision-making and implementation.[7] Centralizing policy choices necessarily precludes this type of policy and political entrepreneurship and creativity. Policy-makers at all levels should create the policy space to enable the expression of local preferences or priorities and policy and service delivery experimentation.

The upshot is that there is a need for an evidence-based, systematic effort to think about the functioning of federalism. It must go beyond the usual *ad hoc* approach to federalism-related reforms and instead involve evidence-based guideposts to judge "who does what" in the name of accountability, efficiency, and local experimentation. This may involve some uploading and downloading. But it will ultimately be guided by evidence and the overriding objective of disentanglement. Environmental regulations, food inspection and safety, social housing and infrastructure, immigration settlement, First Nations service delivery, and consumer protection and safety should be the first areas to start. The tax and transfer system, law enforcement, economic development/innovation, financial regulations, and pensions should follow.

CONCLUSION

The rise of political populism is in large part an expression of economic anxieties and financial insecurities for a significant share of our societies. Canada is hardly immune to these feelings. Forty percent of Canadians are concerned about losing their jobs to automation and other technological innovation (CBC News 2016). A late 2017 poll found that more than one-third think they are doing worse compared to those 25 years ago and nearly 60 percent expect their circumstances will only worsen (Levitz 2017). It is important that policy-makers be responsive to these public concerns.

This MLI paper argues that policy responses to date have been wide of the mark. A focus on higher taxation and large, unconditional transfers is not just economically harmful. It also addresses neither the interests, the concerns, nor the aspirations of working-class citizens. Policy-makers have misinterpreted economic anxieties and financial insecurities as demands for more redistribution. We have seen a litany of tax and spending increases as a result.

> "The 'redemptive decade' represents a solid foundation from which present-day policy-makers can learn and build."

But this political interpretation and attendant policy response is wrong. People do not want government handouts. They want the opportunity for paid employment, and to support themselves and their families. As Calestous Juma, a professor at the John F. Kennedy School of Government at Harvard University, puts it: "Humans do not exist to shop. They aspire to have purpose in life, to enhance their competence or mastery and express their individuality through autonomy and creativity" (da Costa 2017).

This is a fundamental point: so much of the populism that we are witnessing around the world is not just about materialism. It is about the dignity, self-respect, and individual autonomy that comes with paid work. People want to feel productive. We want to be needed.

We need to get back to putting people at the centre of how we think about the economy. Policy-makers should develop a "work and opportunity agenda" that supports a dynamic, growing economy and gives people the tools to participate in it. Such an agenda would resist reacting to special interest demands or the immediacy of the market's temporary ebbs and flows and instead set maximizing economic growth over the long-term as its principal objective. A higher rate of compound growth is the best means of extending opportunity to as many people as possible, and that means liberating the market economy from an excessive burden of government.

This paper has thus outlined a policy agenda that can help contribute to more dynamism, more economic growth, and ultimately more work and opportunity for all Canadians. This agenda draws on Canada's experience with economic and fiscal reform in the 1990s. The "redemptive decade," as previous MLI work has dubbed it, represents, in our view, a solid foundation from which present-day policy-makers can learn and build. Political actors from across the ideological spectrum came to see the benefits of fiscal probity and economic competitiveness and stayed disciplined about enacting reforms to make progress in these directions. Canada's economy took off as a result. Now is a time for policy-makers to relearn these lessons and reaffirm these commitments. Work and opportunity are what Canada needs.

About the Authors

Brian Lee Crowley has headed up the Macdonald-Laurier Institute (MLI) in Ottawa since its inception in March of 2010, coming to the role after a long and distinguished record in the think tank world. He was the founder of the Atlantic Institute for Market Studies (AIMS) in Halifax, one of the country's leading regional think tanks. He is a former Salvatori Fellow at the Heritage Foundation and a former Senior Fellow at the Galen Institute, both in Washington. In addition, he has advised think tanks in Canada, USA, France, Britain, Brussels and Nigeria.

Crowley has published numerous books, most recently *Northern Light: Lessons for America from Canada's Fiscal Fix,* which he co-authored with Robert P. Murphy and Niels Veldhuis and two bestsellers: *Fearful Symmetry: The Fall and Rise of Canada's Founding Values* (2009) and MLI's first book, *The Canadian Century: Moving Out of America's Shadow,* which he co-authored with Jason Clemens and Niels Veldhuis. Crowley twice won the Sir Antony Fisher Award for excellence in think tank publications for his heath care work and in 2011 accepted the award for a third time for MLI's book, *The Canadian Century.*

From 2006–08 Crowley was the Clifford Clark Visiting Economist with the federal Department of Finance. He has also headed the Atlantic Provinces Economic Council (APEC), and has taught politics, economics, and philosophy at various universities in Canada and Europe.

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Endnotes

1 Technically, if all government spending is from taxes and the average tax rate is 50 percent, then only about 28 percent of government spending as a share of GDP requires support from the remaining 72 percent of the economy. This is further complicated by deficit-financed spending and other sources of public financing. But basic point about government extracting resources from the non-government parts of the economy to finance government regulations, spending, and services still holds.

2 As a recent example: a new NBER study reports that taxes matter for innovation:

> higher personal and corporate income taxes negatively affect the quantity, quality, and location of inventive activity at the macro and micro levels. At the macro level, cross-state spillovers or business-stealing from one state to another are important, but do not account for all of the effect. Agglomeration effects from local innovation clusters tend to weaken responsiveness to taxation. Corporate inventors respond more strongly to taxes than their non-corporate counterparts. (Akcigit et al. 2018)

3 See Sean Speer and Ian Lee, 2016, "Toward a More Fair Medicare"; Brian Lee Crowley and Sean Speer, 2016, "Ottawa Should Tax Health and Dental Insurance – But Only on One Condition"; and Sean Speer, 2016, "Creative Destruction, the Rise of Donald Trump, and What It Means for Canada."

4 As Murray (2016) puts it: "A UBI will do the good things I claim only if it replaces all other transfer payments and the bureaucracies that oversee them. If the guaranteed income is an add-on to the existing system, it will be as destructive as its critics fear."

5 Cowen proposes using a discount rate of zero so that the emphasis is not just about growing the economy as much as possible in the immediate term but rather that it grows as fast as it can going forward.

6 Cass's book, titled *The Once and Future Worker: A vision for the renewal of work in America*, will be released in early November 2018. It is a must-read for policy-makers across the ideological and political spectrum.

7 See for instance Sean Speer, 2016, "Federalism Is a Source of Strength for Canada," *Huffington Post*, September 30.

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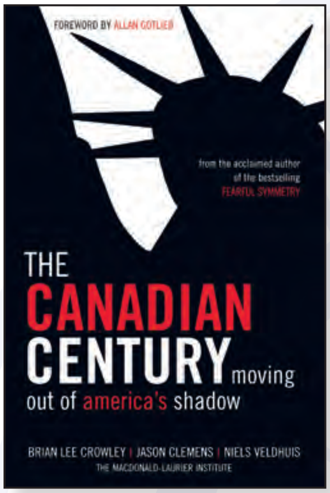

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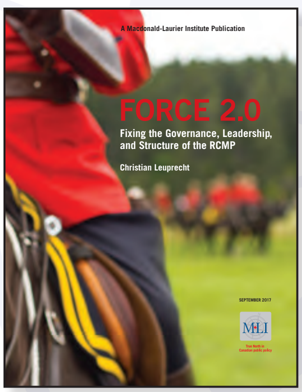

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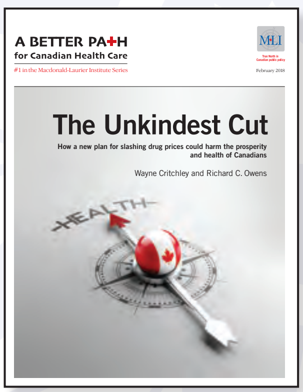

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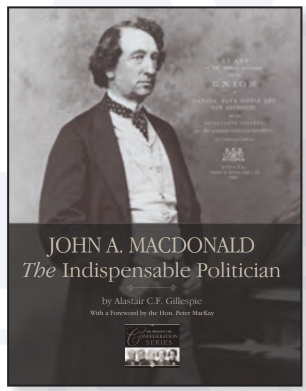

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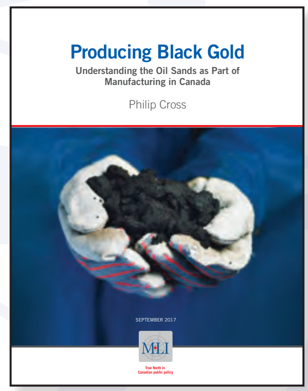

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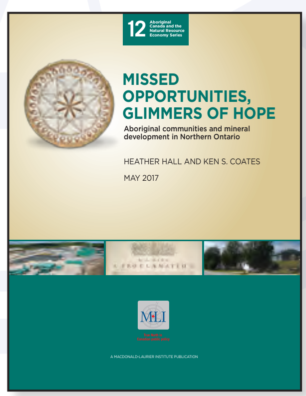

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