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HOW OTTAWA SPENDS 2017–2018

CANADA @150

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POLICY STUDIES

PREFACE

This is the 38th edition of *How Ottawa Spends*. We thank the School of Public Policy and Administration and our colleagues whose support has enabled an annual publication record that is unbroken since its first edition in 1980. This edition inaugurates a new format for *How Ottawa Spends*. To enhance its readability and appeal to a broad audience, most of the volume is composed of thought-provoking **Policy Briefs** designed to explore the options facing the federal government in a particular policy domain. We will continue to include longer **Policy Research Papers** similar in format and style to the chapters in previous editions. Two such studies are included in this edition.

We wish to thank Brittany Wiwat and Ashley McKee, who provided, excellent research, logistical, and editorial assistance for this volume and Mary Giles for her continuing expertise in managing the publication process. For final formatting and electronic publication services we wish to thank Creative Services in Carleton's Department of Communications, and in particular acknowledge the work of Chris Strangemore.

Katherine A. H. Graham and Allan M. Maslove
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Chapter 1
CANADA AT 150: CONSISTENCY AND CHANGE

Katherine A. H. Graham and Allan M. Maslove

INTRODUCTION

This 38th edition of *How Ottawa Spends* coincides with the 150th anniversary of Confederation. It is particularly appropriate, then, to look back at Canada's development and to look forward to the main issues that confront the country. As will be seen, the consistency of issues that have confronted the federal government over the years is quite remarkable. It is the specifics, in terms of items at the top of the policy agenda and the policy actors involved who may have changed over time. In this introductory chapter we combine that overview with an examination of the Trudeau government policies that relate to these issues, a brief assessment of the government's 2017 Budget (Budget 2017) and a summary of each of the contributions to this volume.

This edition incorporates a new format for *How Ottawa Spends*, also befitting this time of reflection on the themes of stability and change. The volume now has two types of contributions. Most of the chapters are in a new format that we are calling "policy briefs." They are relatively short pieces designed to test ideas and be deliberately provocative. They often contain proposals for new policy directions. We continue, however, to value more fully formed "policy studies," evidence-based contributions that readers of previous editions will be familiar with. As this year's chapters on the state of federal policy on energy/environment and pharmacare suggest, policy studies will provide more in-depth analysis of some of the key contemporary issues on the federal policy agenda and on the public's mind.

THE BIG PICTURE

The big picture economic and social challenges facing Canada@150 for the most part are not new. These same issues could have been identified in a chapter about Canada@100 or Canada@50, albeit in somewhat different forms and emphases.

On the economic side, Canada has from its earliest days been dominated by three inter-related characteristics: a resource-based economy, regional differentiation, and external trade dependence. The enduring political questions throughout our history have involved the role of government in economic development and growth, and how to align political responsibility to effectively address the economic policy questions.

Canada's economic wellbeing has always been driven by resources, whether furs and forests or petroleum and natural gas. Notwithstanding the efforts of Canadian governments to foster non-resource dependent sectors, including the current government's strategy to foster innovation and skills development (see below), the importance of natural resources to our economic prospects remains. What is different from our earlier history is the relative shift in reliance from renewable to non-renewable resources, and the need to balance resource exploitation with conservation and environmental concerns.

Because natural resources are not distributed uniformly in geographic terms, the various economic regions of Canada have often developed at different rates and in different ways so that policies beneficial to one region have often been harmful to another. As examples, we need only recall policy debates over the years about exchange rates, industrial policy, and the fiscal equalization program (see the Policy Briefs by Erich Hartmann and by Andrew Seto and Chris Stoney in this volume). Obviously numerous other debates could be cited as well.

Moving into the future, as we confront several of the major challenges before us, regional disparities and regionally diverse policy preferences are likely to be at the forefront. Perhaps the most obvious arena will be addressing climate change and the impacts on carbon-based energy exploitation, and the distribution of adjustment costs (see the Policy Research Paper by Glen Toner, et. al. in this volume). Another set of potential challenges will revolve around the renewal of NAFTA (see Boliari).

The third related enduring question is about effectively aligning governance to address and manage these economic challenges. This has been another constant issue throughout the history of Canada that will continue into future years. Among the domains where we are likely to see this theme play out are federal-provincial resource revenue sharing (a major issue in fiscal equalization: see Hartmann), health care (see Gagnon and McAllister), post-secondary education (Tupper/Harmsen), infrastructure investment, and interprovincial trade.

Social issues (broadly defined) have also been remarkably consistent over time. Once again, the specifics have changed but we are perennially concerned as a country with the role of the state in ensuring well-being in the broad fields of social welfare and health and with promoting respect and harmony among a diverse population. Regardless of the terms of confederation, the federal government is a major actor in these elements of Canadian life. In some periods, perhaps most notably during the Harper years, Ottawa's influence was shaped by the federal government's unwillingness to engage with provinces, territories and civil society organizations. The Trudeau government's level of engagement has been in sharp contrast but in looking at how Ottawa spends (and decides) we must remember that engagement is distinct from policy action.

Perhaps the most interesting and important examples of the current government's approach to federal policy making come in the field of healthcare. The image that comes to mind in some important cases is of a federal government moving quickly down the playing field and forcing the provinces and territories to keep up, or at least follow behind. Two key examples over the past year that continue to evolve are the negotiation of health financing arrangements and the legalization of marijuana.

The negotiation of federal/provincial/territorial health financing arrangements began with all of the trappings of executive federalism that characterized the Canadian state from the time of Pearson to the Martin government – a classic meeting of ministers of health, ostensibly for the purpose of making a national deal. This came to nothing in the context of other provincial and territorial policy agendas and their expressed wish to have Premiers deal comprehensively with the Prime Minister on a range of intergovernmental issues, including health. The expressed desire of the federal government to place emphasis for health spending on mental health, long-term care and public health more broadly, rather than traditional treatment was also an issue for provinces and territories. The federal response was to pick the provinces and territories off, one by one. Every jurisdiction has signed on to a bi-lateral health deal.

In the case of marijuana legalization, the Trudeau Government has moved determinedly forward on fulfilling its 2015 election promise. Here, Ministers of Health have shared policy space with Ministers responsible for public safety and law enforcement. But even with federal-provincial/territorial consultations the federal government has moved decisively forward, setting the deadline for legalization in summer 2018 and leaving it up to the provinces and territories to follow behind, figuring out distribution and age restrictions on purchase.

One important area where the federal government (and provincial/territorial governments, as well) has been much more tentative is the issue of pharmacare. Rising drug costs and issues of access to drugs have gained increasing public attention in recent times. Marc-Andre Gagnon's policy study on financing options for pharmacare demonstrates that the experience of other OECD countries that have national drug plans to compliment their national health systems shows no clear path forward for Canada. This is likely a major factor in the more muted intergovernmental discussions on the introduction of pharmacare.

Statistics Canada began to release increasingly fulsome data from the 2016 Census over this past year. Interestingly, Canadians were very engaged participants in this Census with the re-introduction of the long form survey, following the Harper government's controversial termination of the long form Census on libertarian grounds. So far, the 2016 Census has indicated some important demographic trends that will both reveal and shape responses to public policy issues in the social and health domains. One of the most significant is that the aging population is close to surpassing the population of young people (Ottawa Citizen, Feb 2, 2017).

This has implications for the health issues discussed above. The nation's changing demographic profile also has significant implications for the social and economic relationship between the younger and older populations. Specifically, Canada's "dependency ratio," the relationship of the working age population available to support those who are not of working age, is changing. This reality may well be a factor in one of the government's signature Budget 2017 initiatives – that related to childcare.

The meandering path of federal childcare policy has been well documented in *How Ottawa Spends* over the years. (See for example Phillips 1989, Collier and Mahon 2008) The Harper years were characterized by an approach to childcare that focused on direct parental support through various forms of tax credits and the potential for income splitting rather than supporting direct creation of childcare spaces. Budget 2017 made a significant step in asserting a direct federal role in childcare with a $7 billion commitment to create childcare spaces. The Budget aspires to create 40,000 subsidized childcare spaces over three years. In terms of retail politics, this resonates with the Budget's theme "Building a Strong Middle Class." The dose of reality involved is that barriers to labour force participation by young people need to be reduced to help sustain our public finance system.

Demographic realties and the labour market may well emerge even more prominently on the federal agenda. The policy brief by Moscovitch and Lochead argues that government thinking has to move beyond the current focus on updating the financing of different components of Canadian pension policy to make them financially sustainable. They advocate a wholesale redesign of pension policy to take into account demographics, the rise in precarious work, the decline in workplace pensions, and the need for transparency in pension governance.

A consistent theme in the rhetoric of the current government is promoting respect and harmony among a diverse population. Indeed, this has taken on a mantra-like quality for the Prime Minister. In this context the government's focus over the past year has seemingly been on immigration and refugee issues and on gender.

Interestingly, Budget 2017 has little, if any direct focus on immigration and refugee spending. Under the theme of "Infrastructure: Building Stronger, More Caring Communities," it speaks vaguely of new investments in "cultural institutions and recreation facilities" but that is about the extent of it. According to Immigration and Citizenship Canada, 40, 081 Syrian refugees had arrived in Canada by January 29, 2017. (**www.cic.gc.ca**) Slightly over half of these were government-assisted (as compared to privately sponsored). The consequence is that federal funding to support these refugees in their first year is beginning to run out depending on individuals' and families' time of arrival.

The Citizenship and Immigration Canada Departmental Plan for 2017-18 indicates that the government allocated $959,908,977 to the Syrian refugee initiative from start (March 2015) to end (March 2019). At time of publication, the government had underspent its planned funding to date (Planned to date: $429,866,303; spent $384,729,619). (**www.cic.gc.ca**) This, plus the relatively weak attention to immigration/refugee issues in Budget 2017 suggests a tapering of federal commitment.

The Trudeau government continues to focus on gender equity. Despite two Cabinet shuffles over the past year, gender parity in Cabinet remains. By its own assertion, the Government included significant initiatives related to gender equality in its first budget (2016), including introduction of the Child Tax Benefit and support for the Missing and Murdered indigenous Women's Inquiry. Budget 2017 was trumpeted as the first federal budget developed using gender-based analysis, "More than 60 Budget 2017 measures were identified as having differential gender impacts…". It committed to a new National Strategy to Address Gender-based Violence, allocating $110 million over five years. (Budget.gc.ca) The government has also focused its gender lens on its international development agenda – at least in terms of its rhetoric. (Brown and Swiss)

It is impossible to review persistent federal policy issues, developments over the past year, and the future of this government without considering Indigenous issues. A new relationship between Canada and First Nations, Métis, and Inuit peoples has been a cornerstone of the Prime Minister's agenda since he signed the mandate letters for members of his first Ministry. The 2015 election followed release of the galvanizing report of the Truth and Reconciliation Commission with its 94 Calls to Action for governments, all other sectors of society and individuals. Ironically, in 2016 the Report of the Royal Commission on Aboriginal Peoples became an increasing resource of interest on the twentieth anniversary of its release as we consider what a Nation-to-Nation or Inuit-to-Crown relationship might look like. (Hear Our Voice)

Possibly no file has been as difficult for the federal government as this one. As it struggles to begin defining a new relationship with First Nations, Métis, and Inuit – a difficult intellectual and political exercise - the government has to constantly deal with crises and persistent issues that literally affect the lives of Indigenous people and their communities. Crisis responses, be they to youth suicide, weather events, or other emergencies can be galvanizing but rarely seem to lead to longer-term solutions. As part of its daily agenda, the federal government also has to deal with problematic issues related to funding for education, youth employment (Delic), poor community infrastructure, and high incarceration rates among the Indigenous population, among others. First Nations, Métis, and Inuit people, as well as the broader public rightly demand federal attention to these crises and persistent issues.

Budget 2017 is laced with references to "Creating More Opportunities for Indigenous Peoples, Charting a Better Future for Rural and Northern Communities and Improving Indigenous Communities" that speak to program funding. Under the Budget's third theme, "A Strong Canada at Home and in the World," an entire section is devoted to "Furthering Partnerships With Indigenous Peoples." In financial terms, the budget allocates $3.4 billion over five years to Indigenous initiatives, building on the $8.4 billion commitment made in the 2016 Budget. (**www.aadnc-aandc.ca**) The challenge for the government will be to incorporate less restrictive conditions on this funding than has traditionally existed for Indigenous programs. These restrictions have historically made it difficult for some Indigenous governments and organizations to access funds and spend them in ways that reflect real needs rather than the requirement to meet federal deadlines and reporting requirements.

To advance its broader agenda, the government will have to engage with First Nations, Métis, and Inuit to build new institutions, not new programs. Creation of the First Nations Health Authority in British Columbia and the recently announced Health Accord for Northwestern Ontario involving the federal government, Ontario, and the Nishnawabe Aski Nation may be positive signs. In July 2017, the Prime Minister released ten principles to guide "a renewed nation to nation, government to government, and Inuit-Crown relationship based on recognition of rights, respect, cooperation, and partnership as the foundation for transformative change. " (**www.justice.gc.ca**) The Prime Minister has established a Working Group of federal ministers to review laws, policies, and operational practices to ensure that Canada is adhering to its domestic legal obligations, is supporting the TRC Calls to Action and meeting its international obligations, including adherence to the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). This is also a potentially positive development. But the challenge of working on fundamental issues of a new relationship while simultaneously dealing with crises and closing the gap in living conditions and opportunities for Indigenous peoples remains a profound one for the federal government.

A potential breakthrough on the government's Indigenous agenda occurred on August 28, 2017 when the Prime Minister announced that ministerial responsibility for Indigenous affairs would be split. A new Department of Crown-Indigenous Relations and Northern Affairs will be responsible for stewarding a new fundamental relationship, while a Department of Indigenous Services will assume responsibility for the government's responsibilities under the Indian Act. This goes a long way to implementing one of the key recommendations of the Royal Commission on Aboriginal peoples, some 20 years ago. One unanswered question, at least in the public domain, is how the budgetary arrangements and fiscal policy requirements of building a new relationship and living up to service obligations will be dealt with. The Royal Commission had recommended that the Minister of Crown-Indigenous Relations and Northern Affairs should hold the reins of the fiscal relationship for all Indigenous Affairs. As things move ahead, Indigenous budgetary and fiscal policy issues may call for a very active role for the Prime Minister himself. Regardless, this move is significant and will be closely monitored by proponents and critics.

It is important to understand the backdrop of these major economic and social preoccupations (and, in some cases, funding commitments) when looking at any federal government's current budget, as the budget is the best indicator of where the government of the day actually intends to go with its policy agenda.

BUDGET 2017

The Trudeau government budget of March 2017, like the government's first budget in 2016, is a plan from a government with an ambitious agenda. Among the many areas in which the government intends to move forward are spurring innovation and productivity, education and skills upgrading of the workforce, infrastructure investment, supporting and strengthening the middle class, and inclusive sharing of the benefits of economic growth.

Before discussing each of these initiatives, it is useful to review the context in which the 2017 (and also the 2016) budget were written. In macro terms overall the Canadian economy is doing well. The unemployment rate has come down to its lowest levels since the sharp recession that hit in 2008, there are no significant inflationary pressures (despite the low exchange rate), and personal incomes are growing on average (in the first quarter of 2017, household disposable income was 3.7% higher than a year earlier. Statistics Canada – CANSIM tables).

Figure 1

Fiscal Projections Comparison Table for Budget 2016, 2016 Fall Economic Statement, and Budget 2017

	2016 Budget Projection	November 2016 Projection	2017 Budget Projection
Real GDP Growth (%)			
2017	2.2	2.0	1.9
2018	2.2	1.8	2.0
2019	2.0	1.8	1.7
Oil Price ($US per barrel)			
2017	52.0	54.0	54.0
2018	59.0	57.0	59.0
2019	63.0	59.0	56.0
Budget Deficit $B			
2016/17	29.4	25.1	23.0
2017/18	29.0	27.8	28.5
2018/19	22.8	25.9	27.4
Debt to GDP Ratio (%)			
2016/17	32.5	31.8	31.5
2017/18	32.4	31.8	31.6
2018/19	32.1	31.9	31.6
Revenue $B			
2016/17	287.7	291.1	292.1
2017/18	302.0	303.3	304.7
2018/19	315.3	313.2	315.6
Program Expenditures $B			
2016/17	291.4	291.3	290.9
2017/18	304.6	306.5	305.4
2018/19	308.7	313.2	313.7

However, by historical standards real economic growth is very slow and is projected to remain anemic over the next several years. In earlier times achieving real growth rates of 3% and more was quite common; now we struggle to get up to 2%. That difference, which seems small, over time has enormous consequences for the growth of personal incomes and government revenues and budgets (governments at all levels).

Further, the economic outlook is clouded by several major uncertainties. Foremost among these is how U.S. President Donald Trump will seek to restructure U.S. trade relationships, and in particular what this will mean for NAFTA and Canada-U.S. trade. At the time of this writing, the US has identified several significant aspects of the NAFTA agreement that it wishes to renegotiate, but it is not yet clear how tough they are prepared to be in the negotiations. On the one hand Trump talks very tough about how America is treated unfairly by its trading partners, including Canada. He has created huge expectations among his more avid supporters that he will “fix” these trade agreements and that manufacturing jobs will come flooding back into the U.S. On the other hand, thus far in his presidency most of what he has been able to deliver bears little resemblance to his flamboyant election promises. The worst case scenario for the Canadian economy would be the termination of NAFTA; in that case a serious recession would seem to be inevitable. The best case scenario would be some minor tinkering that could even include adjustments to Canada’s benefit. The other concern on the trade front, but with much less impact on Canada is Brexit.

The last contextual factor that could have major implications for the Canadian economy and the government’s budget position is the price of petroleum. The government’s forecast is based on a stable or very slowly increasing prices, significant movement in either direction could significantly impact government revenues, not only from the price change directly, but also because of the resulting change in economic activity especially in Alberta and Saskatchewan. At the time of writing the price of oil is well below the Budget’s projection for 2017.

With that quick flagging of the main contextual factors, we can now look at the main elements of Ottawa’s budget plan. The focus on innovation has two aspects, education and skills upgrading, and identifying and supporting key sectors of the economy. The first element promises to invest in retraining members of the labour force displaced from old jobs to prepare them for new ones. The second element contains echoes of old-style industrial strategies of “picking winners”. But rather than identifying specific companies, the Liberals’ strategy is to support and foster what it regards as key sectors of an emerging high-productivity economy, including clean technology, digital, and agri-food industries.

The infrastructure initiative focuses on expanding early child care capacity, affordable housing, and green infrastructure, primarily transportation related. The novel aspect of this initiative is the proposal to create the Canada Infrastructure Bank with both federal government and private sector capital. A number of issues have quickly surfaced. The Bank has attracted interest from some of the country's large pension funds, some of it at the government's urging; that raises questions about consistency with he mandates of the funds and the relationships between the funds and government. Secondly, the involvement of private capital implies that the investments are intended to generate income flows to provide returns to the private sector investors. That, in turn, raises questions about moving in a major way towards user fees of various types, and the potential skewing of the types of infrastructure investments undertaken.

The ambitious Trudeau government agenda coupled with weak economic growth and thus slowly growing government revenues quickly forced the government to abandon its 2015 election promise of limiting the deficit to $10 billion. The government first retreated to the position of achieving that level by the end of their electoral mandate. Now that is out of reach as well. To the extent that there is a deficit target guiding Ottawa's decisions, it appears to be one of not increasing the debt/GDP ratio beyond its current level of about 30%. While that is fully sustainable and would still keep Canada's ratio well below most of the other G7 countries, it is notably different than the election promise.

Finally, we note the emphases in the budget of the themes of inclusive economic growth, middle class fairness, and equal opportunity. The addition of a gender impact analysis of this budget is a marker of these themes. It will be interesting to monitor how the government will balance the potential internal inconsistencies between these – essentially equity based – objectives and its innovation agenda. While enhanced productivity can increase general living standards over the long term, in the short-run innovation inherently involves disruption and displacement (e.g., job losses). It is not a straightforward matter to ensure that the compensations and adjustments in place to address these negative aspects are effective.

CANADA 150: COOL TO BE CANADIAN(?)

In addition to the broad economic and social themes that drive much of federal government policy, we see a consistent federal government preoccupation with fostering Canadian identity both at home and internationally.

Historically, this has taken different forms at different times but arguably began with Canada's participation in the First World War and creation of key national institutions such as the CBC in the 1930s. It is interesting to reflect on how conscious and multi-faceted the federal government has been in pursuing this preoccupation over time. For example, the 1951 Royal Commission on Arts and Letters (Massey Commission) Report argued for federal funding for cultural activities to promote a sense of Canada. The 1957 Royal Commission on Canada's Economic Prospects (Gordon Commission) argued against foreign ownership of Canadian resources and businesses. The Report of the Royal Commission on Bilingualism and Biculturalism (Laurendeau and Dunton, 1969) propelled us into official federal policies on bilingualism and multiculturalism. The Report of the Royal Commission on Economic Union and Development Prospects for Canada (Macdonald Commission, 1985) recommended a free trade agreement with the United States, while retaining the broad architecture of the Canadian welfare state and retention of Parliamentary democracy (but with an elected Senate). The Reports of the Royal Commission on Aboriginal Peoples (1996) and the Truth and Reconciliation Commission of Canada (2015) are equally significant as they argue that Canada cannot be truly realized without fundamentally rethinking the relationship with First Nations, Métis, and Inuit Peoples.

In short, these historic inquiries focused on some of the same themes and policy preoccupations we have as we reflect on Canada and on being Canadian today.

Currently, we receive signals that Canada is well regarded from away. It is reported that we are viewed as "the most reputable country." (Huffington Post) Our Prime Minister makes the cover of Rolling Stone ("Why Can't He Be Our President?") and is the subject of a fawning article.

Domestically, we celebrate the country's sesquicentennial –with lots of selfies all around. But we are appropriately given pause by relationships past and present with First Nations, Métis, and Inuit Peoples. We should want to do better. In terms of economic and social policy our debates follow familiar themes but we view these debates through new lenses with new information and new options leading to the need for choices – choices that are no less challenging than those that have faced Canadians and their governments in the past. For the federal government, as it heads into the latter part of its mandate the priority will be actions that are recognized as being beyond imagery and as having tangible results.

THE CHAPTERS IN BRIEF

The policy briefs in this volume explore and provoke on a number of key issues that face Canada and the federal government.

Allan Tupper and Robert Harmsen explore the implications for contemporary Canada of having a system of postsecondary education under provincial/territorial responsibility. They acknowledge the significant role of the federal government, particularly with regard to research but argue that Canada would be better served if governments loosened the strictures of historical federalism and developed new approaches to collaboration.

Natalia Boliari reflects on the context for the current re-negotiation of the North American Free Trade Agreement (NAFTA). Her observation that we do not have a real understanding of the impact so far of NAFTA on the economies of the three partner countries is significant and provocative. Her recommendations concerning the best course ahead for Canada in the current negotiations provide a point of departure for assessing events over the coming months.

Peter Phillips and colleagues look at the state of science and innovation policy under the Trudeau Liberals. Possibly their most startling observation is that the government has, at best, a muddied sense of what innovation is. They argue that the government has succumbed to the political pitfall of looking for quick and flashy “wins” in science and innovation spending, avoiding the foundational work that is required for a genuine contribution.

Two policy briefs discuss the state of fiscal federalism in Canada. Erich Hartmann argues that the federal equalization program no longer achieves its objectives very well because of a number of developments affecting it in recent years including federal budgetary restraint and volatile resource revenues. It has become a source of serious budgetary unpredictability for the receiving provinces. A scheduled five-year renewal is coming up and Hartmann proposes several changes to make the program payments more predictable.

Andrew Seto and Christopher Stoney examine the two largest federal transfers to the provinces – Equalization and the Canada Health Transfer – and argue that they are unduly manipulated to serve the political interests of the federal government of the day. This politicization of the programs hinders their effectiveness, and generates obfuscation and cynicism. They propose that an independent non-partisan commission be established to advise the government on changes to the programs, thereby reducing political gaming and increasing accountability.

This edition contains four policy briefs that consider social policy issues.

Senada Delic looks at the record of policies and programs related to Indigenous youth employment. She concludes that, generally, past initiatives have missed the mark, in terms of labour market participation by Indigenous youth and more general improvements in their life prospects. A major contributing factor is the absence of an holistic perspective on the situation of youth that results in an inability to link job-focused initiatives to more basic life circumstances and needs.

James McAllister argues in his Policy Brief, for an alternative to simply increasing the existing Canada Health Transfer. He points out that the relatively large increases in the CHT over roughly the past decade have not bought the improvements that we might have expected. Rather, he argues the federal government should leave the CHT as it is and put new money into specific programs such as Indigenous health, pharmacare, and mental health.

Allan Moscovitch and Richard Lochead provide a thorough overview of the needs that demographic trends are creating in the field of old age security. They argue that the aging of the population, the rise in precarious employment and "the gig economy" for all age groups plus changes in our democratic sensibilities should induce change in the terms and governance of pension policy.

Stephen Brown and Liam Swiss look at the government's feminist agenda, specifically in international assistance. They argue that the rhetorical focus on gender is definitely present but that the real challenges for the government will come in implementation. These challenges go beyond following through with appropriate investments and include confronting different conceptions of and attitudes to gender-based assistance.

Evert Lindquist examines an important, albeit somewhat obscured element of the government accountability regime – the Management Accountability Framework. He makes recommendations that could see it emerge as less of a burden and more of a tool for departments and agencies. He also sees it as an untapped resource for more public accountability.

The correspondence between government spending patterns and its priorities is addressed by Helaina Gaspard in her Policy Brief. Using federal spending on skills and innovation as an illustrative case, she argues that careful assessment of existing spending for operational efficiency and program impacts is required before forming judgments about incremental spending.

This volume contains two policy studies—more extended contributions on key topics.

Aman Chahal, Zak Jacques, Marc Quintaneiro, and Glen Toner examine the government's energy and environment policies. They note the delicate balancing act between energy development and conservation, the further complications resulting from constitutional federalism that pre-dates preoccupation with environmental issues and the retail political issues on this file at the national and provincial/territorial levels. To this point in the Liberals' mandate, they see skillful negotiation of this complex and high profile field.

Marc-Andre Gagnon examines potential mechanisms that might be used to finance a public pharmacare scheme. He reviews the choice between general revenue and social insurance models in several other OECD countries, assessing their efficiency and administrativey impacts. While the comparative analysis suggests there is no single path for Canada to follow, the model adopted should be compatible with the rest of health care service delivery and with the culture and institutions of public finance in general.

Policy Briefs

Chapter 2
A POST SECONDARY EDUCATION DIALOGUE FOR CANADA

By Robert Harmsen & Allan Tupper

INTRODUCTION

In 2017, post secondary education deeply engages governments and important civil society forces. It is a complex policy sector that is a major area of public expenditure, a determinant of Canadian economic prosperity and increasingly, a policy sector with direct implications for many Canadians. University research receives considerable funding from the Government of Canada and is increasingly recognized as a contributor to Canadian economic competitiveness. Access to good higher education at reasonable cost is an ambition of many Canadian families and a subject tightly linked with the Trudeau's government's concern with "strengthening the middle class".

Post secondary education also engages the Trudeau Liberals' emphasis on "new federalism" which asserts the need for intergovernmental collaboration. The more co-operative Liberal rhetoric is a deliberate contrast to the Harper Conservatives'focus on a watertight federalism where governments were to proceed, wherever possible, each in its own sphere. Over the last decade higher education has also become more international in scope. In 2017, many undergraduate programs encourage students to take credit courses in other countries although as yet not many Canadian students have done so. Canadian universities often have joint degrees with universities abroad. International research partnerships demand careful policy co ordination with other countries. Canadian governments have generally allowed universities and colleges to charge international students much higher fees than domestic students. International students are now a major revenue source for universities - a commodity that they compete to attract.

Our policy brief begins with an overview of the Canadian post secondary education system. It notes the active role of the federal and provincial governments, while also highlighting the often-neglected role and potential of the main non-governmental actors. Using the 2016 and 2017 federal budgets, we then look at the Trudeau Liberal government's approach to post secondary education. In turn, three propositions are advanced. First, we reject reform proposals that urge a "federal dominant" system or a tightly co ordinated policy system through intergovernmental mechanisms as unlikely to succeed even assuming a strong will to change basic policy architecture. Second, we see a role for a structured national dialogue that reflects modified elements of current European practice. Finally, we argue that a stronger pan-Canadian forum should initially focus on international engagement.

THE PSE POLICY SYSTEM IN BRIEF

Canada's PSE system took form in the 1960s when Alex Corry famously remarked that universities had become "public utilities", that is objects of public policy that were important parts of the public sector (Corry 1970,x). In the 1960s, provincial governments built modern college and university systems as enrolment burgeoned. They controlled capital and operating funding, approved degrees and programs and established university governance processes. The provinces also developed policy and administrative capacity and established student loan systems. Provincial PSE systems did not follow a uniform blueprint. They varied in many ways including the relationships between colleges and universities, the generosity of loan and grant systems and tuition policies (cf. Harmsen and Tupper forthcoming).

In the 1960s and 1970s, the federal government also expanded its horizons and defined its PSE role more precisely. Ottawa established the Canada Student Loan Program in 1964. The funding of university research solidified as a focal point for Ottawa's involvement. The current research granting councils took form and the National Research Council worked closely with university researchers.

The post secondary education sector has become much more complex since the 1960s. More programs have been established, the research role of universities and colleges has expanded and costs have grown significantly. Questions about tuition policy, student debt and access for students from lower income families established a new agenda. Federal research funding grew more important as ideas about a knowledge economy took root (Office of the Parliamentary Budget Officer 2016).

In the 1990s, Ottawa provided tax incentives to encourage parents to save for their children's post secondary education. These tax measures are now a complex policy area (Parkin 2016). In the 1990s, the Chrétien Liberal governments implemented major new PSE programs. The Canada Foundation for Innovation was created to fund university infrastructure ideally in partnership with the provincial governments and/or the private sector. A Canada Research Chairs program was established to repatriate outstanding Canadian researchers and to help outstanding young researchers. The Canada Millennium Scholarships Foundation was founded.

Another major development was Ottawa's 2003 entry into funding the indirect costs of federal research funding. Originally established as the Indirect Costs Program, Ottawa provided $369 million in 2017 under the Research Support Program (RSP). The RSP is administered by the three federal granting councils who transfer funds directly to universities on the basis of their share of federal research funding. For decades universities and provincial governments complained that Ottawa's insistence on funding only the direct costs of research obliged universities to pay for costly research overhead by transferring money from teaching.

Federal and provincial governments heavily shape Canadian post secondary education policy. Equally important is an active policy community that lobbies governments, coordinates the sector and tries to educate public opinion. PSE policy communities and civil society organizations are found in Ottawa and in the provincial capitals. They reflect the federal nature of Canadian PSE.

Noteworthy in the policy community are national organizations for university teachers, for universities and colleges and for students. Major national bodies include the Canadian Association of University Teachers (CAUT), Universities Canada, Colleges and Institutes Canada and the Canadian Federation of Students, the largest national student organization. Other bodies include the Canadian Association of Business Officers that represents senior university financial officers and the U 15 group that speaks for the large research universities.

Interest associations abound in the provinces. In Ontario, the Council of Ontario Universities represents universities while colleges have Colleges Ontario. CAUT's Ontario counterpart is the Confederation of Ontario Faculty

Associations. Ontario undergraduate students and graduate students have provincial associations that are confederations of individual universities' student organizations. In turn, pan-provincial associations are federated with the national students'organizations. British Columbia, whose PSE system differs from Ontario's, has two university associations, one for the research universities and the other for smaller teaching oriented institutions, and an active association for its colleges.

Many academic disciplines have national associations that disseminate information about public policy and discuss government initiatives. National and provincial meetings are fertile grounds for policy debates and information diffusion. Higher education research institutes and groups are also active although they are not as well developed as in other countries (Clark and Norrie 2014). Canada has a PSE consulting industry whose significance and impact have yet to be studied.

In summary, analysts of Canadian post secondary education policy have stressed federal and provincial government policy. Much less attention has been paid to the non-governmental policy community that flanks governments and interacts with them. Is it possible that the non-governmental sector acts, or could act, as a source of policy coordination and a consensus builder? As Wallner (2014) has shown, such wider policy communities have played a key role in fostering national policy convergence in the absence of formal coordination in K-12 education. After looking at current federal policy, we return to this theme later, making the case for a broadly based pan-Canadian dialogue.

THE TRUDEAU GOVERNMENT AND PSE

Canadian universities are likely happy to see the return of the federal Liberals to power. Whether fairly judged or not, the Harper governments were seen as at best indifferent to universities and research. They were criticized for denying federal scientists the necessary freedom to conduct and communicate their research. Conservative university research policies were decried as disinterested in fundamental research. These views are in stark contrast to the important and popular policies introduced by the Chrétien governments. The politics of post secondary education policy have changed.

The 2016 and 2017 Trudeau budgets stress PSE affordability especially for students from lower income families. The 2016 budget made major changes to the Canada Student Loans program and to the tax incentives that encourage parents to save for their children's post secondary education. Ottawa's commitment to university research infrastructure was reinforced by the establishment of a three year $2 billion Post Secondary Institutions Strategic Infrastructure Fund. The Liberals provided a total of $95 million new funding for the three federal research granting councils, an amount that Universities Canada said was the largest increase in ten years. In its words: "Between 2006 and 2013, research funding in Canada fell from 3rd to 8th among OECD nations. Today's news is an important step toward returning to globally competitive research funding levels"(Universities Canada 2016,3).

The 2017 budget stressed the 2016 themes although no new money was provided to the granting councils (Higher Education Research Associates 2017). Further changes were made to the Canada Student Loans program that improved the programs available for adult learners, part time students and students with dependents. The budget also provided $221 million over five years for student work placements. These funds, heavily weighted toward future years, are to be administered by Mitacs, a not for profit that specializes in work place placements for graduate students (Ibid,11).

The 2016 and 2017 budgets outline the Trudeau government's pse priorities for its term. PSE affordability is part of the government's emphasis on income equality. University research and infrastructure support are already established federal roles with which the Liberals are comfortable and closely identified. Increased emphasis on federal funding for university work experiences is another area of legitimate federal interest especially given Mitacs expertise in programs for university graduate students (Higher Education Research Associates 2017). Importantly, the Trudeau Liberals have shown no interest in playing a larger role in education. Theirs is a well-known agenda that reflects established federal PSE roles.

A remaining issue for the Liberals is the 2017 Naylor report, an inquiry into research funding whose report was released in 2017 (Advisory Panel for the Review of Federal Support for Fundamental Science 2017). Headed by Tom Naylor, a former president of the University of Toronto, the nine person panel called for an increase of $1.3 billion over four years for federal research funding. It also urged $485 million for basic research arguing that too much money was going to "priority-driven" research. The federal granting councils were to be better co ordinated and the overall federal research system was to be governed by a new body, the National Advisory Council on Research and Innovation.

Observers lamented that the government deliberately delayed the Naylor report's release until after the 2017 budget and that this delay suggests a lack of commitment to university research. A different perspective is that the core subjects of the Naylor report, federal research funding and administration, are topics that the Liberal government has been publicly committed to over a long period. Naylor's recommendations will be the benchmark against which the government's research funding performance will be evaluated. The Trudeau government is well aware of this reality – its future budgets will deal with the Naylor panel recommendations one way or the other.

THINKING ABOUT THE CANADIAN POST SECONDARY EDUCATION SYSTEM

Canada's PSE system is often portrayed as poorly coordinated. Ottawa is said to provide the vast majority of research funding while the provinces administer ten diverse systems. Canadian PSE is also thought to suffer as a result of the lack of central direction. Two general solutions have been advanced over time. Some observers have called for a more extensive role for the Government of Canada. Others have called for tighter intergovernmental co ordination. Our view is that neither option is currently feasible or perhaps desirable. We argue that Canada should try a different approach through a focused national dialogue that engages a broad set of actors.

A 2014 report by Paul Cappon on a national education strategy for Canada reflects established thinking. Commissioned by the Canadian Council of Chief Executives, Cappon reviewed the policy status quo for education at all levels from elementary schools to universities and colleges. He concluded that inadequate Canadian policy co ordination and/or superior policy co ordination in other countries explain, as he sees it, Canada's poor educational outcomes. He advanced three reforms (Cappon 2014). First, Cappon called for vigorous leadership from Ottawa if a necessary national education strategy was to become a reality. "The federal government is the only actor capable of leading to the creation of this pan Canadian strategy" (Ibid.6). Second, he recommended new intergovernmental coordinating machinery, specifically a federal-provincial-territorial Council of Ministers to determine national targets and outcomes. Third, he urged the greater involvement of business but not other civil society actors.

Cappon's arguments are flawed. First, no government, certainly not the Trudeau Liberals, appears committed to an explicit national education strategy. Second, is Canada's educational system as mediocre and as poorly co ordinated as Cappon suggests? A contrary perspective could certainly be advanced for PSE at least. Third, federal leadership is limited by Ottawa's singular lack of policy and administrative capacity in most aspects of education policy. As the Trudeau Liberals show, Ottawa has focused on post secondary education and even within PSE in only a few areas, notably research, research infrastructure and student loans.

FROM FEDERALISM TO MULTI-LEVEL GOVERNANCE

Moving forward, the question becomes one of how PSE policy might be better developed in a pan-Canadian context. What is desirable? What is possible? The scope and limits of the problem to be addressed need to be specified. We reject the alarmist views of observers such as Cappon, who see an impending crisis in Canadian (higher) education. On the whole, Canadian PSE institutions perform well, both sustaining comparatively high rates of participation and (insofar as this is a gauge of institutional quality) attaining a satisfactory spectrum of results in international rankings. At the same time, the sector continues to be hampered by a pattern of "uncoordinated entanglements" (Tupper 2009). As the federal government has increasingly assumed the driver's seat in research policy while the provinces retain jurisdiction over the wider operation of PSE systems, the framing of "joined up" or "holistic" policies in the sector has become increasingly difficult. In consequence, individual PSE institutions are often asked to carry the burden of reconciling mis- or un-aligned policy choices.

The central governance issue is thus that of creating a more structured policy space. While respecting existing jurisdictional divisions, clear evidence points towards the desirability of some form of pan-Canadian policy arena that would allow the principal PSE actors to interact more productively with one another. Such an arena would take as its starting point the indelible character of Canadian pse as a "system of systems" in which the provinces exercise a broad jurisdiction over the basic structuring of those systems. It would, however, move beyond a rigid, binary conception of federalism towards a richer understanding of multi-level governance that stresses meaningful policy dialogues across jurisdictional boundaries and the broadening of participation to incorporate more stakeholders.

THE "BOLOGNA MODEL"

In the development of such a pan-Canadian arena, lessons can be drawn from the extensive European experience of "soft law" governance instruments over the past two decades. This concerns both the general development by the European Union of the "Open Method of Co ordination" (OMC) and, more specifically in the higher education sector, the pan-European (48-member) Bologna Process. In both cases, scholars have already probed the limits and possibilities of these models in Canadian contexts. As regards the OMC, contributors to a special 2013 issue of Canadian Public Administration (Verdun and Wood 2013) highlighted the limited applicability of OMC models to Canadian practice because of a pattern of executive federalism which concentrates power in the core executive at each level of government, thereby placing particularly tight constraints on wider stakeholder participation. We argue, however, that overcoming this limitation requires only a modest act of political will, and that the OMC toolkit could correspondingly provide useful instruments for opening up wider, more participatory policy spaces and policy dialogues on a pan-Canadian basis. Commentators have similarly stressed the limited applicability of the Bologna Process in the Canadian context (Haskel 2013; Usher and Green 2009). Rightly, they underline that the core problem addressed by the Bologna Process – that of building of trust and facilitating the readability of qualifications across a bewildering diversity of national systems – has little or no relevance in those terms in the Canadian case. Yet, the same commentators have also noted that as a governance process Bologna offers interesting insights for the establishment of a pan-Canadian policy dialogue.

Bologna is a working PSE example of "experimentalist governance"(Harmsen 2015). Centrally, the objective of such "soft" governance is to create a policy arena that facilitates policy learning across jurisdictions within the framework of a complex system of multi-level governance, while itself having no direct regulatory or (re-)distributive function. Such an arena is thus dedicated to dialogue, allowing for co ordination and learning across levels by engaging both governments and wider stakeholder communities. In the case of European higher education, the combined development of the Bologna Process together with EU involvement has correspondingly seen the emergence of a structured "European policy space" in the sector where none existed before.

In practice, what does this mean in the Canadian context? If one could conceive of the similar emergence of a "pan-Canadian policy space", what would it look like and what might it do? The increasingly important issue of PSE internationalization illuminates the possibilities.

A PAN-CANADIAN PSE INTERNATIONALIZATION FORUM

Internationalization is now a central PSE policy concern worldwide as the attractiveness and competitiveness of national higher education systems become more important for national economic competitiveness. Relative to these challenges, Canada certainly does not lack PSE internationalization strategies. It has at least two, if not several (cf. Viczko and Tascsón 2016). At an interprovincial level, the Council of Ministers of Education of Canada (CMEC) produced an international marketing action plan for the Council of the Federation in 2011 (Council of the Federation 2011). Not to be outdone, Ottawa responded in 2014 with its own international education strategy (Canada 2014). Other groups, such as the Canadian Bureau for International Education (CBIE 2013), have also produced strategic documents.

These international strategy documents converge on several important points. All, for example, are concerned with maintaining a consistent national "brand" in the marketing of Canadian higher education abroad. All see attracting talented international students as essential for national prosperity. All focus on the outward mobility of Canadian students. Yet, despite substantive convergence, such reports have not had a major impact. Apart from the usual obstacles encountered by such reports, there is – quite literally – nowhere for their recommendations to go. There is no policy arena corresponding to the policy area at a pan-Canadian level in which the recommendations might be followed up on a co ordinated basis and in which meaningful dialogues could take place. Moreover, diverse provincial strategies are being developed in parallel and with relatively little apparent cross-jurisdictional interchange.

To address this situation, we propose the creation of a pan-Canadian forum on PSE internationalization that takes its inspiration from the Bologna model. The forum would thus be an instrument of "soft governance" – i.e. it would have no decisional authority, but rather would be dedicated to furthering policy dialogue and learning. Governments might choose to issue declarations or to establish forms of peer review or benchmarking exercises, but this is something to be determined within the forum itself. An intergovernmental (federal/provincial) dimension would form the core, but it would be opened out to structured stakeholder participation. Bodies such as Universities Canada, Colleges and Institutes Canada, and the Canadian Association of University Teachers, as well as business and labour organizations would be (associate) members of the forum with the right to speak and make proposals. Ideally, provincial delegations would extend beyond ministry officials to include representatives of PSE institutions, students and faculty. Following the Bologna model, the forum could further be structured in terms of a plenary conference meeting every two to three years, fed by the work of follow-up or working groups that would bring together governmental and stakeholder representatives to work on specific thematic areas on an ongoing basis.

The overall structure as briefly outlined above should allow for the emergence of a more structured dialogue about PSE internationalization, both providing a venue in which intergovernmental co ordination issues might be resolved and allowing for the enrichment of debate through stakeholder participation (not least moving beyond a marketing focus to encompass a concern with curricular and research-related themes). As such, the forum may, if successful, extend its coverage to the wider PSE sector over time – being careful to do so in ways that maintain its light touch structures.

CONCLUSION

Our policy brief argues that Canadian PSE policy making should move beyond a primarily intergovernmental focus and begin to think in terms of a pan-Canadian dialogue involving the wider sector. Canadian PSE has generated well-developed networks of actors, including both peak associations and PSE institutions themselves which do not find a corresponding national policy arena. Our policy brief proposes that such an arena be shaped along the lines of Europe's successful "Bologna model", creating a distinctive forum for policy dialogue and learning that leaves existing jurisdictional divisions undisturbed.

The emergence of such an arena requires political will. Ottawa must assume a posture of modest ambition, facilitating dialogue without seeking a dominant steering role. The provinces too must be willing to break with traditional practices of executive federalism so as to open up space for dialogue. We do not doubt that even these modest steps may prove difficult. Yet, if governments are to champion the idea of disruptive innovation, it would not seem unreasonable to demand that they are open to it themselves.

As we write in 2017, the Trudeau Liberal government is well positioned to seize the initiative in fostering the development of such an innovative pan-Canadian policy arena. International post secondary education is an area that it has already engaged and universities themselves are certainly interested. Moreover, in the short to medium term, the Trudeau Liberals are unlikely to have budget surpluses that will allow significant increases in research funding. A federal initiative working collaboratively with the provinces and stakeholders to establish a serious dialogue on pse internationalization would, **at low cost**, allow the Trudeau Liberals to advance an inclusive national agenda in an area of long term significance for Canada's pse sector.

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Chapter 3
OVERHAULING NAFTA: IMPLICATIONS FOR CANADIAN TRADE POLICY

By Natalia Boliari

INTRODUCTION

Protectionist sentiments have always been present in the U.S. but they have been particularly strong since the 2008 presidential campaigns when trade became a most contentious issue for all Democratic Party candidates. Existing trade agreements and particularly the North American Free Trade Agreement (NAFTA) came under fire in many of the heated debates between such high-profile politicians as Hilary Clinton and Barack Obama. Both of them made statements that it was a big mistake, a flawed and disastrous agreement which needed to be renegotiated or else terminated. Although, after elected, President Obama did not act on his multiple statements to unilaterally renegotiate NAFTA, his administration did stall other trade agreements or raised tariffs during the first half of his presidency. It was only after re-election in 2012 that he openly supported a freer trade agenda. The 2016 presidential primaries brought back trade as one of the most important issues on the nation's agenda as candidates now on both sides of the political spectrum expressed strong opposition to trade agreements (existing or planned) and some to globalization, in general. NAFTA became one of the most frequently debated topics and was continuously described as a big failure for the American nation and a disaster for blue collar workers and the manufacturing industry. Hilary Clinton renewed her 2008 promise to renegotiate NAFTA if elected and Donald Trump went further to say repeatedly that he will "rip it up" if he could not renegotiate a better deal.

Watching the 2016 election primaries, observers suspected or, perhaps, hoped that candidates' NAFTA rhetoric was a continuation of the 2008 political theater, to be forgotten by many after Election Day. After all, opposition to free trade sells well with voters but trade agreements are not really viewed as issues of high priority on a newly formed administration's agenda.

Not this time. It appears that President Trump meant what he said when it comes to trade. One of his very first actions after inauguration was to withdraw from the Trans-Pacific Partnership (TPP), a flagship trade agreement (waiting at the time to be ratified by Congress) between the U.S. and 11 other Pacific Rim countries, including Canada and Mexico. In the few months since the new administration took office, trade and trade policies have been re-examined by pundits and warnings against expected radical changes in the direction of U.S. trade policy prevail in the news and academic media. NAFTA has frequently and contentiously been in the news. We have witnessed, for example, the cancelled late January meeting of the President of Mexico, Enrique Peña Nieto with President Trump. The cancellation came after days of hostile exchanges over the U.S. trade deficit with Mexico and whether Mexico would pay for President Trump's proposed building of a wall on the U.S./Mexico border. We have witnessed the meeting between Canadian Prime Minister Justin Trudeau and President Trump in February in which President Trump stated his administration's intent to make some modest adjustments to U.S./Canada trade relations under NAFTA. The two leaders also pledged to work together on cross-border commerce and security issues. Noting that millions of Canadian and American jobs depend on the smooth and easy flow of goods, services and people, Mr. Trudeau stated that "by working together, by ensuring the continued effective integration of our two economies, we are going to be creating greater opportunities for middle-class Canadians and Americans now and well into the future." Notwithstanding this overall friendly meeting, in late April, a draft announcing the intent of the U.S. administration to withdraw from NAFTA was leaked. Subsequently, with suggestions of back channel communications between Canada and Mexico and the Trump administration, President Trump reversed this plan but he has subsequently kept NAFTA high on the agenda by repeatedly stating the necessity to either reform or terminate it.

At the time of submission of this brief, Ambassador Robert Lighthizer has formally notified Congress of the administration's intention to renegotiate NAFTA with Mexico and Canada after just a couple of days of being sworn in as the U.S. Trade Representative. Renegotiation talks can, therefore, be initiated as early as mid-August. From a Canadian perspective, rising U.S. protectionism and potential threats of a changed or terminated NAFTA could be problematic because the United States is a huge exports market and a major source of imports for Canada. This brief will take a close look at the meaning of NAFTA for Canada; assess the U.S. administration's concerns with and approach to NAFTA, and evaluate possible strategies that can be used in response to a new, more protectionist U.S. administration.

HOW IMPORTANT IS NAFTA FOR CANADA?

The Canada-U.S. Free Trade Agreement (CUSFTA), which went into effect in January 1989, marked the beginning of a movement toward greater regional trade and economic integration between Canada and the United States. It also paved the way for the formation of the trilateral NAFTA, which included Mexico and has been in effect since January 1994. NAFTA is the largest free trade area in the world in terms of population, GDP, and GDP per capita, comparable to the European Union (EU) in all three indicators[1]. Its main, visible results are the elimination or significant reduction of tariffs and non-tariff trade barriers (NTBs) and the creation of cross border supply chains which in turn, greatly increased the volume of trade and investment among the three member countries.

Economic theory predicts that trade liberalization (whether multilateral as embodied in the World Trade Organization (WTO) or preferential as occurring under regional trading agreements such as NAFTA) are beneficial because they lead to efficiency gains and economic growth as a result of reallocating resources to their more productive uses. Thus, trade agreements are expected to reshuffle jobs across industries as a consequence of both loss in some and creation of jobs in other industries. Has this been the case for Canada as a result of NAFTA? Assessing the overall economic impacts of any trade agreement, including NAFTA, is challenging because trade and investment are macroeconomic variables influenced by other variables such as economic growth, price levels, currency fluctuations, interest rates, productivity, and technological change. No wonder then, that empirical accounts of the NAFTA

1 The NAFTA region's GDP and per capita GDP are higher than those of the EU. For example, in 2015, NAFTA GDP was more than 20.5 billions US$ and GDP per capita was about 45,000 PPP (Purchasing Power Parity dollars). For the EU those indicators were less than 16.5 billions US$ and about 38,000 PPP, respectively (IMF, 2017) . EU's population (about 507 millions) is slightly higher than that of NAFTA, about 484 millions.

experience are mixed and somewhat contradictory, particularly with regards to efficiency gains, change in productivity levels, job creation, and job losses.

Looking at the academic literature on the economic impacts of NAFTA, it is surprising that there is relatively little focus on Canada. Studying the combined impact of the CUSFTA and NAFTA between 1989 and 1996, Trefler (2004) estimates short-run adjustment costs of 100,000 lost jobs which correspond to about 5% of manufacturing employment in Canada. In industries that faced larger tariff cuts employment declined by up to 15%. At the same time, new jobs were created elsewhere in manufacturing so that in the long run there were no net job losses as a result of CUSFTA/NAFTA. The study of Trefler is best known for its findings of large positive effects on the productivity of Canadian firms. A compound growth rate of 2.1% per year is estimated for industries most affected by tariff cuts and 0.7% per year for manufacturing overall. As a result of this productivity growth, real earnings of workers are reported to have increased by a modest 0.3% per year.

However, a more recent and most comprehensive study on the economic effects of NAFTA on all three member countries estimates overall economic welfare losses for Canada of 0.07% (Caliendo and Parro 2015)[2]. This contradicts both trade theory and Trefler's (2004) widely cited results. Decomposing those welfare effects into terms of trade (the exchange ratio measuring the relation between a nation's export prices to prices paid for its imports) and volume of trade effects, Caliendo and Parro find that the welfare gains from trade creation with NAFTA members are 0.08% and welfare losses from trade diversion with other countries are 0.04% for Canada, bringing a net gain of 0.04 percent from volume of trade effects. On the other hand, the terms of trade for Canada deteriorated by 0.11%, mostly due to reduction in its NAFTA export prices, leading to an overall welfare loss of 0.07%. Given that terms of trade also deteriorated for Mexico, one can conclude that part of the reported small aggregate welfare gains for the U.S. are not really efficiency gains but rather income gains at the expense of Canada and Mexico. The study also finds that NAFTA led to an increase in real wages for all three countries, the gain being 0.32% for Canada.

2 The study actually reports welfare losses of 0.06% for Canada but it is obvious from Table 2 that the authors made a calculation mistake. The right number is 0.07, which is the summation of -0.11 (worsening terms of trade) and 0.04 (gains from increased trade volumes). A nation's terms of trade is expressed as the ratio of the export price index to the import price index.

Further studies on the effects of NAFTA are necessary. It is somewhat disappointing that 23 years into its implementation we still cannot state with certainty the precise extent to which NAFTA benefited or harmed its members and if it met economic expectations. Reported efficiency results in these and other studies for all three countries seem to be small, much smaller than what would be expected given the frequently cited increase in trade volumes.

Additionally, the academic literature says little about the distributional impacts of NAFTA in the Canadian labour market. There is compelling evidence that the aggregate effects of NAFTA on local labour markets in the U.S. are small but quite severe (in the form of large absolute decline in real wages or substantially lowered wage growth) across many economic sectors, directly and indirectly affected by NAFTA (Hakobyan and McLaren 2016). The authors report that there are directly affected communities in many states including Georgia, Indiana, North Carolina, South Carolina, Michigan, Pennsylvania, and others. Not surprisingly, those are usually the states which oppose NAFTA and trade liberalization in general.

It would be interesting to have empirical evidence showing the extent to which distributional impacts are similar or different in Canadian labour markets at the local level. Looking at various news and media commentaries, one can expect similar results. Judging by the statement of the Canadian Labour Congress sent to Foreign Affairs Minister Chrystia Freeland in January, 2017, NAFTA has been a failure for working Canadians. The later states that "far from generating good jobs and prosperity, NAFTA has undermined secure, well-paid employment and devastated manufacturing and processing industries and the communities that depend on them,"

At a Metro Morning program of the Canadian Broadcasting Corporation (CBC) in November 2016, the President of Canada's largest private sector union, Unifor's Jerry Dias pointed out that "NAFTA has been a disaster for Canada." He reports the loss of 50,000 direct auto jobs, the most recent closing of two assembly plants in Canada while opening of eight in Mexico, and the loss of a half a million manufacturing jobs (McGillivray 2016) According to a Toronto Sun article, General Motors' cutting of 625 jobs at its assembly plant near London, Ontario, in January, 2017 was viewed by union officials as a move that demonstrated "why NAFTA has been a bad deal for the Canadian automotive industry as jobs have migrated to lower-cost jurisdictions such as Mexico."

The article points that, according to Mr. Dias, the move "is a shining example of everything wrong with NAFTA." Suggesting that it must be re-negotiated, he also points that it is imperative that trade rules help ensure good jobs in Canada.

In general, Canada's benefits from NAFTA come mostly in the form of safeguards (Carbaugh 2016, 290). That is, maintaining its status in international trade, Canada keeps free trade preferences in the U.S. and Mexican markets and is a part of any process that would eventually broaden market access to Central and South America. Although benefits from trade with Mexico have not realized as hoped, Canada achieved some economies of large scale production which permit for more competitive price policies. As an U.S. Congressional Research Service report observes, from a Canadian perspective, the most important outcome of freer trade within CUSFTA and NAFTA may have been what did not happen. Canada did not become an economic appendage of the U.S. It remained competitive in manufacturing and did not lose control over its water or energy resources. Further, it did not jettison its social programs. All of these feared outcomes were suggested in the Canadian NAFTA debate.

To conclude this section, it is difficult to make the argument that NAFTA is of utmost and critical importance to Canada; there is no solid evidence to suggest that. At best, NAFTA's aggregate impacts seem to be modest. Most often cited benefits of the agreement are the increase in trade and investment volumes - more than a threefold increase in merchandise trade between the three partners since 1993; growth rate of Canadian exports to the U.S. of 4.6 percent per annum; a dramatic increase of Candaian stock of investment in Mexico and so on, as cited by Global Affairs Canada. But those impressive statistics can only suggest correlation and certainly not causation. The literature does not support the expectations from such statistics that significant economic growth, efficiency gains, or other big economic benefits have been obtained from NAFTA. Similar trade relations and outcomes might have been achieved in the absence of NAFTA and under the General Agreement on Tariffs and Trade's (GATT) or WTO's multilateral trading system.

UNDERSTANDING THE TRUMP ADMINISTRATION'S APPROACH TO NAFTA

In the turbulent weeks since Inauguration Day, the new administration made clear that it will pursue openly nationalist and protectionist trade policies.

Starting with the immediate withdrawal from the TPP, President Trump repeatedly called for made in America and made by Americans products. He threatened American companies with taxes and tariffs if they were to invest abroad instead of in the U.S. Most importantly, he labeled NAFTA the worst agreement ever made by the U.S., one that has resulted in continuously increasing U.S. trade deficit with its NAFTA partners, particularly with Mexico and one that devastated U.S. manufacturing.

At first glance and as usually portrayed in the media, President Trump appears to be the typical protectionist; that is, someone who believes that trade is a zero sum game and is therefore deeply concerned with achieving trade surplus or eliminating trade deficits, protecting domestic industries and jobs, or bringing back those already lost to foreign competition. This is, however, a superficial and incomplete description of his vision of trade. A better understanding of that vision can be obtained from a bestselling book published in 2000 as well as from his less publicized statements at interviews, speeches, and other venues. Trump (2000, 145-146) states that “We need tougher negotiations, not protectionist walls around America. We need to ensure that foreign markets in Japan and France and Germany and Saudi Arabia are as open to our products as our country is to theirs… We need to renegotiate fair trade agreements.” Continuing further, he asserts: “What I would do if elected president would be to appoint myself U.S. trade representative; my lawyers have checked and the president has this authority. I would take personal charge of negotiations with the Japanese, the French, the Germans, and the Saudis. Our trading partners would have to sit across the table from Donald Trump and I guarantee you the rip-off of the United States would end.”

The key in all is his belief and seemingly genuine concern that trade, as presently implemented, is unfair to Americans and unfree; that the U.S. is open to trade but its major competitors are not quite, that trade laws and agreements are ill defined or unenforced, and that, as a result, other countries gain at the expense of the U.S.

In other words, the typical protectionist concerns are really the by-products of his major concern which is that the setting for the game of trade in the current global order is unfair and that the established rules of the game are not enforced. It is, therefore, not a coincidence that, the new 2017 Trade Agenda of the United States, announced in early March by the United States Trade Representative (USTR), "reinforces the Administration's commitment to defend American interests through the promotion of truly free and fair trade." It outlines four trade priorities: promoting U.S. sovereignty, enforcing U.S. trade laws, leveraging American economic strength to expand exports, and protecting U.S. intellectual property rights (USTR 2017a). While the officials chosen to lead this agenda are known as prominent advocates of protectionism, they deeply share the key aspect of the president's view on fairness and reciprocity in trade. Key Trump trade officials include the economist Peter Navarro as Director of the newly established White House National Trade Council, billionaire investor Wilbur Ross as Secretary of the Department of Commerce, and trade attorney and former deputy USTR (under President Ronald Reagan) Robert Lighthizer as the U.S. Trade Representative. None of these officials is against trade or advocates raising barriers in order to protect industries negatively affected by NAFTA or trade in general. In statements given on different occasions, all three point to inadequate and unfair governance of global trade as a major concern and the necessity to establish better rules. To give just one example, according to a National Public Radio (NPR) interview, Mr. Navarro insists that gains from trade "are undermined when other countries unfairly subsidize exports, manipulate currency, steal intellectual property, or require American firms to transfer technology as a cost of doing business." Seeing unfair trade practices and bad trade deals as the "biggest piece of the action', Navarro suggests that new trade deals preventing such practices are necessary. He also points to the political character of trade noting that "A lot of these trade deals that we enter into are done not to create jobs here in America, not to boost our income, but to forge alliances and to address things other than the economy."

Given the concern for fairness in trade, it is not surprising that the new administration does not fundamentally oppose trade or trade agreements but rather stresses the importance of new or renewed agreements so long as they are negotiated on a bilateral and reciprocal basis. In its embrace of a different way of conducting and governing trade the new administration demonstrates its concerns about the distributional impacts of trade rather than trade's overall economic gains to society – a major departure from the conventional view which emphasizes overall gains. A global economic system based on dysfunctional multilateralism is viewed as one that harmed American workers and has led to unnecessary losses in economic activity. Bilateralism, supposedly, will allow for a level playing field and for a greater leverage in sharing the gains from trade. It is, therefore, fair to say that the new administration is not protectionist in the traditional sense of the word.

What does this shift in U.S. trade policy mean in the context of NAFTA? The new administration may seek to transform NAFTA by following mostly one-on-one, industry-by-industry or product-by-product negotiations with Mexico and Canada. The issues with Mexico are, certainly, more complex and beyond the scope of this brief. In the case of Canada, it means that the new administration will look carefully into the U.S.'s trade relations with Canada and will identify and address any existing Canadian barriers to trade with the U.S., tariff or non-tariff. While trade in goods and services with Canada is mostly free, there are sectors such as soft lumber, dairy, telecom, and transportations which are viewed as problematic by the U.S. It is likely that the U.S. administration will try to target these sectors. Also, as stated in a letter from Ambassador Lighthizer to congressional leaders, renegotiation talks are likely to focus on modernizing NAFTA in areas such as intellectual property rights, digital trade, regulatory practices, services, state-owned enterprises, customs procedures, sanitary and phyto-sanitary measures, small and medium businesses, and labour and environmental protection (USTR 2017b).

In short, the Trump administration will seek to establish openness to trade conditional to an equal degree of openness on behalf of its trading partners. Establishing and even defining equality in openness is of course a challenging matter but one that can, perhaps, be achieved by well-defined and enforceable trade provisions, rules, and regulations. Within this general approach to trade, NAFTA's existing provisions may undergo deep scrutiny and, some, may subsequently be redefined. NTBs such as subsidies, food and health measures and the like will most likely be given special attention and be subject to harsher regulations.

IMPLICATIONS FOR CANADIAN TRADE POLICY

As mentioned above, on May 18,2017 Ambassador Lighthizer formally notified Congress about the administration's intent to renegotiate NAFTA. This means that Canada has less than 90 days to prepare for the earliest possible start of renegotiations.

The above discussion leads to the following suggested course of action for Canada:

First, it is important to better establish the degree to which NAFTA, in its current form, is important for Canada. Within this context, it is important to better understand the good and harm (as claimed by labour unions) that NAFTA has done to Canada. This will assist in providing evidence to better inform policy but also support the process of renegotiation. This requires a fresh, comprehensive study/report on the welfare, distributional, and other economic impacts of the agreement on Canada. In the case of the U.S., most recent studies point to significant losses that some industries and states incurred as a result of NAFTA (Caliendo and Parro, 2014; Hakobyan and McLaren 2016)[3]. It is precisely the pains from these losses that the President and his administration have capitalized on during and after elections. It is likely that the administration will seek to restrict imports or otherwise protect these industries and states. Canada should be prepared to point to its own losses or weaker industries and present its own demands in return for the demands of the administration. Proper studies and measurements of distributional and other effects of NAFTA on Canada are imperative in order to know what to bargain for on the renegotiation table.

Second, Canada should take this seemingly unfortunate development as an opportunity to look at NAFTA with modern eyes, re-evaluate its provisions and assess the ways in which NAFTA can be improved and made more beneficial for Canada. It's a fairly outdated agreement which needs to be changed to address the economic, political, and business life of today. Therefore, it is important to know what Canada wants to keep of NAFTA and what it wants from a renewed agreement. The letter of Ambassador Lighthizer to Congress seems more rational and reasonable than many have expected. It is written in the context of modernization, and a search for new and better opportunities. It speaks of setting a better regulatory framework for governing trade between the three members. It is, therefore, essential that Canada remains open to suggested plans and proposals of the U.S. administration but also have a list of priorities of its own. For example, it is well known that labour and environmental aspects were only included as side agreements of NAFTA and thus

3 See also the analysis of Dani Rodrik at an interview with editor-at-large John Judis of Talking Points Memo and Rodrik's comments and discussions elsewhere; see also commentaries and publications by Dean Baker of the Center for Economic and Policy Research.

difficult to enforce. Both issues are contentious and matter today more than 23 years ago. Addressing the two issues could be made a priority.

Third, given the many uncertainties and frequent changes in the new administration's priorities and agenda, it is best to remain calm and avoid getting caught in the political and trade rhetoric of the Trump administration. Johnson (2017) suggested that Canada might be side-swiped "if the Trump administration chooses to take trade action against other U.S. trading partners... This would be in addition to the likelihood that the fresh countervailing duty (CVD) actions by the US lumber industry will feed into the narrative." Indeed, there was a period of increased tensions after the imposition of the highly expected CVDs on Canadian soft lumber in late April. Prime Minister Trudeau immediately signalled retaliation by announcing his consideration of banning exports of U.S. thermal coal via British Columbia (BC) ports and raising duties on exports from Oregon in return. Retaliation is a risky strategy and unnecessary in the short term and particularly not for the reason of CVDs on soft lumber. They were expected and nothing new and they can be dealt with in a different way (by imposing export quotas, for example), without negatively affecting Canadian workers and businesses at BC ports.[4] The administration's attitudes can be perceived as irritating and bullish so it's very easy to overreact. It is best to remain passive but prepared to stand ground until the administration makes clear its intents at the negotiating table.

Fourth, in the more general sense, Canada should be careful with the policy of retaliation. Given North American economic integration and supply chains, it is true that all three NAFTA members need each other and retaliation can be considered a potentially effective way of punishing an opponent or reversing an unfavourable trade decision. But this is not a game theoretic environment with all partners being equal. In the context of international trade, the U.S. is a large country which can retaliate against its smaller trading partners without being too affected. As a small country, Canada should avoid retaliation and look for a different type of leverage in the short and long terms. Such leverage can include convincing American law makers and officials against the raise of tariffs on Canadian exports or reaching an agreement that will satisfy the

4 Export quotas imposed on Canadian soft lumber can provide significant windfall profits for Canadian and some to American producers, all at the expense of the American consumer. While inefficient, export quotas seem to be, in this case, a better way for Canadians to deal with the issue, particularly if they can share the windfall profits with every stakeholder in the industry.

interests of both countries without the need to retaliate. If chosen as policy, it is best to ensure that the benefits of retaliation exceed its costs at home. Those costs may be devastating for a small country which is still dependent on U.S. for majority of its exports.

The following are some specific policy options that can be given priority and used to better leverage trade and investment for Canadians on the negotiating table.

- Given the level of current integration, it is best that the agreement is made on a trilateral basis. Canada should team up with Mexico and make every effort to keep it as such.
- As mentioned above, it is likely that the administration will seek access to Canadian markets which are currently protected, such as dairy and poultry. If protecting these industries is critical for Canada, it must convince the U.S. to leave them exempt from NAFTA provisions. On the other hand, access to these markets can be granted in return for the U.S.'s removing of barriers from some of its own sectors.
- It is important to include labour and environmental standards in the actual NAFTA agreement. Labour and environmental agency representatives should be consulted in drafting the desired policy framework.
- Remaining open to U.S. demands for change in NAFTA provisions is important but if they are unreasonable or unacceptable to Canada, refusing to reach an agreement should not be viewed as a disaster. The worse case scenario is to return to bilateral negotiations most probably with provisions similar to those under CUSFTA or to withdraw from NAFTA and thus establish relations under the WTO's framework.

CONCLUSION

Adjusting to President Trump and his administration has brought a range of uncertainties and challenges which in some cases affect deeply not only the U.S. but other countries, particularly its neighbours. In the case of NAFTA, there are many reasons to remain optimistic. The plans and agenda of the USTR do not present any troubling signs with regards to NAFTA and renegotiation is an opportunity to modernize and improve the agreement. It is also an opportunity to better study and understand its impacts. All three countries are also WTO members. In the case of terminating NAFTA they are bound by the WTO's multilateral trading system which is viewed, in many ways, as superior to trade under preferential agreements.

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Chapter 4
SCIENCE AND INNOVATION POLICY FOR CANADA'S NEXT 150 YEARS

By Peter WB Phillips, Graeme Jobe, Adity Das Gupta, Sarah Juma, Paul Trujillo Jacome, Samuel Kanyoro Karba, Achint Rastogi and Michael Horvath

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INTRODUCTION

The Trudeau era science and innovation policy is emerging in fits and starts. The government got elected in late 2015 with a mandate that advocated a stronger and more dynamic science and innovation agenda (Phillips & Castle 2016), but delivery has been complicated. While quite a few pronouncements were made in the 2016 budget, delivery was spotty and slow. This current budget is in some ways trapped by its circumstances: measures from last year are still rolling out; prognostications from the new US Administration raised the possibility of substantial changes in the US tax code and US trade agreements; and the study on fundamental science (aka the Naylor Report) was still pending when the Minister of Finance stood up in the House. These three pressures made an aggressive science and innovation policy more important, but also made it more complicated to actually construct a set of measures that would stand the test of time.

In many ways, the 2017 budget muddled through, both advancing the importance of innovation, without fully defining its scale and scope, and introducing a range of reforms of various policy and program spaces in preparation for greater funding in future years. The fundamental question is whether the measures promoted will remain relevant and supported, and most importantly for the Trudeau government, whether they may deliver any real and measurable impacts before the next election, expected in late 2019.

CANADA'S INNOVATION ECONOMY AT 150

A stocktaking of Canada's capacity and performance at its 150th anniversary offers both some bragging opportunities and reasons for despair (see Doern, Castle and Phillips 2016 for a review of the past 50 years). As it reaches this milestone, Canada is ranked as 10th in the 2016 United Nations Human Development Index of 188 countries (some more popular rankings by think tanks and new organizations place us between 1st and 15th in their rankings), with annual per capita incomes in excess of C$60,000, which puts us about 20th in the global income league in purchasing power terms. In many ways, Canada's current prosperity is a product of many world-first innovations and adaptions, including insulin, standard time, rust resistant wheat, the process to make wood pulp, the Robertson screw and canola, to name but a few.

While we can and should congratulate ourselves on our accomplishments, it has long been a practice of scholars and think tanks in Canada to see the glass as half empty, with many opportunities either not fully realized or simply ignored. The contemporary evidence shows that there is more that Canada could aspire to. Using the internationally recognized benchmark of Gross Expenditure on R&D as a percent of GDP (GERD), as of 2014 Canada had slipped back to about 1.6%, down from over 2% in the early 2000s. This puts Canada's effort well below the average OECD effort.

Table 1: Key S&T performance indicators, Canada, US and OECD

	Canada 2014	US 2015	OECD 2015
Gross expenditure on R&D US$ billion current prices and PPP	$26	$503	$245
$ per capita at current prices and PPP	$724	$1,563	$975
% GDP	1.61	2.79	2.4
% GDP, average 2010-14	1.74	2.74	2.34
% financed by Industry	45	64	61
% financed by government	35	24	27
% performed by Industry	50	72	69
% performed by higher education	40	13	18
% performed by government	9	11	11
FTE researchers, 000, 2014	159 (2013)	1,352	4,651
FTE researchers per thousand total employment	8.8 (2013)	9.1	8.1

In spite of uplifting stories of Canadian business success, as a whole industry has a comparatively poor innovation track record compared with other advanced countries, and in particular compared to the United States. Canadian government and non-business enterprises fund about 55% of total R&D in Canada while business funds almost two-thirds of R&D in the US and other OECD nations. The most dramatic difference is in who performs R&D. In

Canada, about 40% of the R&D is undertaken in higher education institutions, which is more than twice the amount in the OECD, three times the amount in the US and the highest among OECD countries, except a few of the recently admitted Eastern European countries. The federal Science, Technology and Innovation Council (STIC, 2015) and others have asserted this heavy reliance on universities to conduct research. This explains why Canada is among the top producers of peer-reviewed published work—Canadian researchers, ranked ninth out of the 34 OECD countries for the number of top-cited publications—yet lags on the number of triadic patents and commercialization of research.

For those that only read government of Canada policy documents, the rather bleak picture painted above may be a bit jarring. This government is more prone to the glass half-full approach, preferring to accentuate the positive. The data cited in the 2017 federal budget would appear to place Canada in the lead in innovation circles. The government cherry picked the best performing clusters and ignored the downward trends in actual investments in R&D. For instance, the budget notes that Canada is listed as first in OECD with the most highly-educated workforce, first for overall business cost competitiveness, second in the G7 for openness to trade and investment, top five for access to training to start a business, third in the Global Entrepreneurship Index and sixth for highly cited scholarly research. The problem is that none of this can compensate for low government expenditure on research and development (GERD) (largely attributed to weak business expenditure on R&D) and weak productivity growth. The latest OECD numbers show Canada's multi-factor productivity rose an anemic 0.5% per annum between 1985 and 2015. This contrasts with average increase of 0.7%, 0.9% and 1.1% per annum in the same period in Australia, the US and Germany, respectively. While the differences may seem minor, accumulated over that period Canada advanced our productivity only about 16% in aggregate, while Australia, the US and Germany advanced their productivity 21%, 31% and 36% receptively. Clearly, Canada is in need of recasting its efforts.

PRE-BUDGET CONSULTATIONS AND ADVICE

Every government, especially a new one, gets lots of free advice on what to do when and how to do it. This government was bombarded by all camps (e.g. Nicholson 2016; STIC 2015), but science and innovation policy was a clear target of three motivated commentators. Two expert groups in particular were expected to receive particular consideration from Liberal Finance Minister Bill Morneau. The first was, the Advisory Council on Economic Growth (the Council), formed following the late-2015 Canadian Federal Election and chaired by McKinsey and Co. Managing Director Dominic Barton. The second was Canada 2020, founded by Tom Pitfield, the spouse of Liberal Party President Anna Gainey, and with reputed close ties to the Liberal Party. In a report published slightly before Morneau's delivery of the 2017 budget speech on 22 March, the Council laid out five key recommendations. Similarly, a 180-page paper from Canada 2020 published in early February 2017 detailed ten 'Big Ideas' to firmly establish Canada as a global leader in innovation. Near budget date, the Institute for Fiscal Studies and Democracy (IFSD), led by Kevin Page, former Parliamentary Budget Officer, also waded into the discussion about the budget's priorities for science and innovation.

The Council report focused on the broad themes of increasing productivity, driving inclusive growth and helping to create conditions for entrepreneurial companies to scale up and become global champions. The Council recommended five innovation-specific actions to the government, all deeply interrelated and suggestive of a comprehensive Canada-wide innovation strategy. Specifically, the report proposed: catalyzing the formation of business-led 'innovation marketplaces' in sectors and technologies where Canada has momentum and where market participants need new solutions; creating additional pools of growth capital to ensure promising companies have sufficient capital to scale-up (The Council identified a $600-850 million funding gap in venture capital funding for Canadian companies in and between the early and growth stages of company development); modifying government procurement policy to enable government and other public sector players to become important first customers to test and validate Canadian innovations; reviewing and rationalizing government innovation programs, while scaling up those that have proven impact; and expediting entry for top talent through immigration to reduce the talent shortfall for high-growth companies.

The Canada 2020 Report meanwhile focused on ten 'Big Ideas' that all in one way or another addressed various aspects of the innovation agenda. These ideas include: creating a Parliamentary Coherence Office to coordinate and direct innovation policy; providing open, shared, stewarded and transparent data; fostering labour markets able to adapt to changing technologies and markets; developing new firm and infrastructure financing mechanisms; undertaking financial regulatory reform; establishing a set of Canada 150 Goals and Canada 150 Prizes; promoting a Canada-wide transformation of numeracy skills; building a Network of Cluster Research Centres; reforming immigration to focus on tradable sectors; and developing sector specific innovation accords.

Perhaps the most fundamental and insightful of all the commentaries was the brief report on skills and innovation spending produced before the budget by the IFSD (2017). The report accepted that a focus on innovation and skill development is a proper response to the weak multifactor productivity and ageing demographics that now plague the economy. However, the report noted that large investments are already being made that are not especially well organized, focused or managed. The Institute estimated that the government spent approximately $22.6 billion on innovation and skills development and training across 147 activities (programs and tax expenditures) in 2016/17. Over 60% of the money ($14.2 billion) was spent on 57 programs and tax expenditures for skills development and training activities, including $1.7 billion on the Canada Student Loans Program and $2.1 billion on various federal-provincial labour market agreements that exclusively target skills. It also identified $8.3 billion allocated for innovation, through 82 programs and 8 tax expenditures. The most damning critique was that none of the 21 tax expenditures had any publicly available performance metrics and only a small number of the 126 program activities had strong metrics. One might infer that without some sense of why the existing investments either work or fail to work, it would be foolish to spend money on hope rather than evidence of impact.

While it is difficult to assign influence, one might conclude that The Council seemed to be closest to the mark, as all five of their core recommendations found their way in some way into the 2017 Budget. Meanwhile, none of Canada 2020's ten 'Big Ideas' appeared explicitly or substantively, though traces of their influence could still be detected. The challenge from the IFSD and Kevin Page appears consistent with the creation in the budget of Innovation Canada with a mandate to undertake further reviews of program activity and impact.

THE BUDGET PLAN AS ANNOUNCED

The 2017 Canadian Budget, entitled "Building a Strong Middle Class," was promoted beforehand as a bold statement outlining the trajectory of Canadian industry in a fast-changing global economy. As with most budgets, there are too many moving parts to do justice to all of the plans and changes. Instead of interrogating each item specifically mentioned in the budget speech, it is possible to get a sense of the scale, scope and direction of change by investigating the speech at three levels. First, we explore the overall rhetoric to discern how the 2017 budget cast science and innovation policy. Second we examine the aggregate effects of all the fiscal changes to determine the overall scope, direction and magnitude of the changes. Finally, we review the major budget initiatives (both new and recast) to explore the nuances of the strategic direction of government in this field.

Examining the rhetorical casting of the budget is revealing. Before the budget was announced, the government was hailing Canada 150 as an event to celebrate innovation and the budget as a fundamental shift in priorities in the federal sphere, and by extension a nudge to others – industry, the provinces and other actors to shift their focus towards more aggressive pursuit of innovation, albeit in ways that might deliver more inclusive results. The first surprise was that while innovation is woven throughout the budget, the key theme of the budget was bolstering the middle class through inclusive policies. A more fundamental concern is that while the budget is unquestionably cast in the verbiage of innovation, using the term more than 240 times, it offers little sense of what innovation is, what drives it and how it can contribute to economic growth and social welfare, and ultimately to bolstering the middle class. The budget says:

> [i]nnovation is, simply put, the understanding that better is always possible. It is the key that unlocks possibilities and opportunities. From urban centres to rural farms, from researchers looking to secure new patents to entrepreneurs working to bring their products to market, innovation is what allows Canadians to adapt to change and prepare for the future.
>
> Innovation helps to create new jobs in growing industries and transforms jobs in existing ones. That means new and exciting job prospects for Canadian workers— good, well-paying jobs today, and even better opportunities for our children (Budget 2017, p. 17).

This vague and rather utopian view of innovation is devoid of any appreciation for the different strands of theory and practice that underlie innovation policies and systems in other countries. The definition seems to focus narrowly on patented products. Over 80 years ago, Schumpeter (1934) offered a much more robust definition of innovation, including: introducing a new good or a new quality of an existing good; a new method of production; the opening of a new market; the introduction of a new supply of inputs to a production system; or a new organizational structure. Moreover, he got to the heart of the innovation challenge, asserting that innovation is simply "the setting up of a new production function and 'technical change' is a shorthand expression for any kind of shift in the production function" (Schumpeter 1939).

In absence of anchoring innovation in a clear definition and causal theory, the rhetoric is thin and artificial (see Phillips 2007). To give a sense of the disconnect, a simple word count of the budget papers shows that 'innovation' is used 241 times, 'change' 201 times and 'technology' 126 times with skills (183) and the middle class (130) presented as counterpoised realities. The actual process by which innovation generates outcomes is almost unexplored. Clusters, mostly in the context of 'superclusters' are cited 16 times, but technological change and productivity, the ultimate pathways to better prosperity and more jobs, are only mentioned twice each. This gives pause to think that whatever actions are pursued in the budget may have limited impact on the ultimate goals (see Phillips et al 2012 for an exposition of cluster and innovation policy).

Second, looking at the aggregate numbers one can see significant annual variance between the last Harper budget and the current budget. Overall, total program spending jumped about 11% in the first year of this current government, but then settled back in the most recent budget.

Just more than half of the outlays are appropriated for the portfolio of programs and special agencies managed by the Ministry of Innovation, Science and Economic Development. Looking across the portfolio, appropriations for the Ministry and its programs have more than doubled, at least partly to fund the new superclusters and increased funding for venture funding through the Business Development Bank of Canada, for an artificial intelligence strategy, a new procurement plan and for various other new funding programs. Allocations for the Tri-Councils, the Canada Foundation for Innovation and National Research Council Canada are up, but less than the rate of inflation in research and the other agencies have taken modest cuts. A range of other science based departments and agencies, including Agriculture and Agri-Food Canada, National Resources Canada, Fisheries and Oceans Canada and Health Canada, spend the bulk of the rest of the appropriations. The major tax expenditures for the Scientific Research and Experimental Development Investment Tax Credit, both the refundable and non-refundable portions, have risen at about the rate of inflation, in aggregate totalling an estimated $2.9 billion in 2018. Overall, the directed program-spending, while up since the last Harper year, is down in 2017/18 from the previous year, suggesting that while there a range of significant, new plans they will take time to mature and start spending at full capacity.

Table 2: Federal program and tax expenditures on S&T, by major department and agency

C$ millions	2015/16	2016/17	2017/18	% change 2015/16 to 2017/18
All federal program spending	10,363	11,439	11,297	9.0%
ISED Portfolio				
Department	366	558	855	133.6%
CFI	341	336	367	7.6%
CIHR	1,026	1,084	1,087	5.9%
Canadian Space Agency	389	383	333	-14.4%
NRC	981	1,094	1,002	2.1%
NSERC	1,115	1,196	1,207	8.3%
SSHRC	720	778	775	7.6%
Statistics Canada	640	864	583	-8.9%
Portfolio sub-total	*5578*	*6293*	*6209*	*11.3%*
Other science based departments and agencies				
Agriculture and Agri-Food	496	492	447	-9.9%
Environment & Climate Change	621	658	652	5.0%
Fisheries and Oceans	235	300	299	27.2%
Global Affairs	456	486	453	-0.7%
Health Canada	373	381	386	3.5%
Natural Resources Canada	494	528	505	2.2%
Atomic Energy of Canada Ltd	389	406	418	7.5%
National Defence	261	277	294	12.6%
Other departments and agencies	1,460	1,618	1,634	11.9%
Subtotal	*4,785*	*5,146*	*5,088*	*6.3%*

Scientific Research and Experimental Development Investment Tax Credit				
Non-refundable portion for CIT	1,385	1,445	1,500	8.3%
Refundable Portion	1,305	1,350	1,405	7.7%
Total Tax Credits	*2,690*	*2,795*	*2,905*	*8.0%*

http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=3580163

Taking the rhetorical excesses and the declining appropriations in 2017/18 together might lead one to suspect that the government was trying to undertake a bait and switch, accentuating innovation without actually doing much new or more to realize the goal, but this budget actually introduces five new and potentially influential programs and activities. Interestingly the major initiatives directly map onto the advice from the Council, perhaps one of the first times one might see such direct influence of an advisory body on a budget.

First, in order to "catalyze the formation of business-led 'innovation marketplaces'" the budget proposes to support the creation of 'superclusters' to support privately-led strategic sectors through a publically-coordinated effort to interconnect government, industry, and academia. Initially discussed in the 2016 budget and economic statements, these superclusters are initially targeted on six key innovation areas—advanced manufacturing, agri-food, clean technology, digital industries, health/bio-sciences and clean resources—closely mirroring where the Council recommended the development of innovation marketplaces. While the ultimate size, structure and focus of these superclusters was left to be unveiled later, the budget allocated $950 million for supercluster development over five years, with a modest first allocation in 2017/18.

Second, to help fill the gap identified by the Council in available venture capital funding for Canadian companies, the Budget announced a $400 million infusion to the Business Development Bank of Canada, starting in 2017/18. Directed toward late-stage venture capital investment where the largest funding gap is supposed to exist, the Venture Capital Catalyst Initiative is hoped to leverage another $1.1 billion private capital toward Canadian innovation.

Third, in response to both the Council and the Jenkins Report (2014) the budget proposes to make federal procurement more strategic through the formation of Innovative Solutions Canada, modelled on the highly successful US Small Business Innovation Research Program. Each federal agency will commit a fraction of its funding toward testing and validating Canadian innovations. The program is also designed to be scalable so as to include a broader group of public agencies if early activities prove successful. The budget allocated $50 million in 2017/18 to get the initiative started.

Fourth, the budget responds to the advice it got from the Council, Canada 2020 and the IFSD with its proposal to start the process of reviewing, simplifying, rationalizing and coordinating Canada's existing suite of innovation programs through Innovation Canada, a new platform entity. As a first step in this process, ISED is tasked with coordinating the reassignment of up to $1.26 billion of existing programme funding over the next 5 years to support a new Strategic Innovation Fund, which will use targeted funds to accelerate firm or sectoral growth and exports.

Fifth, the budget announced a Global Skills Strategy focusing immigration policy to help attract foreign talent in order to further the growth of "high potential" small and medium sized enterprises. This strategy includes: $7.8 million to remove barriers to short-term work arrangements and make permanent residence programs more responsive to needs of the Canadian labour market; $279.8 million over five years to continue the Temporary Foreign Worker and the International Mobility Programs; and $27.5 million over five years to support a Targeted Employment Strategy for Newcomers. Domestically, the budget announced that the government would appropriate $225 million over four years "to establish a new organization to support skills development and measurement in Canada," though the name and details of this organization were unclear.

Overall, the budget offered more of what Lindbloom (1959) called 'muddling through' than large-scale root change. Innovation is on the agenda, but in a muddled, soft, non-threatening way. While there are a number of what look to be large scale and potentially aggressive policy and program ventures—superclusters, vencap funding, strategic procurement, strategic investment and a global skills strategy—they are all accommodated within the broad program and institutional base of the existing budget framework. Money is moved around, but no new money is forthcoming. As these initiatives mature, there is promise of greater allocations but it is far from clear from the budget statement whether those would be accommodated within the current S&T funding envelope or would involve new infusions. While better targeting is always welcomed, the evidence is clear that we absolutely need more investment in

R&D—no countries with GERD at our level outperform Canada and almost all the countries with higher GERD have stronger performances.

PROSPECTS FOR DELIVERY

Budgets come and go. The real test for a government is whether the proposed policies and programs move the dial on targeted priorities and this agenda will tax the government to deliver. The first test has come with the superclusters program. Even before the application process was unveiled, insiders reported that more than 40 unsolicited proposals were received in Ottawa. It has become clearer that candidate superclusters will need to be led by anchor firms or better yet regionally located sectors that will need to contribute significant funds to leverage federal dollars. Some suggest the ante could be as high as $200 million in industry funding over five years and that would then leverage matching amounts from the federal program. University and industry resources, while welcomed, may not be eligible for matching, unlike in most of the merit-based leveraging programs in CFI and the tri-agencies. As the program evolves, it may reveal a practical inconsistency—to assemble the $200 million grubstake to compete, most sectors will need to do a United Way campaign, which will lead to significant technological, geographic and market dispersion. Hence, we may be faced with funding ventures that are either super or clusters, but not both. Clusters rely on proximity but assembling the required capital may require drawing ever larger boundaries that ultimately undercut the implied benefits of investing in geographically concentrated industrial systems.

Other program initiatives will be equally challenged, given that the government will soon cross the midway point in its mandate and start to look to measureable returns for its efforts. Strategic procurement has been a long-standing recommendation, but it will soon confront the reality that major materiel purchases (e.g. replacement military jets and frigates) and key infrastructure investments have long-standing supply chains and practices that could complicate change. Vencap programs sound good, but the returns seldom match the ambitions of the investors; the money can probably be disbursed in the immediate period, but the returns will take quite a while to materialize. One-stop access for government programs for business development is a 20-year project of governments in Canada (Atkinson et al 2012); pairing this with the

$1.26 billion Strategic Investment Program could create some sense of urgency and importance, but the relatively large scale of the resulting investments may not be scaled appropriately to SME acceleration. Finally, given the complicated engagement between provinces, industries, the higher education sector and the federal system, shifting the skills system will be important, but slow.

CONCLUSIONS

While the original idea was for Canada's 150th anniversary celebration and the 2017 budget to be framed at least partly around innovation, the game plan changed significantly. The challenge for innovation policy is that any action often incurs significant up-front costs and delivers largely uncertain and indefinite benefits delayed by years, if not decades. For this reason, it is hard for governments to sustain their enthusiasm and dedication to the file. In the past year, the federal government has fallen victim to this challenge and has responded by avoiding fundamental change. In many cases, it has simply refocused effort from accelerating scientific advancement towards realizing or accelerating economic growth in the current government mandate. While that may be good politics, it has the undesirable effect of delaying or forestalling action that could change Canada's lagging innovation performance and productivity growth.

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Chapter 5
PREDICTABLY UNPREDICTABLE: THE PROBLEM WITH EQUALIZATION FROM A PROVINCIAL BUDGETING PERSPECTIVE

By Erich Hartmann

INTRODUCTION

The Equalization program plays an important role in the fiscal arrangements that underpin Canada's federal system. For some provinces, it is a significant source of revenue - representing, for example, over 20 per cent of Prince Edward Island's total revenues. It is also instrumental in giving effect to comparability in government programs across the country. The redistribution of funds it engenders helps to ensure that all Canadians have access to quality provincial programs regardless of where they live. The principle that Canadians should have access to public services of comparable quality no matter where they live is an important one, so much so that it has been enshrined in Section 36(2) of the Canadian Constitution. Equalization takes the form of a transfer from the federal government to eligible provinces. The funds are transferred unconditionally - that is, receiving provinces can spend the funds to address their own priorities in whatever manner they see fit.

The program is, and will continue to be, beset by challenges. From a provincial budgeting perspective, the unpredictable nature of Equalization revenues is the most problematic as it complicates budgetary planning in affected provinces. Unpredictability in the transfer, whose main purpose is to enable the delivery of comparable services across provinces, is at best unnecessary, and at worst potentially harmful. Provincial governments are the sole clients of Equalization. The program can and should work better for them.

The issue of unpredictability in Equalization payments is not a new one. However, during the autumn of 2008, in the lead-up to the release of Equalization entitlements for the 2009-10 fiscal year, the federal government found itself confronted with challenges that would begin to undermine the affordability of the Equalization program. Those challenges, and the ad hoc measures introduced to address them, have created their own suite of issues with respect to predictability of Equalization payments.

The most obvious of the challenges the federal government faced in late 2008 were the economic and concomitant fiscal developments that were beginning to unfold. Two other factors, however, would also affect Equalization specifically at that time. For the first time in the program's history, Ontario was to receive Equalization payments in the 2009-10 fiscal year, putting fiscal pressure on the program. Secondly, rapidly increasing natural resource prices strained the role of the program as an agent of interregional redistribution in Canada.

Ontario's qualification for Equalization presented the federal government with two main problems. First and foremost was cost. In simple terms, Ontario is very expensive to equalize because entitlements are measured as the variance of a province's fiscal capacity – that is its ability to raise revenues if it were to tax at national average tax rates - from the national average in per capita terms. Ontario's large population means it requires a lot of money to equalize, even if the province falls only slightly below the Equalization standard. In addition to the cost it represented, the qualification of Ontario for Equalization payments was doubly problematic for the federal government as the province has traditionally been the source of a large and disproportionate share of its revenues. As the fiscal well dried up in Ontario, it strained the federal government's ability to finance many of its commitments including the recently enacted enhancements to Equalization.

At the same time that Ontario's economy was in relative decline, the economic prominence of Canada's "resource-rich provinces" (Alberta, British Columbia, Saskatchewan and Newfoundland & Labrador) was growing. The growth in the economies of the resource-rich provinces over that period was attributable largely to the sustained increase in commodity prices, especially oil. The rapid increase in commodity prices had a direct impact on the Equalization program in that it led to significant increases in fiscal capacity in the resource-rich provinces. Between 2003-04 and 2008-09, the combined fiscal capacity of the resource-rich provinces grew by 59.4 per cent, significantly faster than 17.7 per cent growth experienced in the rest of Canada over that period. Perhaps most striking were Newfoundland & Labrador and Saskatchewan, which experienced growth in per capita resource-based fiscal capacity of 982 per cent and 268 per cent respectively over that period.

As this growth in resource wealth was limited to only a few provinces, the greater concentration of fiscal capacity in those provinces led to greater variances between all provinces writ large. Greater variance between provinces generally creates the need for more Equalization. The issue with variances related to resource capacity, however, is that the federal government does not have direct access to the royalty revenues that give rise to these variances. As such, it is on the hook for the increased Equalization costs that rises in commodity prices create, without having direct access to the revenue tool that would help finance those increased costs.

In response to these challenges, the federal government introduced changes to the Equalization program that would take effect for the upcoming 2009-10 fiscal year. The most fundamental change was to cap the total size of the program to a “fixed envelope”, designed to contain the costs of the program in light of challenges posed by rising commodity prices and Ontario’s qualification for payments. Starting in 2009-10, year-over-year growth in the program would instead be limited to a three-year moving average of GDP growth. Constraining the program to a fixed envelope has the effect of divorcing the Equalization standard from the determination of the total size of the program.

The GDP ceiling has produced significant cost savings for the federal government. Since 2009-10, the federal government has saved a cumulative $26.5 billion from the application of a fixed envelope, compared to what the uncapped program would have generated in its place.

In addition to containing the cost of the program, the GDP ceiling also gives the federal government more-or-less perfect certainty regarding the size of the Equalization program from year to year. However, the fixed envelope also creates a zero-sum game between receiving provinces. As a result, the two factors that caused the federal government to make the 2008 changes to Equalization in the first place - Ontario’s qualification for payments and natural resource prices - continue to create volatility and unpredictability in the program. However, the volatility and unpredictability in the program is experienced not by the federal government, but by the receiving provinces.

Ontario's status as an Equalization recipient has been destabilizing, especially in the context of a fixed envelope. Small shifts in Ontario's fiscal capacity create big ripples for all receiving provinces, because of the zero-sum-game nature of the current program. For its first four years as a recipient, Ontario's growing entitlement had the effect of crowding out the entitlements of the rest of the receiving provinces. In fact, Ontario was the only province to have a larger entitlement in 2012-13 than in 2009-10. After Ontario's entitlement had hit its peak of $3.3 billion in 2012-13, all provinces experienced large year-over-year swings in entitlements. The greatest swings in this period, however, were experienced by Ontario, with year-over-year declines approaching 40 per cent on two separate occasions. The variability and unpredictability of individual provinces' entitlements contrasts starkly to the federal governments' experience of stable and predictable growth in this period.

The volatility and unpredictability in the allocation of Equalization payments is further complicated by the reliability of the data inputs. The formula currently employs a two-year lag, and a three-year smoothing mechanism to improve the predictability of payments. For example, 2017-18 Equalization entitlements would rely on provincial fiscal capacity data for 2015-16, 2014-15 and 2013-14, weighted at 50 per cent, 25 per cent, and 25 per cent respectively. The use of lagged and smoothed data has decreased the volatility and improved the predictability of payments compared to the unlagged, multi-estimate system that preceded it. However, the current approach to the use of data inputs still results in a considerable amount of volatility and unpredictability, stemming from two main factors.

The first is the data re-estimation process. The calculation of provincial fiscal capacity is done using a three-year rolling average of data. For each of the three times the data for a fiscal year enters the formula, it is revised for increased accuracy. These revisions can result in large and unpredictable swings in the calculation of fiscal capacity making individual province's Equalization entitlements very difficult to forecast. From first estimate to final estimate, non-resource fiscal capacity data can vary by 3 or 4 per cent. The accumulation of the variances can lead to substantial and unpredictable swings in provincial entitlements, especially in a fixed envelope framework where increases in one province's entitlement necessarily come at the cost of those of other provinces. Natural resource revenues are susceptible to much larger re-estimations. Variances of 5 per cent to 20 per cent from first estimate to final estimate are common, and much larger variances are not unheard of (Hartmann 2017, 22). The unpredictable nature of these variances contributes significantly to the difficulty in forecasting Equalization entitlements for individual provinces.

The second and related factor contributing to the volatility and unpredictability of payments for individual provinces is the delayed availability of new data inputs for the calculation of entitlements. Equalization entitlements for a fiscal year are typically released in mid- to late-December in the previous year. For example, the 2017-18 entitlements were communicated to provinces mid-December 2016. The first time provinces would see data for the 2015-16 input year - contained in the Fiscal Arrangements Certificates produced by Statistics Canada - is the week prior to the release of entitlements. The lack of reliable data prior to the release of these certificates is a significant contributor to the difficulty in forecasting individual province's Equalization entitlements. Furthermore, data for the t-minus 2 fiscal year (2015-16 for the 2017-18 entitlement year) is weighted at 50 per cent, resulting in the least predictable data receiving the highest weight.

This unpredictability makes provincial budgetary planning more difficult. Most, if not all provinces would be in the middle of their budget process in mid-December. Unpredictable year-over-year variance in Equalization payments can put a province in a difficult fiscal position that adds uncertainty to fiscal planning, especially for provinces that rely heavily on Equalization as a percentage of revenue. While any budget process is subject to unpredictability on a number of fronts, unpredictability in the transfer whose main purpose is to enable the delivery of comparable services is at best unnecessary. At worst, this unpredictability can harmfully lead to inefficient spending, revenue and borrowing decisions on the part of the provinces.

Looking forward, unpredictability in Equalization could persist or worsen if trends in Ontario's relative fiscal capacity continue. According to the latest available data, Ontario's fiscal capacity is very close to the national average. Indeed, for the 2015-16 fiscal year - the most recent data-input year used for the lagged calculation of 2017-18 fiscal capacity - Ontario's fiscal capacity was 99.9 per cent of the average. The Conference Board of Canada projects this upward trend to continue, raising Ontario's lagged and weighted fiscal capacity above the national average for the calculation of 2018-19 Equalization entitlements (Fields 2016). This could lead to Ontario exiting the Equalization program as early as 2019-20. The province's potential exit from receiving status may prove as disruptive as its unforeseen qualification for Equalization nearly a decade ago.

While Equalization is notoriously difficult to forecast, it is entirely possible that after 2019-20, Ontario's fiscal capacity will continue to hover near the national average. This could give rise to a situation where Ontario seesaws between recipient and non-recipient status from year to year. The issues of both cost and uncertainty that this would cause would mirror the experience of 2008 when Ontario first received Equalization payments.

The implication for Ontario would be that, despite the presence of the two-year data lagging system, it would not know if it was in or out of the program from year to year until it had already happened. This degree of uncertainty would be obviously problematic for Ontario from a fiscal planning perspective. Depending on how the federal government chooses to deal with this issue, the "Ontario in-and-out" phenomenon could be problematic for it, and the other receiving provinces as well.

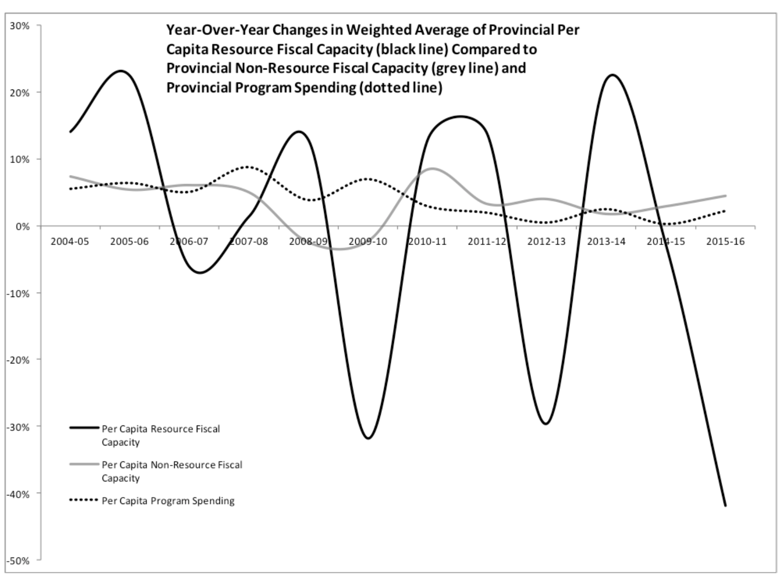
Maintaining the current fixed-envelope approach would continue to provide the federal government with cost-certainty. Total Equalization payments would be predictable for the federal government. However, a situation in which Ontario unpredictably drops in and out of recipient status would once again lead to crowding out other provinces' entitlements, but in an unpredictable fashion from year to year. To militate against the crowding out effect, the federal government could choose to provide provinces with protection payments to ensure provinces did not experience year-over-year declines in entitlements as it has in the past. A protection payments system, however, would add both cost and uncertainty for the federal government.

Returning to a system that attaches the size of the program to variance in fiscal capacity between provinces – such as the ten-province standard – may be less expensive over the long term than allowing the fixed envelope to continue. In fact, by as soon as 2018-19 the costs of the fixed envelope system may exceed that of a program whose size is determined by the ten-province standard (Fields 2016). Letting that go into the future may be expensive and lead to over-equalization. Returning to a ten-province standard may be best for the federal government and the receiving provinces, especially if reforms to the program are made to increase predictability for both provinces and the federal government.

The first step in this process would be to extend the data lagging mechanism from two to three years for non-resource revenues. A three-year lag would significantly enhance the program's predictability for both the federal government and the provinces. For the federal government, it would lengthen the horizon for fiscal planning to mitigate the effect of returning to open-ended program. For the provinces, the current problem of delayed availability of data inputs for the calculation of entitlements would be resolved. This would create too far greater certainty around provincial entitlements, leading to improved fiscal planning.

Addressing the volatility of natural resource revenues will be a key element in increasing the predictability of Equalization payments. Natural resource revenues are volatile, which can contribute significantly to unpredictability in Equalization payments. Compared to non-resource fiscal capacity, resource revenues are subject to much larger year-over-over swings on average (see figure). Resource revenues are also subject to greater variances from estimate to estimate as discussed above.

Figure 1



Resource revenues are certain to be a continued source of volatility for Equalization payments. Part of the solution would be to introduce further smoothing to natural resource revenues data in the calculation of fiscal capacity. Smoothing mechanisms such as moving averages over a number of years help even out fluctuations in payments, reduce variability in year-over-year entitlements and provide greater predictability and stability because entitlements are adjusted gradually with changes in economic circumstances and new data (Canada 2006, 119). Currently, both resource and non-resource revenues are subject to the same three-year smoothing mechanism. Further smoothing of resource revenues, however, would allow weighting of data at a substantially lower ratio. Currently, the 50 per cent weight allotted to the first year of input data allows temporary fluctuations in resource revenues, either positive or negative, to create volatile and unpredictable increases or decreases in Equalization payments. Equal weighting over three years, rather than the front-end loaded weighting in the current system would reduce volatility. However, an extended smoothing mechanism, for example one that spanned over five years, would allow for a 20 per cent weighting across all five years, and would enable for reductions in volatility not possible with a three-year mechanism. In an open-ended system, the reduction in volatility would be particularly appealing for the federal government in the event of a sudden commodity price spike. Conversely, in the event of a sudden and precipitous drop in commodity prices, receiving provinces would be afforded more protection from sharp year-over-year declines in payments. In both instances, the reduction in volatility would provide more predictability for budgeting.

The second part solution to address the unpredictability of resource revenues would be to further extend the lagging of resource revenue data. As discussed above, the data re-estimation system used for the calculation of fiscal capacity can lead to considerable variances from estimate to estimate. For non-resource revenues, most of the variance from the final data is sorted out by the second estimate. The same is not the case for resource revenues. Large variances from the second to final estimate, while less frequent, are still possible (Hartmann 2017, 22). Lagging resource revenue data for an additional year, thereby using final estimates of resource revenues, would eliminate unpredictable estimate-to-estimate variances.

Taken together, the adoption of a three-year lag for non-resource revenues, and a four-year lag, five-year smoothing for resources revenues would protect both the federal government and receiving provinces from the unpredictability that can come with an open-ended program. The resulting framework would afford both orders of government near-perfect predictability of Equalization entitlements which will be especially important to all parties concerned should the federal government return to a formula driven system for deriving size of the program at the start of the next five-year renewal cycle.

The increased emphasis on predictability that would be brought on by an extended data-lagging framework would entail a reduction in the responsiveness of the Equalization program. While the issue of responsiveness cannot be completely dismissed, it is worth pointing out that the purpose of Equalization is to ensure provinces can offer reasonably comparable levels of service at reasonably comparable levels of taxation. Program spending in provinces tends to be far less variable year-over-year than provincial fiscal capacity, which suggests that there is scope for foregoing some responsiveness in Equalization (see Figure 1). Equalization is not meant to equalize fiscal disparities in revenue-raising capacity for their own sake. It equalizes revenue disparities because those disparities lead to divergences in service levels between provinces.

To better address the issue of responsiveness to economic conditions, other policy tools should be examined. It is important to distinguish between the short-term stabilization and the long-term redistribution functions of federal fiscal systems (von Hagen 1992, 342). A sudden and non-structural drop in provincial revenue, brought on by an economic recession for example, does not necessarily mean that a province needs Equalization. Equalization need not have a role in stabilizing provincial revenues as that is not the purpose of the program.

However, Canada's framework of fiscal federalism does not stabilize provincial revenues particularly effectively. In fact, "there has been a virtual abandonment of meaningful fiscal stabilization arrangements within the current fiscal arrangements agreements," (Selinger and Neumann 2005, 262). The Fiscal Stabilization program, the federal program intended to provide provinces with revenue stabilization in the event of economic shocks is far from a reliable countercyclical tool. The simple evidence of this is that between 1994 and when

Alberta qualified for a payment in 2016, no province received payments under this program, an era that notably included a very deep recession in 2008. The federal government should revisit this program to ensure that the fiscal risks associated with idiosyncratic economic shocks are more fairly and effectively shared across the federation. Equalization should be left to play its role of long-term redistribution to enable the comparability of provincial programs.

CONCLUSION

The overall system of fiscal arrangements therefore should be reformed to better balance predictability and responsiveness. The primary role of the Equalization program is, and should continue to be, to ensure that provinces have the capacity to provide reasonably comparable services. That role is degraded if unpredictable swings in Equalization payments undermine the provincial budgeting processes that underwrite the provision of those services. Reforms to the program should complement provincial budgeting processes with improved predictability in mind. If following the 2018-19 renewal of the program, Equalization returns to a formula-driven determination of the envelope, the federal government will have a much greater incentive to introduce measures that would increase the predictability of payments for both itself and for the provinces.

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Chapter 6
THE POLITICS OF INTERGOVERNMENTAL TRANSFERS IN CANADA

By Andrew Seto and Christopher Stoney

INTRODUCTION

The Canadian Federal Government provides annual grants to the provinces to support the delivery of public services, and to bridge fiscal imbalances between both levels of government. The most prominent interprovincial grant programs of interest in this policy brief are the Canada Health Transfer, and the Equalization Program that are set to reach $55.4 billion in the 2017-18 fiscal year (Department of Finance 2017). This brief examines the potential for political factors to influence the allocation of these Federal transfer programs. By political factors, we refer specifically to federal spending and allocative decision-making that has the potential to be influenced primarily by partisan interests, and advantage as opposed to other criteria (equity, need, effectiveness, value for money, etc.) synonymous with 'good' public policy, and the public interest. While obvious empirical challenges mean we are unable to identify specific funding that is politically motivated in pursuit of furthering partisan interests, we attempt to illustrate the discretionary scope and potential for political advantage to influence who gets what, when and how and refer to this as 'politicization' for ease of use. To this end, we focus on examining what program traits of the Canada Health Transfer (CHT), and the Equalization Program create opportunities for federal and provincial governments to engage in politicization, when this may have occurred recently, and a possible policy approach the Government can consider for mitigating this.

While politics inevitably and legitimately drives public financing decisions (Lasswell 1936), we argue that the practice of politicizing fiscal transfers for partisan aims warrants special attention. Within Canadian politics, there has traditionally been broad, cross-partisan consensus that Equalization and the

CHT serve distinct purposes as nation-building instruments meant to promote a pan-Canadian identity. Even the harshest critics of Equalization acknowledge its fundamental role as a nation building exercise through the pursuit of interprovincial equity, while defenders characterize it as "the glue that holds the federation together" (Marchildon 2005, 20). Negotiating Equalization formulae and payments with provinces is clearly part of the political process, but its real and symbolic importance to a still young nation enabled it to transcend conventional partisan considerations. Its elevated status as the backbone of Canada made Equalization a Constitutionally-prescribed responsibility of the federal government, constrained by mechanisms designed to promote impartiality such as empirically driven calculations, and fixed renewal dates.

The CHT serves a similar nation-building function in funding Medicare, which is commonly understood by Canadians as both a source of pride and national identity, being guided by fundamental principles of universality, national consistency in quality of service, and being provided on a basis of need (Mendelsohn 2003). Consequently, whereas spending areas like infrastructure or defence procurement could be expected to be relatively politicized due to the large degree of discretion involved, Equalization payments and the CHT program were designed to limit politicization, and trigger greater scrutiny when partisanship appears to be the driving influence and motivation.

INTERGOVERNMENTAL TRANSFERS

The Canada Health Transfer (CHT) is an annual "block grant" issued to provinces by the federal government to support health services, and is regulated under the Canada Health Act (CHA), which allows the federal government to make dollar-for-dollar deductions to a province's CHT if it is found to be either charging user fees or extra-billing patients, and provides latitude for discretionary penalties for failing to uphold the CHA's five national principles for health care delivery (Madore 2005).[1]

1 The five principles of the Canadian Health Act include: 1) The public administration of health care by provinces on a not-for-profit basis; 2) provinces must ensure "comprehensiveness" and be certain that all procedures are medically necessary; 3) that there be universality insofar as all citizens have access to health care insurance and access to uniform terms; 4) That there be portability, or that provinces cover the health care of citizens while absent from their home province; and lastly 5) that citizens have access to uniform levels of services, "free of financial or other barriers." Refer to the Library of Parliament paper (Madore 2005) for more analysis and information.

Equalization serves a quasi-redistributive purpose in ensuring comparable level of services across all provinces, by providing grants to provinces that fall below an average revenue capacity threshold (Department of Finance 2015). Grants are calculated by assessing multiple tax bases using standardized tax rates to determine a province's fiscal capacity. Provinces falling below a revenue-raising threshold, defined by the average of all 10 provinces' fiscal capacities, receive the difference in Equalization. Methodologies for Equalization and CHT are typically re-evaluated quinquennially and after a pre-determinate number of years, respectively, by the federal government to adapt to contemporary macroeconomic trends and avoid policy drift, but also partly as a measure to safeguard against politicization and ensure predictability (Joanis 2014; Cesar 2013). However, despite standardized renewals and sophisticated empirical calculations, politicization is still possible due to key program features of intergovernmental transfers.

WHAT OPPORTUNITIES EXIST FOR POLITICIZING TRANSFER PROGRAMS?

Specific elements of the CHT and Equalization carry the most significant risks for politicization. Of interest is the degree of executive control over transfer programs and poor public understanding of these programs and of the decisions made by politicians. The extensive federal government control over the administration of transfers provides the main lever and flexibility for pursuing political advantage. In the case of Equalization, quinquennial timelines for program renewals can be highly variable and subject to ad hoc political decisions (Feehan 2014). This degree of executive discretion limits the effectiveness of renewal dates and the empirical formula applied to reduce the risk of politicization. While we might expect provinces contest the extent of federal control, Beland and Lecours (2013) argue that provinces were only willing to support an Equalization arrangement at the outset that *ensured* federal discretion or 'wiggle room' for unilateral 'side-deals'. With respect to Equalization, executive discretion appears to exist as a result of mutual agreement between both levels of government, presumably to ensure flexibility for individual deals to be brokered. The same rationale is also likely to apply to block grants. Consequently, executive discretion over transfer programs and the freedom to negotiate with individual provinces increases the potential for transfers to be subject to political pressure and influence.

The federal government's discretion also extends to penalizing provinces for infringing on the CHA with CHT deductions. Madore (2005) notes that "At one extreme, Cabinet could decide to withhold all CHT cash transfers, and … at the other extreme, the federal government could decide not to impose any financial penalty and to confine its action to persuasion and negotiation." While withholding CHT grants to such an extreme has never been contemplated, executive discretion has still led to CHT deductions being used to pursue political ends more covertly, which further undermines the credibility of penalties as a valid and impartial enforcement mechanism for the CHA.

Finally all transfer programs are susceptible to political "spin," due to their complex nature that makes programs poorly understood by the public.[2] The difficulty for the public to navigate the technocratic jargon of transfer programs has long been a defining feature of these programs, especially for Equalization. As recently as 2006, Equalization used 33 different tax bases to calculate fiscal capacity, along with various exceptions, entitlement caps, provisions for side-deals, and ad hoc changes in entitlements due to lags in available data (Feehan 2014).[3] Despite rationalizing Equalization to five tax bases in 2007, many scholars have remarked on the limited success of demystifying Equalization since the original complexities of the program were retained and new ones were added (Feehan 2014). Block grants are also not immune to criticism of being too complex. As Maslove (2005) points out, confusion and ambiguity persist over each level of government's role in administering health care through the CHT that is typical of a *de facto* joint policy area like health. Consequently, the complexity of intergovernmental transfer programs along with widespread ignorance also enables governments to potentially misinform and obfuscate the facts about these programs for their own political ends (Beland and Lecours 2010).

It is important to note that despite opportunities for politicization it is by no means guaranteed that politicians and parties will take advantage of them, especially since convention and norms matter; and doing so risks provoking intergovernmental discord and provincial criticism. Nevertheless, established

2 The Expert Panel on Equalization's Report (the O'brien Report, 2006, p. 7) was particularly caught off guard by the lack of public knowledge on equalization, remarking that, "the Panel was struck by how little is known about the Equalization program and how few people across the country are interested in it, even though it involves billions of taxpayers' dollars."

3 Added complications to equalization include caps on equalization entitlements, and different conditions for assessing resource revenues for fiscal capacity. See Joanis (2014) for further information.

intergovernmental norms have not prevented either level of government from exploiting political opportunities at times that executive discretion and program complexity have facilitated to grave consequences. In addition to the potential for politicization to produce equity drift in Equalization, and deflect the CHT from its nation-building objectives, creeping politicization has obvious implications for accountability as an already complex process becomes increasingly "messy." Politicization of the process inevitably increases the potential for obfuscation, blame avoidance and strategic posturing.

PARTISANSHIP, OBFUSCATION AND STRATEGIC POSTURING

Evaluating intergovernmental transfers within the context of partisan self-interest highlights the growing prominence of electoral politics and increasing federal discretion over Equalization. Arguably the most prominent example was the Atlantic Accord when then-Prime Minister Paul Martin agreed to provide grants offsetting clawbacks on Nova Scotia and Newfoundland and Labrador's Equalization grants from offshore oil revenues, (Metz 2006). The Atlantic Accord was widely seen as a profoundly partisan move for not only its suspicious timing weeks before the federal election, but also for supposedly catering to several key ridings in the Maritimes for the Liberals and for using executive discretion to circumvent established norms for renewing Equalization (Metz 2006).[4] As further indication of this, Metz (2006) points out that Saskatchewan did not receive the same deal for its own oil reserves during that election due to the lone Liberal seat in the province at that time.[5] This tendency to apparently administer transfers in a partisan-influenced manner was also captured by Joanis (2014), who found a strong statistical significance between seat share of a sitting federal party in a province and larger transfer amounts.

Provincially, premiers have also appeared willing to use transfers with the clear aim of pressuring the federal government to use its discretion over trans-

4 The Atlantic Accord has been widely seen as a partisan move by scholars. Garth Stevenson (2006, pg 11) viewed the Atlantic Accord an "ill-advised" and "politically-motivated agreement." As for the Atlantic Accord's break from established norms with equalization renewals, Hjartarson et. al (2010, pg 13) singled out the bilateral deal-making behind the affair as "muddy[ing] the waters" of fiscal federalism. Courchene (2010) echoed similar sentiments in chastising then-Prime Minister Paul Martin for making the deal and other "arbitrary changes" to equalization, which departed from traditional means of administering the program.

5 Rasmussen corroborated the belief that equalization and transfer deals had partisan underpinnings when observing in the 2008 election that "if it's the Liberals, they don't have any support here and if it's Conservatives, they have all the support here, so … we're not a battleground province like other ones that need a little more care and feeding." (Wood, 2008).

fers to their advantage and advance their own ambitions. Danny Williams initially mobilized his base against the Liberal government by advocating "fairer" treatment for Newfoundland and Labrador under Equalization through grand public gestures such as removing the Canadian flag from provincial buildings – which allowed his approval ratings to soar from 39 to 86% (Metz 2006) Later, in response to broken Conservative election campaign promises on the Atlantic Accord, he coordinated the "Anybody but Conservative" media campaign against the Federal Conservative Party in Newfoundland and Labrador. Then-Ontario premier Dalton McGuinty used similar rhetoric over the unfairness of transfer programs for Ontario, in one federal election staking his party endorsement on this issue, which was perceived by journalists at the time as an attempt to emulate Williams' success.[6] These instances demonstrate the apparent readiness of both premiers and the federal government to use transfers for strategic political ends and to pursue partisan aims within an electoral context, as well as the extent of executive discretion over transfer programs.

As discussed earlier, another mainstay of transfer politics is the frequent use of obfuscation or blame avoidance, which exploits limited public understanding of transfer programs as the basis for often inaccurate but effective political rhetoric. For Equalization, this typically involves rhetoric from policymakers premised on federal decisions being "unfair" to their province. One way of achieving this is to misrepresent Equalization as a province-to-province transfer to elicit negative comparisons by the public with welfare programs (Beland and Lecours 2016). For example, Premier McGuinty complained that Ottawa should "let [Ontario] hang on to a bit of our own money" and Williams commented when Ontario was eligible for Equalization that Newfoundland was ready to "help our weaker sisters in their time of need" (Denley 2005; The Star 2008). Like their federal counterparts, premiers have sought to use federal discretion and public ignorance to generate political support by exercising blame avoidance tactics and organizing robust media campaigns such as those

6 During the 2008 federal election, Premier McGuinty had asked all candidates "If Ontario qualifies for the Canadian Equalization Program, will you ensure that Ontario will receive no less that its full share of funding payable under the Equalization Program as it exists today?" See Macgregor 2005; Denley 2005; Beland and Lecours 2009, 20 for the above quote.

organized by Nova Scotia, Ontario and Saskatchewan pressuring the federal government to treat them "fairly" under Equalization.[7]

The CHT is also subject to both obfuscation and blame avoidance played out through competing political narratives. Notable cases of blame avoidance include during the 1990's when the federal government met provincial criticism over cuts to the CHT that healthcare was a provincial jurisdiction, not a federal one and again in 2004 when the Council of Federation outreach campaign argued that the federal government only supported 16% of healthcare expenditures (Maslove 2005; Health Canada 2004).[8] CHT renewals also provide fertile ground for blame avoidance, which typically unfolds with provinces denouncing the federal government for perceived cuts to the CHT and the federal government accusing provinces of fiscal irresponsibility. Misinformation and partial facts are also a common part of counter narratives such as, for example, the provincial preference to frame any changes to CHT escalators as nominal changes instead of annual growth rate changes[9] (Chronicle Herald, 2016).

Another recent phenomenon in the politics of transfer programs has been the use of CHT deductions as framing devices for the federal government's health agenda.[10] Characteristic of this approach is the selective enforcement of the CHA's dollar-for-dollar deductions, considering the extensive user fee regimes

7 In addition to Danny William's "Anyone But Conservative Campaign," the Hamm Government from 2000-4 in Nova Scotia ran the "Campaign for Fairness" that included articles on equalization and a signature campaign to pressure the federal government at the time to open up the Atlantic Accords. In 2008, Premier McGuinty launched "fairness.ca" with similarly provocative content and in Saskatchewan premier Lorne Calvert launched the "Raise the Flag for Fairness campaign" to protest the Atlantic Canada offshore oil deals. See CBC News 2005; Metz 2006; Beland, and Lecours 2009.

8 The actual value of federal support was argued as being closer to 30% by Health Canada in a 2004 report issued to address the CoF's claim, "Federal Support for Health Care: The Facts - Fact Sheet - First Ministers' Meeting on Health

9 The federal government and provinces trading barbs over CHT transfer renegotiations have been seen in the last two negotiations for renewals of the Health Accord. For example, during the 2011 CHT renewal, which saw the 6% escalator eliminated after 2017, provinces denounced the measures as "an attack on public healthcare" and starkly "un-Canadian"; meanwhile then-Finance Minister Jim Flaherty shifted blame back to the provinces in saying that "we can't pretend to spend money we don't have" (Payton 2011; Whittington 2011; Shaw, and Spalding 2011). Moreover, the most recent CHT negotiations saw almost identical rhetoric to that of the 2011 renewal, with one minister arguing that the new 3% annual CHT increase deal put "the status of health care in Canada…in jeopardy." Liberal Health Minister Jane Philpott responded with similar platitudes in saying that the government was not prepared to "simply open up the federal wallet" to provinces (Raj 2016; Macleod 2016).

10 Provincial politicians have often been quick to denounce changes to the growth rate of CHT grants as nominal cuts. Quebec health minister Gaetan Barrette labelled the 2016 CHT proposal a "$60 million cut" and Ontario Finance minister Dwight Duncan also called the 2011 CHT renewal a "serious cut" (Chronicle Herald 2016; Whittington, and Benzie 2011).

in provinces like Quebec, Saskatchewan and Ontario that go unpunished and CHT deductions constituting a tiny fraction of health transfers since 2002 (Meili 2016).[11] Considering the discretion available to the federal government over CHT penalties and the variable level of enforcement of the CHA by various federal governments, it is plausible to see this as part of a broader strategy to frame the political agenda with respect to Canadian federalism. For example, the current Liberal government is transparent about their proactive health care agenda and the CHT's part in supporting it. As Health Minister Jane Philpott outlined, "I believe an engaged federal government has a role to facilitate the changes that can move Canada from the middle of the pack to out in front." Furthermore, the CHT renegotiations were a "rare opportunity" to make changes to health care delivery (Picard 2016). Emanating from this was a more robust effort at enforcing the CHA, albeit stopping short of outright deductions and instead issuing highly publicized letters to Quebec and Saskatchewan outlining potential penalties for user fees for medical services, which shortly afterwards saw the abolition of user fees in Quebec (Shingler and Montpetit 2016;[12] Grant 2016).

The recent use of CHT deduction threats can be viewed as the Liberal government's attempt to assert its role in health delivery and as an example of strategic posturing in anticipation of ongoing Health Accord renegotiations from 2016. Its activist inclinations were made more apparent by its preference for conditional spending on palliative care (Fogarty 2016; Galloway and Grant 2016). This stood in stark contrast to the previous Conservative Government's limited uses of CHT deductions and overall reluctance in health care delivery,

11 Certain provinces have a thriving medical user fee industry, which has not been met with punitive CHT deductions. Provinces like Quebec's have maintained an extensive user fee industry, in Ontario dozens of reported cases of charged services in 2014 were reported alone, and Saskatchewan has retained pay-per-use MRI services since 2015. Moreover, transfer deductions have represented a negligible proportion of CHT cuts since 2002. A total of 0.00003% of CHT grants since 2002 have been subject to CHT deductions, or $10.3 million. This is calculated by taking a total of 10.3 million/ 374,904 million = 0.0000269 * 100 = 0.00275, or 0.003%, using Health Canada's latest CHA report, Statistics Canada data on the CHT from 2002 till 2007 and the Department of Finance's data on CHT from 2007 to 2015. Department of Finance data is in fiscal years, whereas statistics Canada data is in annualized data, which results in a slight discrepancy transitioning to Department of Finance data. Given the significant sizes of grant amounts, this is unlikely to dramatically alter the calculated amount. See (Derfel et. al 2016; Department of Finance 2016; Statistics Canada 2011; Health Canada 2015).

12 There are conflicting narratives about the impact of CHT deduction warnings on Quebec's decision to abolish user fees. Barrett claims that the Quebec government had contemplated removing fees as early May 2016, four months before Health Canada's letter threatening deductions in September, and accused the federal government of taking credit for the decision. However, the letter sent by Philpott indicates that she had discussed fees with Barrett in March, two months before the supposed commitment by Quebec on eliminating user fees, which would have also been a radical about-face for the Quebec government, which passed the controversial Bill 20 codifying the charging of user fees in the prior Fall. See Shingler and Montpetit (2016).

which dovetailed with the Conservative's decentralized vision for health care (Maslove 2012).[13] Thus, the use of CHT cuts can serve a deliberate political purpose – in this case to pursue the Liberals' broader policy agenda on health, enabled by the scope and degree of executive discretion over these programs.

THE WAY FORWARD?

Given the widespread impact of 'transfers politics,' we believe serious consideration should be given to reform the current status quo based on criteria that limits the scope for politicization and introduces greater accountability and clarity with respect to objectives, distribution and equity. To be effective, any mitigation strategy revisiting transfers needs to reduce the potential for the insidious politicization of block transfers and Equalization calculations.

One commonly proposed reform aimed at reducing politicization that the federal government could consider seriously is a nonpartisan commission consisting of experts with the goal of advising the federal government of how to proceed on transfers. The idea of a nonpartisan commission for distributing transfers is already in use for Equalization payments in federations like Australia, and to a lesser extent in South Africa and India. It would also not be unreasonable to allows matters related to CHT, such as grants and deductions, to fall under the purview of this institution like in Australia, where health transfers are distributed through its nonpartisan commission (Goertz 2016; Beland and Lecours 2012). Moreover, the body could also be mandated to increase public knowledge and awareness to ensure that the public is better informed about intergovernmental transfers and to prevent misinformation and misleading narratives from governments (2012).

The idea of a non-partisan body is the preferred option for being the most viable and for directly addressing politicization without fundamentally disrupting the status quo of fiscal federalism in Canada. By removing federal involvement in calculating transfers, a nonpartisan commission blunts politicization and partisanship by diminishing executive discretion while providing technical advice to the government, which makes it politically difficult to reject. Moreover, a non-partisan body would benefit both levels of government by reducing accusations of political interference in the same way an indepen-

13 See the most recent 2015-16 Canada Health Act Annual Report by Health Canada (2016) which outlines transfer cuts made by the Conservative government of $3.57 million to BC from 2006 – 15, and $0.38 million Newfoundland from 2010-14.

dent Bank of Canada has been used to depoliticized interest rate decisions. This option is clearly viable given that bodies providing technical advice already exist in Canada as seen in the Canadian Institute for Health Information (Beland and Lecours 2012; 2016).

Despite the benefits of this policy proposal, it is not without problems. Specifically, convincing governments at both levels to relinquish their influence over transfers that comes with executive discretion could be a major obstacle. A cross section of federal and regional/provincial representatives may help to assuage some of the concerns and help to gain support from both levels of government in a manner similar to the Canadian Pension Plan Board, which maintains federal-provincial composition of membership while managing assets significantly greater than Equalization and CHT combined (2016). Lastly, a non-partisan body might be unsuccessful if its neutrality is not perceived as credible by the provinces. To mitigate this, the federal government would need to show deference to this body's advice to legitimize its non-partisan nature, which could be difficult given the considerable political stakes involved. However, there may be reason to be optimistic, given the Liberal government being seemingly open to experimenting with de-politicizing processes that conferred obvious political advantages, such as the senate and its appointment processes, and the recent announcement of a federal infrastructure bank.

CONCLUSION

This Policy Brief has highlighted opportunities for politicization that are built into major intergovernmental fiscal transfer programs. It has illustrated how public officials can use transfers to pursue partisan advantage including selective redistribution of federal funds, obfuscation and blame avoidance. We argue that this can result in a misuse of public funds and sub-optimal policy outcomes for citizens, and propose the adoption of a non-partisan commission in charge of the CHT and Equalization for limiting these practices to better serve the public interest and enhance accountability. Finally, we argue that reversing the insidious politicization of public policy and spending is critical in this context, as it undermines the purpose of transfers as nation-building tools and promotes public cynicism. With Canada's 150th anniversary, and the next Equalization renewal rapidly approaching in 2019, comes a symbolic and timely opportunity to contemplate the role of the CHT and Equalization in strengthening the federation.

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Chapter 7
INVESTING IN INDIGENOUS YOUTH EMPLOYMENT IN CANADA: SETTING POLICY PRIORITIES STRAIGHT

Senada Delic

PROBLEM STATEMENT

Over the past few decades, the problem of Indigenous employment in Canada has captured the attention of many policy leaders and decision makers in both the private and public sector, and efforts have been made to deal with the problem at all levels of government. Recognizing the fact that Indigenous youth are becoming the fastest-growing demographic group in the country (Statistics Canada 2015), recent policy discussions have started revolving around finding avenues for their successful integration into the Canadian labour market (Indigenous and Northern Affairs Canada 2016; Canadian Polar Commission 2014; Government of Canada 2014a, 2008; Abele and Delic 2014; Bruce and Marlin 2012; Martin 2011; Hull 2009, 2008). Most recently, the federal government has announced its renewed commitment to invest in the future of Canadian youth, including Indigenous youth, through its Youth Employment Strategy (YES), a program originally designed in 1997 to eliminate barriers to youth employment and help youth obtain the skills and experience they need to transition into the workplace. As announced in Budget 2016, the Government of Canada has made a sizable increase in the amount of funds set aside for the YES, making it the largest investment since its introduction, with an additional pledge to make more investments in 2017-18 and 2018-19, targeted specifically towards supporting employment opportunities for vulnerable youth. It is expected that these investments will significantly improve employment prospects of Canadian youth (Government of Canada 2016).

For most Indigenous youth, however, this optimism is likely to be an overstatement, unless serious measures are taken simultaneously to rectify the overlooked, deeply-rooted historic problems and systemic challenges prevailing in their communities. These challenges may prevent them from competing on par with the rest of Canadian youth for opportunities created by such employment initiatives. This policy brief discusses the key employment challenges faced by Indigenous youth in Canada[1], that must be addressed for their successful integration into the Canadian economy.

BACKGROUND INFORMATION

Latest data from Statistics Canada indicate that the Indigenous identity population constitutes about 4.3% of the total Canadian population. In comparison to the non-Indigenous population, the Indigenous population is relatively younger in every province and territory and is growing at a faster pace. Based on 2011 enumeration, more than half of Inuit (54%) and more than half of First Nations living on-reserve (52%) were under the age of 25. Similarly, in 2011, the Métis population contained a significant proportion (41%) of individuals under the age of 25. For the general non-Indigenous population, this proportion was 30%. Indigenous youth, aged 15 to 24, accounted for 18.2% of the total Indigenous population, while the non-Indigenous youth represented 12.9% of the total non-Indigenous population (Statistics Canada 2013).

Significant population increases were recorded from 2006 to 2011 among all three Indigenous groups; the First Nations population increased by 23%, the Inuit population increased by 18%, and the Métis population increased by 16%. The non-Indigenous population increase for the same time period was 5.2% (Statistics Canada 2013).

The distribution of Indigenous population remained relatively unchanged; the largest numbers of Indigenous peoples still live in Ontario and in the western provinces (Manitoba, Saskatchewan, Alberta, and British Columbia) while Nunavut and Northwest Territories have the largest shares of Indigenous population. In terms of numbers, the First Nations population is concentrated in three provinces: Ontario (23.6%), British Columbia (18.2%), and Alberta (13.7%). However, First Nations people represent the largest shares of the total population in the Northwest Territories, Yukon, Manitoba, and Saskatchewan. The majority of Métis people (84.9%) live in either the western provinces or in

1 Indigenous youth here refers to the young individuals who reported identifying with at least one of the three distinct groups of Indigenous people in Canada (North American Indians, Métis, and Inuit) recognized by Canadian Constitution (the Constitution Act, 1982).

Ontario while the majority of Inuit (73.1%) live in the four Inuit regions, collectively called Inuit Nunangat (Statistics Canada 2013).

For several years now, this young and growing Indigenous population has been identified in various media and in policy discussions as a potential solution to fill in the growing gaps in the projected labour shortages in the Canadian labour market, especially in the northern Canadian labour market (Howard, Edge, and Watt 2012; Martin 2011; Sharpe, Arsenault, and Lapointe 2007; Anonson et al. 2008; Hull 2008). Concurrently, however, various employers and Indigenous community leaders were raising serious issues concerning widening imbalances between the skills that these labour markets demand and the skills that this 'potential workforce' was equipped with, in addition to the imbalances between where the jobs were made available and where these diverse groups of populations prefer to reside (MacKinnon 2015; Abele and Delic 2014; Bruce and Marlin 2012; Delic 2012). This has inspired the development of various targeted skills training programs.[2] These programs, however, are not likely to be as effective as they are for the non-Indigenous youth population because the issues here are rather complex, involving multiple factors, including education and other community aspects as well as the nature of the current labour market and employment programs related to the Indigenous youth.

STAKEHOLDERS INTERESTS IN THE PROBLEM

Successful participation of Indigenous youth in the Canadian labour market is of primary concern not only for the economic development in Indigenous communities but for the Canadian economy at large. Left unaddressed, the current youth employment issues can quickly transmute into the employment issues of young adults, and inevitably into the employment issues of prime aged individuals, thus playing into the cycle of disadvantages faced by Indigenous peoples. As pointed out in Budget 2016, Canada's long-term prosperity relies on the labour market participation of all Canadians; however, "as Canada's population ages, its prosperity will increasingly depend on young Canadians getting the education and training they need to prepare for the jobs of today and tomorrow. Now more than ever, it is important that post-secondary education remains affordable and accessible, and that young Canadians have access to

2 These programs are offered through large initiatives such as the Aboriginal Skills and Employment Training Strategy (ASETS) and the Youth Employment Strategy (YES), details of which are discussed here.

meaningful work at the beginning of their careers. The future of young Canadians—and indeed, the future of all Canadians—depends on it" (Government of Canada 2016, 65).

Indeed, existing estimates suggest that stakes are high and that addressing some of the key barriers such as the quality and the level of educational attainment among Indigenous youth requires immediate attention (National Aboriginal Economic Development Board 2015; Abele and Delic 2014; Hull 2009; Sharpe et al. 2007). The potential of Indigenous youth to contribute to the Canadian economy is not negligible. It has been estimated that "with an increase in educational attainment, this workforce could [have] contribute[d] up to $71 billion to the Canadian economy over the period 2001-2017. The results could [have] be[en] even greater if the [systemic and institutional] barriers holding back Aboriginals [were] simultaneously addressed" (Government of Canada 2010). Capturing this potential economic gain in the coming years would serve best interests of all Canadians.

EXISTING YOUTH EMPLOYMENT POLICY

Regardless of economic conditions, historically, Canadian youth aged 15 to 24 have consistently been at a higher risk of unemployment, compared to prime age workers aged 25 to 54. During the 1976-2013 time period, the youth unemployment rates have consistently been around twice as high as the unemployment rates of the prime age workers (Government of Canada 2014b). During the same time period, however, the Indigenous youth unemployment rates have consistently exceeded the unemployment rates of non-Indigenous youth. Also, during economic downturns, employment prospects of Indigenous workers tend to be disproportionately more impacted than the prospects of non-Indigenous workers (Government of Canada 2014b; Lamb 2015; Delic 2012; Delic and Abele 2010). According to the Centre for the Study of Living Standards, the unemployment rates of Indigenous youth rose 3.0 percentage points during the latest recession (Centre for Study of Living Standards 2012).

Indigenous youth, however, are not a uniform group as their labour market challenges differ in many regards, including their Indigenous identity, gender, and place of residence. For instance, the 2006 data show that in 2006 unemployment rates of First Nations youth living on-reserve and the unemployment rates of Inuit living in Inuit Nunangat were significantly higher than the unemployment rates of Métis youth and of other Indigenous youth living in urban areas, and particularly higher than the unemployment rates of the non-Indigenous youth (Statistics Canada 2010). There is also a greater variation in unemployment rates between the genders within the Indigenous youth categories, relative to the non-Indigenous youth category.[3] The 2011 data paint a similar picture, with the unemployment rate of First Nations youth living on-reserve coming close to 42% while the unemployment rate of non-Indigenous group was just over 16% (National Aboriginal Economic Development Board 2015, 50).[4]

In recognition of the unique challenges faced by unemployed Canadian youth, in 1997, the federal government started introducing its skills development agenda and programming, targeting improvements in employment opportunities for youth. In addition to delivering a range of employment programs designed specifically for youth, in 2007 the government also started providing funding to the provinces and territories, through its Labour Market Development Agreements (LMDAs), to assist them in delivering their own skills and employment initiatives, some of which may benefit youth (Government of Canada 2014b).[5]

The main youth employment program, the Youth Employment Strategy (YES), consists of three distinct components and is delivered by 11 federal departments and agencies. The first component, the Skills Link, offers funding to different organizations that provide activities such as training and mentorship that support youth employment. The second component, the Career Focus, offers funding to employers and organizations that deliver activities to help youth make more informed career decisions. The third component, the Summer Work Experience, offers funding to public sector employers and to small businesses as an incentive to hire youth through the Canada Summer Job Program (Government of Canada 2014b).

The First Nations and Inuit Youth Employment Strategy (FNIYES) targets individuals aged 15 to 30, and is organized into two key components. The first component, the First Nations and Inuit Summer Work Experience Program

3 Charts illustrating details of these discrepancies are available, upon request.

4 It is important to note here that the 2006 data are derived from the 2006 Census and the 2011 data are derived from the 2011 National Household Survey; due to major methodological differences, the two data sets are not directly comparable.

5 Each year, the federal government provides over $2 billion in funding to provinces and territories through its LMDAs.

(FNISWEP), is designed to assist initiatives that help First Nations and Inuit youth obtain skills and experience through summer jobs. The second component, the First Nations and Inuit Skills Link Program (FNISLP), is designed to support initiatives that help First Nations and Inuit youth obtain skills and experience and to prepare them for employment and career development. The FNIYES operates on an annual budget of $24 million and each year more than 600 First Nations and Inuit communities design and implement these initiatives (Indigenous and Northern Affairs Canada 2015).

The federal government also delivers specific programs that address the temporary, part-time and co-operative employment needs of Canadian postsecondary students (Government of Canada 2014b).[6] To assist Indigenous postsecondary students, in 2016 the federal government launched the Indigenous Youth Summer Employment Opportunity (IYSEO). This program was designed to attract young Indigenous Canadians into the federal public service as part of the priority to renew Canada's relationship with Indigenous peoples (Government of Canada 2017a).[7]

Indigenous youth can also access some of the employment-related assistance through the Aboriginal Skills and Employment Training Strategy (ASETS), which is offered by the federal government in partnership with Indigenous communities to all Indigenous people, including Métis, regardless of their status or place of residence. The unique value of this program is that, although the guidelines stress the development of the demand-driven skills, the Indigenous agreement holders are given the freedom to decide on the type of youth programs to deliver, based on the needs of the Indigenous youth they serve. It also allows for provision of child care support for the participating First Nations and Inuit parents (Government of Canada 2017b).

CHALLENGES IN EXISTING YOUTH EMPLOYMENT POLICY PROCESSES

While in the short-term, existing youth employment programs can be beneficial to some Indigenous communities, much more fine-tuning is needed to arrive at a long-term policy solution to the Indigenous youth employment

6 These include the Federal Student Work Experience Program (FSWEP), the Research Affiliate Program (RAP), and the Co-operative Education and Internship Program (CEIP).

7 The program is intended to offer Indigenous postsecondary students up to 3 months of meaningful work experience in the National Capital Region to enable them to obtain transferable skills.

problem. Research interviews conducted with Indigenous community leaders and with some industry representatives reveal that there is general lack of understanding of the socioeconomic conditions under which Indigenous 'potential workers' are being raised. Further, they suggest a low level of awareness of the complexities involved in assessing Indigenous youth's readiness for skills training, for work itself or for ensuring their retention (Delic 2012). As echoed in a recent case study, some employers base their recruitment efforts on unrealistic assumptions where "it seems what [they] are naively looking for are Aboriginal people who have escaped colonization unharmed—fully assimilated" (MacKinnon 2015, 169).

Driven by the attractiveness of the incentives set out by governments, some employers concentrate their efforts primarily on increasing hiring from surrounding Indigenous communities, with little regard for training and retention. But the willingness to participate in the paid labour market among Indigenous working age population does not appear to be questionable (Delic 2013). The policy challenge is not to ensure Indigenous labour supply; it is to ensure their *readiness to participate* in the labour force. And this entails a fundamental shift in policy, the shift that takes discussions away from patching up the consequences of colonial legacy that are now reflected in the labour market outcomes of Indigenous population to comprehensively addressing the roots of those consequences, starting with the K-12 education system.

Statistical evidence persistently suggests that Indigenous youth are much more likely to leave school earlier than non-Indigenous youth. In 2006, for example, the proportion of First Nations youth living on-reserve with a completed high school diploma (38.9%) was strikingly different from the proportion of non-Indigenous youth with a completed high school diploma (87.5%). A similar statement can be made about Inuit youth, where only 39.8% of them had a completed high school diploma in 2006 (Statistics Canada 2010). Although slightly improved, the high school completion outcomes in 2011 still reveal large discrepancies between the Indigenous and non-Indigenous youth. At the postsecondary education level, the outcomes appear to have deteriorated for the most marginalized Indigenous youth group, the First Nations living on-reserve (National Aboriginal Economic Development Board 2015, 53).[8]

8 Charts illustrating this are available, upon request. It is likely that these discrepancies are understated, due to major methodological differences between the 2006 Census data and the 2011 National Household Survey data.

Policy discussions about Indigenous education have focused primarily on inventing new ways to *keep the Indigenous youth in school*. With the exception of discussions related to the importance of including cultural aspects in the school curriculum, there has been very little discussion about *keeping schools relevant and thus attractive to Indigenous youth*. This 'school-relevance' stretches from the quality of the K-12 educational infrastructure and teacher turnover to the harsh and complex living conditions in Indigenous communities, particularly in the on-reserve communities and the communities in remote northern areas.

Research interviews suggest that harsh living conditions faced by many parents in those communities make the school-related tasks simply not a priority. These parents have little capacity to help their children with school and most do not even have a quiet place to offer them to complete their homework. In the words of one resident of the Inuit Nunangat, "it's like, how can you study if there's 15 people in a 3-bedroom house; and if your bedroom is a closet, how can you, you know, lead a normal life". Another participant, an on-reserve resident in southern Canada, pointed out the importance of accounting for the contribution that the inadequate school infrastructure has on the school dropout tendencies among Indigenous youth. "[I]t's not just, you know, I wanna quit school; it's the quality of education, the consistency of teachers, the consistency of access to resources, you know, to support education – all these elements are part of that education gap and so it's not just a small issue, it's a huge issue."[9]

All of the interviewed industry representatives also stressed the importance of addressing the quality of education and school infrastructure in Indigenous communities. In one instance, a representative from the mining industry urged that governments "do less skills training and more education upgrading" so that the mining companies can take over and effectively train the workers into their chosen fields. In elaborating on this, the representative referred to cases from remote northern communities, stating that the official school system there is so different from what they are used to that "if they have completed grade 8 in their home community [they] are generally functioning at about Grade 5 or Grade 6 education level" which is the benchmark actually

9 In order to uphold my commitment to preserve the privacy of the interview participants, it is necessary to present these quotations without precise references.

used to assess the level of training required. Similar concerns were expressed by the representatives from the construction sector who found that selected local youth often lack the academic prerequisites for apprenticeship programs, which negatively impacts the effectiveness of their initiatives designed to increase the number of Indigenous youth in the construction workforce.

Policy developers in general have no comprehensive insight into what Indigenous youth really want as there is very little research inquiry into the career aspirations of Indigenous youth (Abele and Delic 2014; Bruce and Marlin 2012). What exists suggests that, while fewer Indigenous youth aspire to pursue postsecondary education than non-Indigenous youth, “the educational goals of both groups who wish to pursue some type of postsecondary education are quite similar. The findings from one survey of Aboriginal youth (aged 12-18) demonstrated a wide interest in professional careers and a low interest in trades. The most popular career choice among the respondents was business owner, followed by doctor, lawyer, teacher, and engineer” (Bruce and Marlin 2012, 2-3). The existing policies, however, place considerably stronger emphasizes on skills training for the natural resource sector than on postsecondary education (Abele and Delic 2014). Yet, postsecondary education at higher levels is generally required to prepare youth to gain employment in their preferred professional career disciplines. Gathering and incorporating this knowledge into existing skills training and into educational support programs would undoubtedly have a significant positive effect on the effectiveness of those programs.

There are other important areas where more comprehensive research knowledge would make the development of policy and programming more effective. For instance, we know from previous research that Indigenous women have consistently been more successful at completing their postsecondary education and at finding employment, relative to their male counterparts (Delic 2012). However, we do not know if this applies to all age groups. It is likely that young Indigenous women are faced with different barriers than the prime aged Indigenous women. For instance, existing literature suggests that young Indigenous women are more likely to experience early parenthood than are other young women in Canada (Quinless 2013; Guimond and Robitaille 2008). While not a barrier in itself, early parenthood, in the context of the paid labour market, does create additional challenges to be overcome. In this case, the policy challenge would be to provide access to affordable childcare and other support required for successful participation in the paid labour market. This might help address the 'readiness' of Indigenous female youth to join the workforce. There is, however, no current research and no policy discussion about the degree of support that is available to these young and potential workers nor about the extent of consequences that early parenthood may have on their employment prospects (Abele and Delic 2014).

In addition, labour market intervention is characterized by remarkable complexity, with multiple governmental and non-governmental agencies and actors involved in the intervention. This is particularly true in the North where educational funding, training programs, and recruitment are all controlled by different governments and corporations, who are driven by their own needs or national imperatives (Abele and Delic 2014). There are no research insights regarding the impact this complex opportunity structure might have on the employment prospects of Indigenous youth and on the economic development in their communities. Gathering and incorporating those insights into existing policy might improve its effectiveness.

Finally, the remoteness and the infrastructure deficit in many Indigenous communities is an old issue, still pending adequate policy intervention. Over the years, it has resulted in an uneven distribution of employment opportunities (Canadian Polar Commission 2014; Martin 2011) and created a significant challenge both for the Indigenous youth who prefer to live in their small home communities and for the resource development and other employers, generally situated in larger urban centers, who are struggling to develop a skilled and self-renewing local workforce (Abele and Delic 2014). Addressing these issues would substantially improve the effectiveness of existing policy.

POLICY RECOMMENDATIONS

Successful integration of Indigenous youth in the Canadian labour market is of primary concern both for the Indigenous communities and for the Canadian economy at large. The three policy recommendations presented here pertain to a variety of areas, which speak broadly about ensuring 'readiness' of the Indigenous youth to actively and successfully participate in the Canadian labour market. The key objective is to enable Indigenous youth to make informed choices about their preferred careers and to obtain the skills and expertise that employers in those careers are seeking.

Although beneficial for the short-term, none of the existing employment programming can deliver the needed long-term solution to the Indigenous youth employment problem. Existing skills training and other labour market programs cannot be expected to bring the labour market outcomes of the Indigenous youth on a par with those of the non-Indigenous youth because they simply cannot make up for what many Indigenous youth have not received, prior to reaching their youth stage. Hence, the first and the most important recommendation is that the government makes synchronized efforts to effectively address the issues in the area of early education and in the area of standard of living in the affected Indigenous communities.

The second recommendation is that government works on correcting the imbalance in the policy emphasis by strengthening its programming related to postsecondary education, which would potentially raise the educational and career aspirations among the Indigenous youth and open the doors for them to prepare to gain employment in the public and para-public sectors. Current projections suggest that approximately two-thirds of job openings from 2013 to 2022 will be in high skilled occupations that require university or college education, an apprenticeship, or managerial skills (Government of Canada 2014a). With this future in mind, it is imperative that the Indigenous children receive the elementary education that is on a par with the education provided to the non-Indigenous Canadians so that at the youth stage they are able to make informed choices about enrolling in postsecondary training that would prepare them to compete with other Canadians for these job openings. Correcting this imbalance in the policy emphasis would not only benefit Indigenous youth in the sense that it would expand the range of career options available to them but would also benefit Indigenous communities through the support it would provide for democratic development and Indigenous self-determination.

The third recommendation is that government works on simplifying the existing opportunity structure in relation to funding and intervention and accounts for variation across regions and within regions across localities. Indigenous communities need to be empowered and enabled to implement their own long-term educational and labour force development plans in a holistic and integrated manner that takes into account all important factors, including adequate housing, improved community-school relations, community initiatives to support youth career planning, support for harvesting sector, and more community level control of terms of grants. This would ensure sustainable and balanced economic development and self-sufficiency in the Indigenous communities.

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Chapter 8
A MODEST PROPOSAL TO STRENGTHEN THE HEALTH OF CANADIANS

By James McAllister

INTRODUCTION

This policy brief argues, instead of further large-scale increases in major federal transfers to other levels of government for health care, additional fiscal resources could better be used for specific programs and transfers. Through the Council of the Federation, Canada's Premiers have urged "the federal government to commit to increase the envelope of the Canada Health Transfer so its share of health care costs represents a minimum of 25 per cent of all health care spending by provinces and territories" (2015). This is not an unreasonable request given that more than a decade of six per cent funding increases have boosted the federal share of health spending to nearly 25 per cent or more in many provinces. Nevertheless, this brief will argue that there are better ways to improve the health of Canadians than a large increase in the Canada Health Transfer (CHT).

Major federal transfers come to over $72 billion annually and support health care, postsecondary education, social services and income maintenance, as well as fiscal equalization among provinces and territories. The largest of these block transfers, as shown in Table 1, is the CHT. It is intended to assist provincial and territorial governments in financing universal, public, medical and hospital insurance. The Canada Social Transfer (CST) and its predecessor programs were originally designed to help provinces and territories meet the costs of postsecondary education and other social programs. The Equalization program provides financial assistance to provinces whose fiscal capacity is below the national average. Territorial Formula Financing (TFF) has similar goals as the Equalization program and is received by all three northern territories.

Table 1

Major Federal Transfers to Provinces and Territories, 2017-18 ($ millions)

	Equalization	Territorial Formula Financing	Canada Health Transfer	Canada Social Transfer	TOTAL
British Columbia	0	0	4,865	1,800	6,666
Alberta	0	0	4,376	1,620	5,996
Saskatchewan	0	0	1,182	438	1,620
Manitoba	1,820	0	1,355	502	3,677
Ontario	1,424	0	14,331	5,304	21,058
Quebec	11,081	0	8,491	3,142	22,714
New Brunswick	1,760	0	768	284	2,813
PEI	390	0	152	56	599
Nova Scotia	1,779	0	967	358	3,096
Newfoundland	0	0	539	199	738
Yukon	0	919	38	14	972
NWT	0	1,232	45	17	1,295
Nunavut	0	1,530	38	14	1,582
CANADA	**18,254**	**3,682**	**37,150**	**13,748**	**72,826**

Source: Department of Finance Canada, Federal Support to Provinces and Territories.

FEDERAL SPENDING ON HEALTH CARE

The federal government first established a Dominion Department of Health in 1919, even though the Constitution Act of 1867 clearly placed health care under provincial jurisdiction (Bryant 2016, 11). In 1943 and 1944, a "charter of social security for the whole of Canada" was promised and, in 1945, the federal government proposed a national system of public health insurance, covering both hospital and medical care. The federal government was to cover 60 per cent of the cost of the program, with provinces responsible for the remaining 40 per cent and for administering the program (Johnson 2004, 313).

Rejection of the federal charter by provincial governments led the Saskatchewan CCF government of Tommy Douglas to go it alone and provide hospital insurance, beginning in 1947. A decade later, the federal government introduced the Hospital Insurance and Diagnostic Services Act, which provided federal funding to help cover the cost of hospital stays. After Saskatchewan introduced medicare in 1962, the federal government passed the Medical Care

Act of 1966. It provided cost sharing for any province that agreed to implement medicare and, by 1972, all provinces and territories were participating (Fierlbeck 2011, 18).

Beginning in 1977, federal funding for hospitals and medical care was bundled with postsecondary education under the Established Programs Financing (EPF) arrangements. The federal government made an annual basic cash transfer and a transfer of personal and corporate income tax points to provinces and territories. The formula the federal government used for distributing funds among provinces and territories meant the per capita cash transfers to some provinces, usually BC, Alberta and Ontario, were significantly less than to other jurisdictions (McAllister 2011, 494).

The 1995 federal budget brought the amalgamation of the EPF and the Canada Assistance Plan (CAP) into the Canada Health and Social Transfer (CHST) and cuts of billions of dollars of federal transfer payments. This led to a decade of acrimony, much of it centered on health care and the fiscal imbalance between the federal and provincial governments. Provinces claimed the federal government's commitment had been eroded to such an extent that Ottawa was supporting significantly less than 20 per cent of health care costs. In the early years of the 21st century and in response to provincial demands, the federal government committed to transfer additional funds under the CHST, provide support for primary health care, home care and catastrophic drug coverage and split the CHST into the CHT and the CST. In 2004, it implemented a 10-Year Plan to Strengthen Health Care that increased base CHT funding immediately, escalated that base by six per cent each year for the next decade and established a Wait Times Reduction Fund (Canada 2004). Meanwhile, CST funding was to increase by three per cent annually. During these years, the federal government also moved toward an equal per capita distribution of cash transfers, for both the CHT and the CST (McAllister 2011, 494).

In 2011, the Harper government announced that, at the end of the 10-Year Plan, the CHT would only increase at a rate of six per cent each year for two additional years. Beginning in 2017-18, provinces were guaranteed CHT cash transfer increases of at least three per cent each year, but the actual rate of growth would be tied to the expansion of the Canadian economy. These arrangements have largely been left in place by the Trudeau government. It also proposed to transfer funds specifically for home care and palliative care, mental health initiatives, prescription drugs and health innovation.

PROVINCIAL AND TERRITORIAL SPENDING ON HEALTH CARE

Health care is always the largest spending area in provincial and territorial budgets. Although subject to the requirements of the Canada Health Act, each province and territory operates its own health system and assiduously guards its constitutional powers. As a result, jurisdictions can be compared in terms of the relative effectiveness of their health care systems. The highest spending jurisdictions are the three territories, followed by the three prairie provinces and Newfoundland. Quebec spends the least on health care, with BC and Ontario spending just slightly more (Statistics Canada 2010). One explanation for these differences is that the provinces with the largest populations benefit from economies of scale, which help, keep their health care costs below average (Orr 2010, 10). Age and gender differences also have been identified as important cost drivers (Canadian Institute for Health Information 2013). However, while the average age is highest and the share of the population 65 years of age or older is greatest in BC, Quebec and the 4 Atlantic provinces, the first two of these jurisdictions are among the lowest spenders. Cost pressures because of population aging are likely to be the least in the Prairie Provinces and the territories, but they are among the highest spending jurisdictions.

The largest number of physicians and surgeons relative to each jurisdiction's population are practicing in Quebec, Nova Scotia and Newfoundland (CIHI 2012a). Saskatchewan, Ontario, PEI and the territories are all below the national average. Meanwhile, the largest number of nurses, relative to the population of the jurisdiction, are working in the six smallest provinces and the territories. The fewest nurses are in BC and Ontario (CIHI 2012b).

EFFECTIVENESS OF HEALTH CARE

Measures of the relative effectiveness of health care systems show, in the words of one Canadian commentator, "compared with the systems of our European counterparts, ours is less timely, less efficient and less comprehensive" (Lewis 2015, 12). The Commonwealth Fund's ranking of 11 industrialized countries showed, although Canada ranked fifth in spending per capita, the only country ranked below it in terms of the quality of its health care was the

US (2014; Mossialos 2014). The Conference Board of Canada's comparison of health outcomes among provinces and territories and 15 advanced, industrialized democracies ranked BC at the top, with outcomes similar to Switzerland and Sweden as having the healthiest populations. Not quite as good were Alberta, Ontario, Quebec and PEI. At the other end of the spectrum, with the poorest scores, were Newfoundland and all three territories. Only slightly better off were people living in Saskatchewan, Manitoba and Nova Scotia (2015).

A major indicator of the health care system's success, infant mortality, reflects the quality of health care for a population, as well as the effectiveness of preventative care, maternal and child health care. The infant mortality rate is the highest – the worst - in the territories, especially Nunavut, and in the three Prairie Provinces. It is the lowest – the best outcome – in BC and the Maritimes. In fact, the infant mortality rate is about eight times as great in Nunavut as in PEI.

Another major indicator of a health care system's success is the average life expectancy of an individual at birth, the number of years a person is expected to live. In Canada, people living in the largest provinces, BC, Alberta, Ontario and Quebec have the longest average life expectancies. BC and Ontario are comparable to Switzerland, Japan and France, where life expectancies are the longest. People living in Manitoba, Saskatchewan, Newfoundland and the territories have life expectancies much lower than in the rest of Canada (CIHI 2012c, 10ff). In the words of the Conference Board, with a life expectancy of 71.8 years, "a child born today in Nunavut is expected to live about 10 years less than a child born in British Columbia" (2015, Life Expectancy). Within some of the provinces, there also exist disparities between urban, rural and remote parts of the province and between southern and northern regions. In northern Ontario, for example, people are more likely to die younger and have life spans 2 or three years less than in the rest of the province (Health Quality Ontario 2017).

These comparisons suggest the primary basis for some jurisdictions' relative infant mortality or life expectancy is the presence of large numbers of Indigenous people. Poverty, poor living conditions and sub-standard health care are well known facts of life for many Indigenous people. They are a majority of the populations of the Northwest Territories and Nunavut, represent about a quarter of the population of the Yukon and just under a fifth of the population of Manitoba and Saskatchewan (Statistics Canada 2011).

FEDERAL TRANSFERS, PROVINCIAL SPENDING AND HEALTH OUTCOMES

There are very few direct linkages between federal transfers, provincial and territorial spending on health care, the number of medical doctors or nurses and the health of each jurisdiction's population. The largest and most prosperous provinces of BC, Alberta, Ontario and Quebec achieve better health outcomes than the smaller, less prosperous jurisdictions. This occurs even when smaller jurisdictions spend more money on health care. Federal funding is just part of the mix of factors that determine the quality of health care provided to the residents of each jurisdiction.

This policy brief is not proposing any significant changes to the design of the existing federal block transfers. In the words of Paul Pierson, "once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice" (2000, 251). It is easier and less costly – in a number of ways – to continue to do what has been done in the past or to simply modify or improve what is already in place. Too many stakeholders rely on the existing block transfers to make significant change possible. Federal transfers currently contribute close to 20 per cent of provinces' and territories' total revenues. Those provinces' and territories' finances and economies would be significantly and negatively affected by any cutbacks.

Rather, the federal government should adopt other social policy priorities that would yield more tangible results in strengthening the health of Canadians. In fact, additional fiscal resources for health care may not be a necessary or positive development. A case in point was during the past decade when CHT funding increased by six per cent annually, but much of that increase went to improved compensation for health professionals. In the words of one analyst, "most of that money…did not end up in service improvements but in higher pay for service providers" (Saillant 2016, 83). Today, many supporters of medicare recommend "not putting more money into the system…but deploying existing resources more efficiently" (Bryant 2016, 182).

ALTERNATE PRIORITIES

The current government should pursue other, alternate priorities. It is launched on a more interventionist course than its immediate predecessor, and the following should be given careful consideration.

INDIGENOUS PEOPLE'S HEALTH CARE

The most crucial suggested initiatives involve additional funding for Indigenous health care, both on and off reserve. The life expectancy of Indigenous people is, on average, about a decade less than for the rest of the population, infant mortality is about three times the rate of non-Indigenous people, the suicide rate is six times higher and the diabetes rate is three to five times higher (Canada 2007, 62). First Nations people suffer a disproportionately higher rate of morbidity from diabetes, heart disease, tuberculosis and HIV/AIDS (Assembly of First Nations 2013, 4). The health needs of Indigenous peoples could be more effectively addressed by improving the medical and hospital facilities serving them. It is also crucial to recognize the need to improve the social determinants of health, such as improved water and sewer systems, housing, and education (McNally and Martin 2017).

Federal, provincial and territorial governments and Indigenous peoples' organizations announced the Kelowna Accord more than a decade ago and released a Blueprint on Aboriginal Health (Canada 2005). It entailed an agreement to reduce the gap in health outcomes between Indigenous peoples and the rest of the population (Canada 2007, 6). The Accord was never implemented, but in its first budget the current government recognized some of these needs. A promise was made of $8.4 billion over five years in investments on Indigenous issues and the Trudeau government's first budget claimed "this represents a significant increase over the investments that would have been made under the Kelowna Accord" (Canada 2016, 134).

However, a more precise focus on the health care needs of Indigenous peoples, for example those identified by the Truth and Reconciliation Commission, is warranted (2015, 2). Indigenous peoples' organizations have complained that governments have not moved quickly enough and "we are still too far from completing these very important Calls to Action" (Assembly of First Nations 2017). Instead, the federal government has been engaged in a long legal battle over the correct interpretation of "Jordan's Principle", the precedent that says that Indigenous children should have equal access to care whether they live on or off reserve and the “government of first contact” should be responsible for the costs.

EXTENDING MEDICARE

The federal government also should be involved in meeting specific health needs not directly covered by medicare or only partially supported by federal funding. These would involve a national pharmacare program, more adequate funding for long term care, home care, dental and vision care and for addressing mental health problems. These are all missing pieces of Canada’s universal medicare.

A federally funded universal pharmacare program would mean working with provinces and territories to provide prescription drugs to all Canadians. One journalist who specializes in health matters points out that “no one really knows precisely how many people have no drug coverage, though it is estimated that roughly six million Canadians are uninsured or underinsured” (Picard 2017, A13). Canada is the only country with universal public health insurance but without universal public drug coverage (Morgan and Boothe 2016). Indeed, as far back as 1964 the Royal Commission on Health Services, the Hall Commission, recommended Canada implement a universal, public, pharmacare program cost shared equally between the federal government and the provinces. In 2004, provinces and territories invited the federal government to take responsibility for a nationwide pharmacare program, but Ottawa refused (Courchene 2015, 43). More recent studies have shown it could be an effective way to control costs while improving redistribution to low income Canadians (Morgan, Law et al. 2015; Morgan, Martin et al. 2015).

There is also a significant and urgent need for more financial support to address mental health issues (Bartram 2016). Only 7.2 per cent of health spending in Canada goes toward mental health care, compared with 11 per cent in Sweden and New Zealand, 10 per cent in the UK and 8 per cent in France (Jacobs, Dewa et al. 2010, 15). The federal government recognized some of the current problems in its 2016 budget, but much more needs to be done and any additional funding must be targeted towards specific research and treatment projects in the mental health field (Canada 2016, 178).

SOCIAL PROGRESS

The social determinants of health could be addressed more effectively if high quality early learning and child care also could be made more easily available at a lower cost. As the federal government admits, "affordability of child care also remains a top concern for many families; in Toronto, for example, average annual child care fees can reach, and in some cases exceed, $20,000 per year" (Canada 2017, 234). The 2017 budget promises $7 billion over 10 years to support up to 40,000 new subsidized child care spaces, but this commitment does not begin until 2018-19, is contingent on reaching agreement with provinces and territories and will still not come near to providing the sort of government support needed (Anderssen 2017, L5). Eliminating college and university tuition fees, including for students in the health sciences, also would make education more accessible, reduce social inequalities and follow the lead of many other countries, including Germany, France, Norway and Sweden.

The social determinants of health also would be improved if the supply of affordable housing was increased to deal with homelessness and poverty. Budget 2017 does propose a National Housing Strategy and an extension of the Homelessness Partnering Strategy; however, the demand for such housing is enormous and will not be met by current federal efforts.

CONCLUSION

Federal funding for health care through the EPF and the CHST was distributed so that Quebec, the 6 smallest provinces and the territories received more than their per capita share of federal cash. Most of those same jurisdictions also receive either Equalization or TFF payments. Yet some of those same provinces and territories continue to have some of the worst health indicators in the country.

So what is to be done? This paper has argued that selective transfers and selective spending on the part of the federal government are more likely to bring positive results. In contrast, the "open federalism" of the Harper government sought to limit the use of the federal spending power in areas of provincial jurisdiction, but provinces and territories had access to the additional funding obtained in the 2004 10-Year Plan.

The Trudeau government appears to be returning to the days when the federal government provided a range of specific transfers and trust funds to finance health and social policy initiatives. The current government is taking a more interventionist approach in fields as disparate as mental health, pharmaceuticals, home care, palliative care and Indigenous health. However, this policy brief has shown that much more needs to be done in these and related social policy areas.

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Chapter 9
THE STATE OF CANADA'S PENSION POLICIES: WHAT TO DO AS THE NUMBER OF RETIRED PEOPLE GROWS?

Allan Moscovitch and Richard Lochead

INTRODUCTION

Canada's economic, social and demographic landscape has changed dramatically since the 1960s but Canada's pension policy is still framed by the assumptions from that period. The new landscape is characterized by the demographics of aging, an increase in precarious work, and a rise in income inequality

Up until now, the pension debate has been focused on updating the various components of the existing programs, rather than rethinking the whole pension design to fit the new economic realities.

We argue that examination of the recent debates over the Canada Pension Plan and the Old Age Security reveals outdated assumptions which have resulted in major issues unaddressed and overlooked.

Here we intend to address the inadequate consideration, which has been given to the following four issues. Subsequently, we will provide a sketch of the direction that we believe should take in pension policy reform.

1. The implications of a workforce characterized by precarious labour including part-time and low wage self-employment particularly in the Canada Pension Plan (CPP) debate;
2. The mandate and governance of the Canada Pension Plan Investment Board (CPBIB), which has become a major investment fund;
3. The decline of private workplace pensions, a major component of Canadian pension design, which requires new thinking about pension strategy.

4. The continuing needs of a major part of the population for pension assistance currently provided through the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), especially in light of the inability of lower income people to participate adequate in savings regimes like the Registered Retirement Savings Plan (RRSP).

PRECARIOUS LABOUR AND THE CPP

The 2016 expansion of the Canada Pension Plan, "An Act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act" (Bill C-26); was widely viewed as a political success for the Liberal Government. It gained support from provinces for a middle course between Conservative opposition to CPP expansion and the NDP's call for doubling the CPP's benefits. The agreement raised the ceiling for pension coverage by 14% from $54,900 to $62,500 in 2016 dollars (but cited as $82,700 in 2025 dollars when implemented) and the replacement rate from 25 to 33%. These increases fell short of proposals by the Ontario and P.E.I. governments, which advocated raising the ceiling to $90,000 (2016 dollars) and a replacement rate of at least 40% to cover the looming pension gap for middle-income earners, prompting the Globe and Mail to describe C-26 as a modest first step (McFarland and McGugan 2017). The CPP debate revealed differences between business and labour and within the ranks of labour itself. The Canadian Labour Congress (CLC) opposed any Canada Pension Plan provisions, which could encourage employers to hire part time instead of full time workers. Therefore, it opposed raising the exemption for CPP contributions (Yearly Pension Exemption or YPE) from $3,500 to $25,000. Youth groups and some business organizations supported this approach, which was ultimately rejected. Thus, a new policy challenge was introduced: How to devise a pension policy, which protects precarious labour, but does not encourage it?

The CPP amendment raises other problems. It is not clear that raising the Working Income Tax Benefit to offset increased contributions for lower income earners will compensate for reduced GIS income. Indexing of Old Age Security (OAS) payments to prices rather than wages is projected to erode a major portion of the CPP benefit for those retiring in 20 years.[1] Since the returns to

1 The Office of the Chief Actuary (OCA) has projected, due to population aging, that wages will increase faster than prices eroding the price indexed OAS which, in turn will reduce a significant portion of the added CPP benefit for those retiring in 20 years. Cited in: Baldwin and Shillington (forthcoming) IRPP 2017.

capital in a Tax Free Savings Account are not taxable, and do not count in the calculation of eligibility for the OAS and the GIS, more people will be able to access them at higher income levels as a result of these conditions (Kesselman 2015).

THE MANDATE AND GOVERNANCE OF THE CANADA PENSION PLAN INVESTMENT BOARD (CPPIB)

Unlike the OAS and GIS, the CPP is financed by contributions from employees and employers, not federal government revenues. Like private company plans, contributions not immediately needed for benefits provide a large fund, which can be used for investment.

The creation of the CPPIB in 1998 represented a major shift in the financing of the Canada Pension Plan. Previously pension money not needed to pay for immediate benefits would be loaned to provinces at low rates of return. Now new funds would be used by the CPPIB to actively invest in global stock markets. This approach was taken to generate more revenue which would offset the need for higher contribution rates. This type of financing model was not new as Quebec had established La Caisse de dépôt et placement du Québec in 1965 to invest the contributions of the Quebec Pension Plan (La caisse, history), but the mandates of the two bodies are quite different. While the La Caisse mandate is "to achieve an optimal return on the deposits of our clients, or depositors, while contributing to Quebec's economic development", the CCPIB defines its mandate simply as "achieving a maximum rate of return without undue risk of loss" (La caisse, mandate).

The CCPIB is administered much like a private pension fund and views itself as independent from government. As such it does not consider its operations as a matter for public debate. Indeed the role of the CCPIB was not highlighted in any political debates surrounding CPP expansion.

The CPPIB is often cited by proponents of CPP expansion as superior to a private company and individual retirement plans due to its size and lower Management Expense Ratio (MER). However, the existing CCPIB policy of maximizing returns can lead to investment decisions without regard for other objectives. These include investing in fossil fuels when government policy is to reduce the carbon footprint, funding mining companies with poor environmental and labour records, and investing most of its funds outside the country.

As of March 31, 2016, 19.1% of the fund assets were invested in Canada while 39.7% were invested in the United States, and 19.5% in the UK and Europe combined (CPPIB, Beneficiaries).

WORKPLACE PENSIONS

Canada has one of the highest percentages of private pensions among OECD countries (OECD). Unlike many other counties, private workplace plans are not compulsory or legally required, which creates major discrepancies in coverage. In the 1960s companies lobbied to keep their own workplace pensions so they could use the pension funds for investment purposes, but since the 1990s, pensions increasingly have become financial liabilities and companies have sought to reduce or avoid all pension commitments. Between 1977 and 2011 the percentage of employees covered by registered pensions fell from 46.1 to 38.4 (McFarland and McGugan 2017). Some companies adopted two tier pension plans by which new hires have the less remunerative market- based Defined Contribution (DC) plans while existing workers retain the stable benefits of a Defined Benefit (DB) plan, resulting in generational inequity. From 2011 to 2015, the number of defined contribution plan members rose steadily from 969,207 to 1,097,211 while the numbers in defined benefit plan fell by an amount close to the rise (Statistics Canada, RPP). Finally, many companies do not offer any pension coverage.

The wide range of private employment coverage creates pension disparity and pension envy as well as a myriad of pension systems, which are not portable in a rapidly changing workforce. Nevertheless, the Canadian government still encourages the creation of private employment pensions with a tax deduction policy established in the 1960s.

In 2012 the Conservative Government passed legislation to enable pooling of existing RRSP plans to provide what was suggested would be a low cost alternative to expanding the CPP (House of Commons). In 2016 the Liberal Government introduced legislation to support target benefits (TB) plans, a hybrid between DB and DC plans which shifts liability risk of DB plans away from employers to employees and retirees but provides a guaranteed return (Steele 2017).

PENSION ASSISTANCE: THE OAS AND GIS

The Old Age Security (OAS) is an almost universal payment available on application to all people 65 years of age or older who have lived in Canada for 40 years since the age of 18 and a partial pension for those with at least ten years residency. The maximum OAS payment is $578.53 per month as of March 2017. The OAS is taxable. For the tax year 2016, the level of income at which some of the OAS is recovered through taxation is $73,756. Taxation continues to increase up to $119,615 of annual income at which point the OAS payment is negligible (Government of Canada, recovery tax).

The Guaranteed Income Supplement (GIS) provides a monthly non-taxable income supplement to applicants receiving the OAS who qualify because they have an income below the maximum threshold. The threshold for a single person in 2016 was $17,544. Maximum benefit of GIS is $864.09 a month or $10,369.08. Maximum total benefit for seniors with no other income includes the OAS of $6942.36 and the GIS of $10,369.08 for a total of $17,311.44 (Government of Canada, payments).

The major issue facing the OAS and the GIS is the growth in the numbers of people over the age of 65 with eligibility for these programs, which will mean increasing expenditures over time. This will occur because of the large numbers of "baby boomers," those born between 1946 and 1965 who will be reaching the age of 65 in the coming years. Those born in 1952 are now reaching 65 with another 13 years of the baby boom expected to join the ranks of those reaching retirement age. With rising age at mortality, there will likely be more demand for the OAS and there may be greater demand for the GIS as well. Recent CanSim data from Statistics Canada shows an average increase of close to 200,000 people who are over the age of 65 from 2010 to 2014 (Statistics Canada, Table 280-0008).

Over the past twenty years, the data show that the combination of the OAS and GIS has lifted many seniors above the poverty line, reducing senior poverty to very low levels (Moscovitch et al. 2015). The previous government proposed increasing the age of access to 67 from 65; the change was cancelled by the present government but now the same idea is being proposed again by business oriented organizations arguing that it will encourage more workers to remain later in the labour force.

There are several issues to untangle. First, for many people at age 65 the issue is not having employment. The alternatives to employment are OAS and GIS or provincial social assistance. Provincial social assistance leaves more people dependent on a conditional program with benefit levels below the poverty line. Second, increasing the age at which full benefits are available is simply one method of reducing the cost of the OAS and GIS to which it is tied. However, if the goal is to reduce expenditures and keep poverty rates for seniors low, then there are other means than increasing the age of access to federal income assistance.

PROPOSALS FOR REFORM

1. Recommendations to improve Pensions for Precarious Workers

Market instability does not guarantee pension security or sustainability for private companies. Neither of the Defined Benefit, Defined Contribution or the new Target Benefit plans will address the fact that pensions should not be dependent on the economic fortunes of private companies.

The CPP is the most cost effective approach to workplace pensions, but its coverage is undermined by a design based on a 1960s workforce of full time employment

Our recommendations seek to address this by fully expanding the CPP while making it more responsive to increasing precarious work and income inequality by extending its legislative reach and by integrating the CPPIB pension fund to support investments, which offset income inequality and increase Canadian economic development.

Although the rise of precarious labour is widely acknowledged by media and politicians, a key problem for pension designers is the incomplete picture of its range and extent in existing statistical data.

1. We recommend that Statistics Canada be authorized to develop survey questions to better document and track the different types of precarious labour.

The Canada Pension Plan is designed so that employee and employer divide the contribution costs. Yet employers can avoid paying their contribution by designating workers as independent contractors. Pension policy in an age of precarious work will need to better coordinate with other labour market policies and with provincial legislation.

2. We recommend that the federal government amend its labour legislation so that employees of federally regulated industries cannot be made into involuntary self-employed contract workers. Such a measure would reaffirm the employer–employee relationship as originally intended in the Canada Pension Plan legislation and allow for a successful implementation of proposals to assist low-income earners in an expanded CPP.[2]

3. We also recommend amendments to federal legislation requiring the public service and regulated employers to give part time or contract workers the same pay, vacation, and pension benefits as permanent workers. Such a policy, termed "flexicurity", in place in several European countries, combines flexibility for the employer to hire part time workers in return for guaranteed benefits and increased job training.

2. Recommendations to Ensure the Canada Pension Plan Investment Board Meets Economic and Social Criteria

An expanded CPP will increase the CCPIB pension fund, already one of the world's largest with assets over $300 billion dollars. (CPPIB, CPP Fund) Although the CPP is considered a public plan, its contributors do not have any input into how the CCPIB invests their money. Furthermore, the CPP is income based and benefits workers with long periods of full time employment rather than those with interrupted work histories.

4. We recommend making the CPP more socially oriented and potentially re-distributive by dividing the CCPIB into separate investment funds with one targeting social investments such as lower and moderate cost housing in Canada. The Board should set a target of 5% of the fund in socially oriented investments.

5. In order to promote greater transparency and accountability, we recommend that the CCPIB include representation from government, labour and community groups to provide public oversight.

2 Recently proposed Ontario legislation proposes to introduce some similar protections for precarious work. See "Ontario Introduces Legislation to Create Fair Workplaces, Better Jobs," https://news.ontario.ca/mol/en/2017/06/ontario-introduces-legislation-to-create-fair-workplaces-better-jobs.html

6. We also recommend that a commitment of the CPPIB to invest in Canada be considered a part of its mandate, which would be rewritten to accommodate a more socially oriented fund. Less than 20% investment in Canada seems low for a fund, which is the largest investment vehicle in the country. We recommend that the fund be required to invest at least 40% of the fund in the country.

3. Recommendations to Improve Workplace Pensions

The Ontario Government Pension Plan proposal sought to address declining company plans by creating a mandatory government plan which would cover those not already in a company plan. A better direction would be phasing out private pension plans altogether and their replacement by the more cost effective and portable CPP.

The recent expansion of the CPP was very modest with its income thresholds raised to $62,586 in current dollars and its replacement rate to just 33%.

7. We propose the federal government and the provincial governments more fully develop the CPP in line with the U.S. and other OECD countries by increasing the income threshold to $100,000 and by raising the replacement rate to 50%. Some of the costs of increased CPP premiums would be offset by the gradual elimination of contributions to existing company plans.

A fully expanded CPP would greatly reduce pension inequity between those who have additional company pension coverage and those who only have only the CPP. The CPP would become the core workplace pension with standard defined benefit coverage for all. It would also reduce pension administration costs for employers and eliminate pension envy among workers.

4. Recommendations to Improve Pension Assistance

We have recommended a substantially expended Canada Pension Plan. With the expended Canada Pension Plan in place, we recommend that the federal government consider making changes to the Old Age Security program.

8. We recommend slowly reducing the floor at which the tax-back of the OAS starts. By retaining the same tax-back rate, lowering the floor would be effectively lowering the ceiling above which all OAS payments are taxed

back. We also recommend using the increased revenues to cover the increasing cost of the OAS over time as larger numbers of the baby boom become eligible. This step will not disadvantage lower income retirees.

A recent report, titled *The Precarity Penalty*, examined the nature of precarious labour, and recommends that governments consider ways of compensating low-income workers for the loss of current income because of obligations to participate in the expanded CPP (Lewchuk et al. 2015).

9. Although the federal government has committed to increasing the Working Income Tax Benefit to offset increased CPP contribution costs for low-income earners, some analysts have pointed out that this measure may not offset losses to their GIS upon retirement due to expanded CPP payments. We recommend that the federal government commit to ensuring that the expansion of the Canada Pension Plan will not negatively affect the retirement income of lower and moderate-income workers (Milligan and Schirle 2016).

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Chapter 10
CANADA'S FEMINIST INTERNATIONAL ASSISTANCE POLICY: BOLD STATEMENT OR FEMINIST FIG LEAF?

Stephen Brown and Liam Swiss

INTRODUCTION

On 9 June 2017, the Canadian government made foreign aid history by announcing the country's – and probably the world's – first "feminist international assistance policy". Among other things, it promised that within four years, "at least 95 percent of Canada's bilateral international development assistance investments will either target or integrate gender equality and the empowerment of women and girls", an unprecedented commitment (Canada 2017a).

As part of the international assistance review, Global Affairs Canada (GAC) held widespread consultations in 2016, in which over 15,000 people participated, across Canada and in 65 countries around the world (Canada 2017b). Repeated delays in releasing the result had left many observers sceptical about the process. However, its feminist approach was extremely positively received by Canadian development organizations, observers and the media.

This chapter examines the main components of the new aid policy, analyzing in turn 1) its focus on gender, women and girls, and the nature of the feminist approach; 2) some other key content, including priority areas and geographic focus, the role of the private sector and the issue of policy coherence; and 3) the question of aid funding. It argues that, though the feminist focus is ground-breaking and welcome, it is hampered by some important challenges. The refocusing of aid is promising, as is the commitment to reduce bureaucracy, while the focus on the private sector is more problematic, including in its relationship to promoting gender equality. The value of the new document is also hampered by the lack of policy coherence for development. The policy's

Achilles Heel, however, is the lack of financial resources to support it and provide a true platform for Canadian leadership in feminist foreign aid, as well as feminist foreign policy more broadly. While the feminist aid policy will buttress the Liberal government's feminist credentials, it will also provide a convenient fig leaf for the lack of political will to expand aid funding and decidedly unfeminist policies in other areas.

HOW FEMINIST?

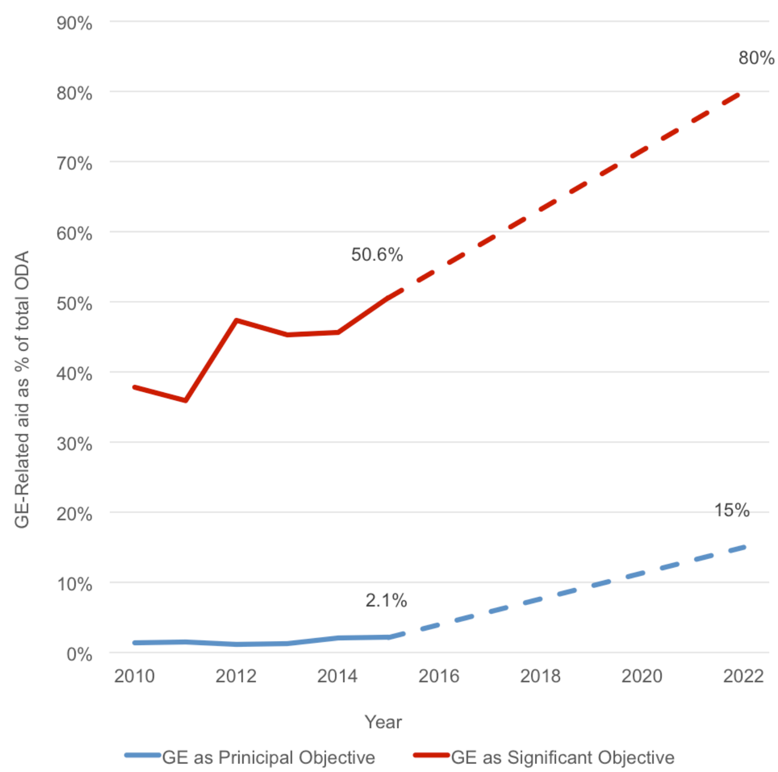
Canada's recent approach to women's empowerment and gender equality has oscillated between the more conservative Women in Development (WID) approach and more progressive Gender and Development (GAD) approach, with the Harper government era marking a period of WID ascendancy (Tiessen 2016). The new policy marks a significant return to a GAD approach, which takes more seriously issues of structural inequalities and unequal power relations between men and women, rather than just trying to integrate women into development programs.

Without ever defining feminism, the policy outlines GAC's understanding of a feminist approach to international assistance as: human rights-based and inclusive; strategically focused on initiatives that best empower women and girls and reduce gender inequalities; challenging unequal power relations, discrimination and harmful norms and practices; and reliant on gender-based analysis while being accountable for results (Canada 2017a). Its focus on inclusivity, power, and even intersectional discrimination, make the policy as progressive a feminist document as one can imagine a federal government department could issue. Indeed, Canada is boldly positioned to become the feminist killjoy of international development assistance for years to come (Ahmed 2017).

As progressive and feminist as the policy is, some areas of concern remain; especially around the issue of instrumentalizing women and girls to achieve other development or foreign policy aims. This instrumentalist critique has been levelled at Canada's aid program previously around issues of security (Swiss 2012; Tiessen 2015a) and maternal and child health (Tiessen 2015b). In the new policy, this instrumentalist approach has diminished, but still appears occasionally when describing the empowerment of women and girls as a means of achieving other aims like global economic growth, peace and security, and combating poverty. Undoubtedly, gender equality contributes to these outcomes, but the policy walks a fine line between being feminist for gender equality's sake and trying to convince others of the instrumental gains to be had from its feminist approach.

To implement the new feminist approach the policy commits to several new spending targets within the scope of the existing aid budget. Three directly relate to the feminist aims of the policy, while several others specify targets related to existing and ongoing aid priorities (such as maternal, newborn and child health, as well as climate change). The three targets related to gender equality are: 1) By 2021-2022, no less than 80 percent of Canadian international assistance will integrate gender equality or the empowerment of women and girls to achieve the policy's goals; 2) By 2021-2022, no less than 15 percent of Canadian international assistance will specifically target gender equality and the empowerment of women and girls; and (3) From 2017, $150 million will be allocated over five years to local organizations that advance women's rights. Below, we briefly explore each of these in turn.

Figure 1. Past and Forecast ODA to Gender Equality



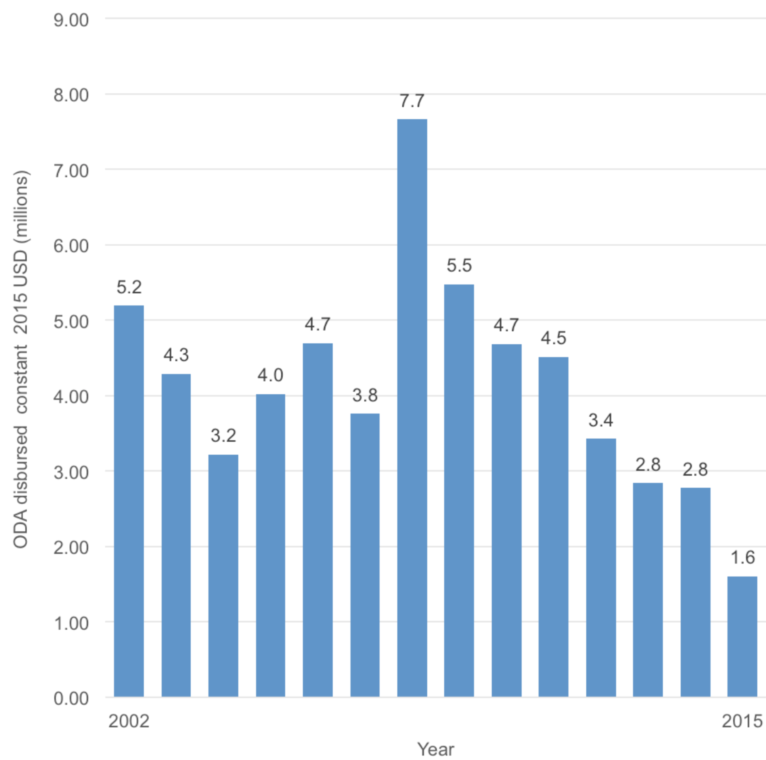
Source: OECD/DAC CRS Database http://stats.oecd.org/Index.aspx?DataSetCode=GENDER#

Gender-Integrated (Mainstreamed) Aid: The commitment to spend at least 80 percent of Canada's international assistance on initiatives which integrate gender equality and women's empowerment is in keeping with past Canadian support for gender mainstreaming, despite the policy omitting the mainstreaming label. Eighty cents of every Canadian aid dollar will support programs which integrate gender equality even if the program is not primarily a gender project. This corresponds to aid which the Organisation for Economic Co-operation's Development Assistance Committee (OECD/DAC, the main body grouping bilateral aid donors) identifies as having gender equality as a "significant objective". DAC statistics for past Canadian aid spending in Figure 1 show that spending in this category ranged from about 38 percent in 2010 to just over 50 percent in 2015. Projecting forward to the 80 percent target by 2022 means expanding the proportion of gender mainstreamed programs by 60 percent and reaching an unprecedented level among DAC members in recent data. This means many new programs that might not have had gender equality as an aim will now include it, making almost all of Canadian aid supportive of gender equality and women's empowerment in one way or another.

Gender-Targeted Aid: The more radical spending commitment in the new policy is to increase gender-targeted aid to 15 percent of all assistance by 2022. Figure 1 shows that in 2015 this category, which the DAC labels as having gender equality (GE) as a "principal objective", amounted to just over 2 percent of Canadian assistance – in the bottom half of all DAC donors. Growing this amount more than sevenfold will make Canada the largest – by percentage – donor of GE-targeted aid in the world. To attain this target means both a greater number and larger scale of gender-targeted programming, though some of this may be achieved through targeted contribution to GE-specific multilateral or global funds dedicated to women's rights and empowerment.

Combined, both commitments mean that by 2021-2022 no less than 95 percent of Canadian assistance will address gender equality and women's empowerment in some fashion – a level that will far exceed any other DAC donor's current commitments to both forms of gender programming.

Figure 2. ODA to Women's Equality Organisations and Institutions (DAC Sector code 15170)



Source: OECD/DAC CRS Database via QWIDS https://stats.oecd.org/qwids/

Aid to Women's Groups: The third notable commitment in the new policy is to spend $150 million over five years through local organizations working to advance women's rights and empowerment. This earmarking of approximately $30 million annually will enable Canada to continue and expand its tradition of supporting women's groups in recipient partner countries, an approach that had fallen out of favour in recent years. Figure 2 shows DAC statistics for Canadian spending in the category of "Support to Women's Equality Organisations and Institutions" between 2002 and 2015. From a high of US$7.7 million in 2008 to a recent low of only US$1.6 million in 2015, we can see that this approach to funding women's organizations declined sharply during the Harper years (Swiss and Barry 2017). Increasing spending on women's organizations nearly fifteen-fold from 2015 levels is, thus, a significant shift.

No operational details for this $150 million are indicated in the new policy. It is likely it will be spread among many small gender equality funds administered at the country level to best connect with local organizations – an approach praised in the 2008 evaluation of gender policy and programming of the Canadian International Development Agency (CIDA), which held primarily responsibility for aid at the time (Bytown Consuling and CAC International 2008).

How will these new spending targets affect existing and future programming both within and outside these areas? In one sense, the policy provides opportunities to reshape some existing commitments of Canada's aid programs in more feminist ways. For instance, it reiterates Canada's Harper-era commitment to invest $3.5 billion in maternal, newborn, and child health, but extends it further by investing $650 million over three years on sexual and reproductive health and rights – an area that was constrained under the Harper government. In this way, the new policy is tweaking existing programming priorities to better fit the feminist positioning of the policy.

The question of how the new policy spending targets constrain Canada's international assistance programming in areas that are neither gender-targeted nor gender-integrated is not answered in the policy. By committing to spend 95 percent of Canada's bilateral assistance on gender equality, this leaves only a small portion available to initiatives that do not address this concern. The consequence of such constraints could be either the rejection of developmentally beneficial but non-GE-oriented programs, or the hollowing out of the meaning of gender-integrated programs such that any aid initiative is deemed within the 95 percent envelope if it ticks certain boxes. Both outcomes would directly challenge the value of a feminist approach to international assistance. As the policy is implemented, GAC will need to mitigate both such risks.

Can GAC deliver on these feminist results and spending targets? In the 1980s, CIDA was a world leader on gender and development issues (McGill 2012; Swiss 2012; Tiessen 2016). With a rhetorical shift away from gender equality under the Harper government, the support for and delivery of gender equality programming in Canadian international assistance diminished. With this shift, some of the expertise and institutional inertia that had made Canada a leader was lost, despite the resilience demonstrated by some gender experts and others within the former CIDA (Tiessen 2016; Swiss and Barry 2017). Likely, GAC will require an intensive internal process of training, retraining, and recruitment to ensure that it is equipped with the skills and expertise required to deliver the feminist development results outlined by the policy. If so, a fuller institutionalization of feminist principles in the bureaucracy of

Canada's aid program could be a possible outcome of implementing the new policy, despite the challenges posed by the former CIDA's recent absorption by the diplomatic and trade arms of GAC.

KEY CONTENT

Although the focus on women, girls and gender equality was the most notable innovation in the new policy, below we outline five other key issues that stand out: the thematic and geographic concentration of aid, the issue of donor-driven aid, the role of the private sector, aid delivery, and policy coherence for development. Each is notable for what it says or does not say.

First, in the tradition of all new aid policy statements, the new policy lists a few overarching themes under which Canadian assistance can be placed. In the past, the government has called them areas of focus or priority themes. Now they are labelled "action areas":

1. Core Action Area: Gender Equality and the Empowerment of Women and Girls
2. Human Dignity (health and nutrition, education, humanitarian action)
3. Growth That Works for Everyone
4. Environment and Climate Action
5. Inclusive Governance
6. Peace and Security

As in the past, the themes give the impression of focus but are in fact broad enough to accommodate virtually any activity that the government wants to undertake. The second one in particular, "human dignity", is so wide-ranging that it is a stretch to refer to it as a single area. The key difference in this iteration, however, is that, whereas gender equality had been a cross-cutting theme in the past, it has now been elevated to the single "core action area". Otherwise, this organization of programming into six areas is unlikely to have much impact.

Since 2002, the Canadian government has always had a list of 8–25 priority countries in which aid was to be concentrated. It modified this list every few years, leading to volatility and unpredictability and thus hurting the effectiveness of Canada's aid program (Brown 2015). The new aid policy abolishes this practice, committing instead to focus primarily on a single region. It presents the rationale as follows: "Half of the world's poorest citizens live in sub-Saharan Africa. For that reason, Canada will ensure that no less than 50 percent of its bilateral international development assistance is directed to sub-Saharan African countries by 2021–22" (Canada 2017a). Although the figures are hard to interpret, notably what is included under the rubric of "bilateral international development assistance", this commitment will require a significant redirecting of resources to the Sub-Saharan Africa from other regions, since the overall budget is to remain constant.

Second, the new policy gives a very strong sense of aid being donor driven. It does briefly recognize the importance of local ownership: "To be effective, international assistance must respond to local needs and priorities. Partner country governments at all levels establish these priorities and they are – and will continue to be – primary partners for Canada's international assistance" (Canada 2017a). However, the policy very clearly sets Canada's own "feminist" priority. At times, the language can be quite directive. For instance, "Canada will require that women participate actively in the design and implementation of any climate adaptation or mitigation initiatives", even if Canada is only providing a fraction of the funding (Canada 2017a, emphasis added). Such conditions, not matter how well intentioned, could annoy partners and delay programs.

Thus, in some contexts, Canada's priorities will not be welcome. In a further example, Canada's new commitment to "the right to access safe and legal abortions" (Canada 2017a) will not be well received by the governments of an overwhelming majority countries in the priority region, Sub-Saharan Africa, where abortion is currently criminalized. It also remains to be seen what Canada's response will be when developing country partners identify priorities that do not specifically address gender, women or girls. In the wake of economic and political conditionalities, which have had limited degrees of success over the past decades, this policy might launch a new form of gender conditionality and could lead to sham or tokenistic compliance.

Third, the new policy places much emphasis on the role of the private sector in development. The main instrument for promoting this seems to be the government's planned Development Finance Institute (DFI). The DFI, as originally announced by the Conservative government in 2015, will receive $300 million over a five-year period and will lend funds to (Canadian?) companies to encourage them to invest in developing countries. Tellingly, the DFI will be a subsidiary of Export Development Canada and, moreover, built up from scratch in Montreal, rather than seek synergies with Global Affairs Canada in Ottawa-Gatineau. It is unclear whether the funding will be counted as ODA, as well as how much its work will contribute to poverty reduction in general and more specifically to the betterment of the lives of women and girls.

All over the world, government interventions rather than market forces have been the main promoters of women's rights. The central goal of the private sector is to generate profit for company owners and shareholders. Corporate social responsibility and other voluntary charitable projects may generate some benefits for marginalized and disadvantaged people, but those are side activities, not core ones. The new aid policy expresses a desire "to encourage inclusive growth and create jobs and improve incomes – particularly for women and girls" (Canada 2017a). Nonetheless, beyond the promise of some assistance to women entrepreneurs, it will be a major challenge for the Canadian government to ensure that the benefits from its promotion of the private sector accrue primarily to women and reduce gender inequalities. It will also be harder to ensure accountability, especially in cases of "blended finance". The use of loans, rather than grants, could leave beneficiaries worse off if their ventures fail and they must still repay the capital provided from the Canadian government, with interest.

The policy does mention a commitment "to strengthening our policy framework to ensure Canadian companies reflect Canadian values, respect human rights and operate responsibly", but no detail is provided on how this will be achieved. Concretely, such measures could involve the creation of binding accountability mechanisms that would allow Canadian companies and their foreign subsidiaries to be sued in Canadian courts for acts committed in developing countries, where judicial remedies may be harder to obtain.

The appointment of an extractive sector ombudsman could serve as a useful mechanism in this regard, but the Trudeau government has so far shown little more enthusiasm for it than its predecessor has. Interestingly, the new policy makes no reference to the extractive sector at all, even though it was a significant policy plank of the Harper government's approach to foreign aid. It is unclear what changes will follow: The current extractive-focused programs might be left to quietly run their course and then fade away, or perhaps the mining sector will benefit from the renewed promotion of the private sector.

Fourth, the policy promises to reduce the red tape for which Canadian aid has long been known: “We will streamline and accelerate our funding and reporting procedures to reduce the administrative burden on our funding recipients” (Canada 2017a). It also contains encouraging language about willingness to take “responsible risks” and base decisions on evidence. Little detail is provided, however, and to have a significant impact a basic change in culture will be required. GAC and its predecessor CIDA have been very bureaucratic, risk-averse and prone to political interference. No mention is made of decentralizing decision-making to the field, which had been raised numerous times during the consultations (Canada 2017b), suggesting that Canada’s aid program will remain one of the most centralized ones in the world.

The fifth and final issue area examined here is policy coherence for development, that is to say the degree to which non-aid policies complement aid in the promotion of international development. Achieving such synergies was one of the main justifications for merging CIDA with the then Department of Foreign Affairs and International Trade. Tellingly, the government has undertaken a review of its foreign aid, but not its broader foreign policy or its trade policy. The new policy acknowledges that, “When it comes to gender equality and the empowerment of women and girls, a more integrated approach is needed – one that also includes diplomacy, trade and the expertise of a wide range of Canadian government departments and agencies” (Canada 2017a). However, it does not specify how the government will ensure this integration – or specify that it should apply to more than gender-related issues. The policy mentions in passing that “Canada is committed to a *progressive trade agenda*” (Canada 2017a, emphasis in original), but it seems to pertain only to new trade agreements.

What impact will a feminist, pro-development perspective have on the Canadian government’s international policies beyond aid? The fact that Foreign Minister Chrystia Freeland barely mentioned aid or development in her major foreign policy speech to Parliament a few days before the release of the aid policy suggests that development assistance is an add-on and not central to Canadian foreign policy (Freeland 2017). What’s more, her strong emphasis on hard power and increased defence spending (see below) appear antithetical to a feminist foreign policy. This instance is consistent with the government's previous decision to allow the sale billions of dollars of weapons to Saudi Arabia, one of the least respectful regimes of women's rights in the word and despite the fact that the arms would plausibly be used to repress the country's civilian population or to commit war crimes in neighbouring Yemen. Under the Trudeau government, Canada certainly talks the feminist talk, but it is reluctant to walk the feminist walk.

FINANCING

An aid policy's impact is highly dependent on its level of funding. During the consultations, government officials stated that a strong new policy would help them make the case for a significant aid budget increase. Because the policy was much delayed, the federal budget was released first, and it allocated no extra money for foreign aid for at least five years.

The government had been careful to moderate expectations. For instance, its discussion paper, released just before the consultations began, stated that hopes for a significant increase were "unrealistic […] in the current fiscal context" (Global Affairs Canada 2016: 23). Nonetheless, the government's own summary of the consultations recognized that participants repeatedly emphasized the importance of allocating more resources to foreign aid and recommended reaching the UN target of 0.7% of gross national income (GNI), a level already met or exceeded by several European donors, including Denmark, Germany, Norway, Sweden and the United Kingdom (Canada 2017b; OECD 2017). Canada's contributions, at 0.26% of GNI, pale by comparison, and this ratio will fall in the years to come, as the Canadian economy grows.

Disappointment with a lack of Canadian generosity turned to outrage in the days preceding the release of the aid policy, when the Canadian government announced a massive increase in the defence budget. The media repeatedly highly the contrast, which the *Globe and Mail* pithily summarized as "Billions for the military and a lump of coal for foreign aid" (Clark 2017). Indeed, over a ten-year period, annual defence spending would rise from $19 billion to $33 billion, including $15–19 billion for 88 new fighter jets, a higher number than the previous Conservative government had planned to purchase (Reuters 2017), while aid spending would remain frozen at $5 billion. Clearly, the government could no longer use the fiscal context to support the narrative that a substantial aid budget increase was “unrealistic”, but finding a new justification proved challenging.

After announcing the new policy, Minister of International Development Marie-Claude Bibeau stated that “Our partners were asking not for money; that was not the first thing they were asking (for)” (Blanchfield 2017). Perhaps the interlocutors were too polite to ask for money “first”, but – as noted above – the government had already recognized that consultation participants repeatedly did recommend a major budget increase, which the government refused to do. Participants could hardly have been any more vocal on this issue and Canadian NGOs kept up the pressure in the run-up to the release of the 2017 federal budget, and subsequently protested the aid freeze quite visibly. As a result, the minister’s statement about the lack of pressure for more money seems rather disingenuous and misleading, if not an outright lie.

Instead, Bibeau’s added, partners “were asking for leadership. They said, ‘We need Canada around the table, we need Canada to speak loud and clear about progressive values’” (Blanchfield 2017). Although she presents an either/or scenario between funding and leadership, the two components are not mutually exclusive. In fact, they are highly complementary, as money can significantly bolster leadership, while claims to leadership without a concomitant financial commitment lacks credibility and limits impact.

Bibeau herself and the new policy explicitly recognize the need for a massive increase in global development cooperation, “as much as US$7 trillion by 2030”, to reach the Sustainable Development Goals (Bibeau 2017; see also Canada 2017a). However, despite the oft-repeated claims that “Canada is back” and “the world needs more Canada” (Bibeau 2017), the Canadian government is unwilling to carry its share the financial burden. Although the new policy refers to Canadian generosity (Canada 2017a), Canada’s official development assistance (ODA) is less generous than the average industrialized country’s, earning an unimpressive 15th place in 2016 (OECD 2017). Bibeau argued that, “It is essential to increase government contributions, but it is also especially important to step up our efforts to seek out new partners and new investors” (Bibeau 2017). Having decided reject the first option, Canada is instead turning to the second, hoping that other actors will increase their contributions. In particular, as discussed above, the Canadian government appears to be count-ing on the private sector to promote development, in particular gender equality and the role of women and girls. However, as argued above, it is not clear how strong an instrument private finance is for achieving those goals.

The government hopes that "new funding mechanisms to encourage more innovative and cost-effective private- and voluntary-sector solutions to sustainable development challenges" will encourage "other donors to contribute to Canadian-administered initiatives" (Canada 2017a). Still, it is unclear to what extent other actors will be willing to contribute to Canadian efforts that the Canadian government is unwilling to finance itself. Canada wants to emulate Sweden's leadership in putting in place an ambitious feminist foreign policy. However, unlike Sweden, it is not willing to support it with the aid funding it requires.

Without additional resources, the Canadian government won't be able to promote its feminist agenda without it being at the expense of other areas of foreign aid. In addition, it will have to wait for current projects to wind down to free up funds for new initiatives. As a result, there is likely to be a relatively slow uptake of new programs put in place.

CONCLUSION

Canada's Feminist International Assistance Policy promises a significant focusing of Canadian efforts on gender equality and the empowerment of women and girls across its aid programming, but may face significant implementation challenges. Such focus, despite the breadth of some of the "action areas", has been uncommon in past Canadian aid policies. However, gender conditionality may run the risk of boxing Canada's aid program into a corner when it comes to initiatives that do not address gender equality and by reducing the government's flexibility to respond to the changing aid landscape over the next few years. The full extent of the Trudeau government's feminist principles will be revealed in whether the new policy exists as a tokenistic feminist bubble, which allows use of feminist label and acts as a feminist fig leaf for major initiatives in other foreign policy areas (especially defence) that are not feminist, or if these principles are eventually extended to all parts of foreign policy, similar to the Swedish approach. Without additional funding for international assistance, and without extending feminist principles to the rest of Canada's foreign policy, it remains to be seen whether the Feminist International Assistance Policy will mark a revolutionary change in Canada's aid policy and programming, or be little more than a principled feminist statement without the will required to apply it more broadly.

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Chapter 11
REPOSITIONING MAF FOR THE OPEN GOVERNMENT ERA

By Evert Lindquist

INTRODUCTION

Since 2003, the Treasury Board of Canada's Management Accountability Framework (MAF) has monitored the management performance of departments and agencies across the Government of Canada. MAF's origins can be traced back to the 1990s as part of muted, and less categorical responses to the tidal wave of the so-called New Public Management reforms lapping onto the Canadian government's shores. An important under-current stemmed from the 1990s Modern Comptrollership initiative that sought to improve financial and non-financial reporting inside the Canadian government, later reinforced by the *Results for Canadians*, which sought to improve external reporting on results to ministers and citizens (Independent Review Panel 1997; Canada 2000; Lindquist 2009). These initiatives, after a succession of change and reforms across successive governments, were leavened by the laudable idea of then Secretary of the Treasury Board, Jim Judd, to encourage deputy ministers and agency heads to have discussions with their respective executive teams about 'what kept them up at night' regarding the state and capacity of the organizations they led. What emerged in 2003 was the Treasury Board's Management Accountability Framework that, over fifteen years and many iterations – including more sophisticated ways to share and assess information – has served has a key mechanism for monitoring the performance of departments and deputy ministers, as well as for stock-taking on the administrative systems of their organizations. It informs the annual review of deputy ministers and agency heads, and remains unique by international standards (Lindquist 2016).

MAF, though, has always had its share of internal and external critics. First, it has long been seen as costly, requiring not only a dedicated MAF directorate in Treasury Board Secretariat (TBS), but also demanding considerable staff involvement from departments, agencies, and central agencies to supply data to inform upstream reporting and then to respond to the MAF assessments. Second, some cynicism emerged because departments and agencies which may have not done well one year, could work harder on reporting the next, ostensibly improving their MAF results without materially changing practice. Indeed, Clark and Swain (2005) suggested that this was part of the 'surreal' reporting activities that deputies and agency heads should insulate their organizations from. Third, the number of 'lines of evidence' and indicators, and even the broader categories for monitoring, have shifted over the years. While this can be seen as a process of continuous improvement in reporting by TBS, it nevertheless has required departments and agencies to expend effort to collect and report on new data. Fourth, many top executives do not consider the MAF reporting system and its reports as fueling the kind of internal dialogue once envisioned by its progenitors. Finally, many scholars simply add MAF to their litany of acronyms encapsulating failed reform initiatives, but there has been surprisingly little systematic research of how the reporting system works, the indicators and their validity, nor the extent to which the results make a material difference in assessments of deputy ministers and agency heads by the Committee of Senior Officials (COSO).

MAF is now under review for a third time,[1] with the Treasury Board Secretariat coordinating the evaluation through its Internal Audit and Evaluation Bureau and the MAF Directorate. The review has proceeded in the context of a Trudeau Liberal government elected in October 2015 emphasizing increased focus on results, as well as more open government. It has introduced a new Results Policy and, inspired by the precepts of 'deliverology' (Barber 2008), the Privy Council Office has been working with TBS to encourage departments and agencies to more systematically implement initiatives and measure outcomes. This paper seeks to contribute to this review by suggesting that MAF performs some crucial 'latent' functions in the monitoring and control functions of the Government of Canada, and, with relatively little investment, could create an information resource available to Parliamentarians, the media, and other outside observers. It introduces an 'open government' perspective on MAF (which includes facilitating rapid learning of analysts, Parliamentarians, and outside observers) which stands in contrast to the results, cost

1 The 2009 external evaluation suggested that MAF reporting was generally successful, but pointed to the costs incurred by departments and agencies when responding to data requests. It called for improving TBS' internal coordination when dealing with departments/agencies, more balance and stability in indicators, more emphasis on outcome indicators, better governance and advisory mechanisms, and adopting a risk management approach.

reduction, and risk management lens often applied when evaluating its worth and relevance. Moreover, adopting an open government approach along with social marketing and engagement with key external stakeholders might lead to increased managerial accountability, more interest in MAF and other forms of performance reporting, and a better sense of the demands on departments and agencies and the responsibilities of their leaders.

WHAT IS THE MANAGEMENT ACCOUNTABILITY FRAMEWORK AND PROCESS?

When MAF was first initiated, it sought to provide an overall empirical picture and assessment of the quality of management and systems of departments and agencies then associated with elements of what were considered "well-performing" public organizations: governance and strategic direction; values and ethics; people; policy and programs; citizen-focused service; risk management; stewardship; accountability; results and performance; and learning, innovation, and change management. Efforts by TBS to operationalize what might be desirable practice and good (and often multiple) indicators of performance became legendary, with as many as 41 variables measured, and over 140 measures.

Over many years, the broader categories have evolved as have the measures. The current system emerged after consultation with deputy heads, with the third year (2016-17) in this most recent three-year cycle recently completed.[2] All departments and agencies are assessed in four broad categories: Financial Management; Information Management and Information Technology Management; Management of Integrated Risk, Planning and Performance; and People Management. The extent of reporting varies for large or small organizations; in the 2015-16 MAF round 37 large departments and 23 small departments and agencies participated. If relevant, certain departments and agencies are assessed according to one or more of the following categories: Management of Acquired Services and Assets; Security Management; and Service Management.

The MAF cycle has lead-times not unlike that of the expenditure budget process; indicators and data have to be flagged well in advance, and depart-

2 See Government of Canada, 'MAF Assessment Process'. Accessed on July 8, 2017. https://www.canada.ca/en/treasury-board-secretariat/services/management-accountability-framework/assessment-process.html.

ments and agencies are given opportunities and 'windows' in which to submit their data and reports. Few outsiders know that the Treasury Board Secretariat has long had a dedicated 'MAF portal' to handle the flow data and other information moving back and forth between the departments/agencies and TBS, and to serve as a repository of reports and documents on which everyone can draw. This includes many documents such as audits, evaluations, previous MAF reports, etc. The MAF Directorate and various Treasury Board program and administrative policy analysts – as well as analysts working in other central agencies monitoring other MAF administrative policy areas – review this information, produce draft reports which are vetted by more senior officials in the relevant central agencies, send them for comment to the departments and agencies, and finalize them. As noted, the findings eventually inform the COSO review of deputy ministers and agency heads. Departments and agencies are encouraged to make summaries of the MAF reports available on their web sites, which are regularly mentioned and unevenly available on their corporate web sites along with other reports and disclosures of information. There is no central repository or set of links to these reports.

The data and findings from these final reports are used by the MAF Directorate to develop government-wide roll-ups of the findings and performance of all department and agencies, putting their performance in comparative perspective. It provides detailed information on what indicators and lines of data were developed for each area of management for the 2015-16 and 2016-17 reporting cycles (Canada 2017b). However, unlike what we have come to expect from the UK government, these results are not promulgated on a central government web site as 'league tables'. That said, TBS MAF Directorate does share information the distribution of results across departments and agencies (in aggregate) and does share some year-over-year comparisons (in aggregate).

Interestingly, MAF is depicted on the Government of Canada web pages as part of a larger suite of accountability and 'government oversight' devices along with access to information and privacy tools, department results reports, Audit and Evaluation, Commissions of Inquiry, and TB submissions.[3] Elsewhere I have depicted MAF as an organizational 'systems check' (Lindquist 2009). Indeed, MAF increasingly has the look and feel of a quality assurance

3 See the Government of Canada's 'Government Oversight' page, accessed July 8, 2017. https://www.canada.ca/en/government/system/oversight.html.

and risk management assessment system, but without an audit or independent verification process on the quality or reliability of data or relationship to touted outcomes. The MAF results feed into the review of deputy ministers and agency heads undertaken by COSO. This emphasis on oversight and quality assurance seems a far cry from the internal learning orientation sought by many executive teams.

MAF: LATENT FUNCTIONS, BENEFITS, DISTINCTIVENESS

As noted in the introduction, there is no shortage of grumbling and criticisms of MAF, and it would not add value to repeat them here. The forthcoming TBS evaluation will likely focus on: whether the real and transaction costs for departments and agencies are reasonable;[4] whether MAF focuses on outcomes in a manner consistent with the results orientation of the Trudeau government; and, with the latter in mind, whether deputy ministers and agency heads see MAF reporting as helping them deal with strategic challenges and mandate letters emphasizing key priorities and deliverables, aligned with their strategic plans. Relatedly, there might be calls for more forward-looking ‘capability reviews’ based on the UK and Australian models. What tends to be overlooked in casual and scholarly discussions are the key functions, benefits, and unique qualities of MAF, and, as will be discussed much later, innovative ways to draw public attention to these functions.

First, few outsiders appreciate that the MAF process, its succession of products, and portal serve as an important resource for the usually high-turnover Treasury Board analysts, whether they are responsible for particular departments or programs, or different parts of the administrative policy suite. As these analysts take on their positions or new portfolios, they have to be come ‘instant-smart’.[5] New analysts and managers must be trained up so that they are sufficiently knowledgeable about the process, various policies, and departments and agencies they liaise with. The MAF portal serves as a data-base for analysts on all facets of the management of departments and agencies, assembling department performance reports, evaluations, internal audits, as well as external audits and other reports on departments. Indeed, the very process of analyzing evidence and making judgements across the various

4 Indeed, the presumption that there would be savings without MAF reporting is to miss the obvious point that, regardless of the fate of MAF, *most of the data requested and relied on would be collected anyhow.*

5 This phrase I learned from Ted Semmens, a well-known but retired management consultant in Victoria.

domains and lines of evidence to arrive at the annual MAF assessments means that the Treasury Board Secretariat – and often other central agencies – have to develop a *shared* view of the strengths and weaknesses of departments and agencies. For departments and agencies, which often complain that various hands at 'the centre' know little about what the other are doing, this is no small byproduct.

Second, there has been an over-emphasis on the 'costs' of MAF and too little on possible benefits. Surely, some benefits arise with respect to fostering better risk management and practice improvement in different management areas. Supplying data and reporting on progress and gaps to the MAF Directorate should mean that departments and agencies – and not just the Treasury Board Secretariat – develop a better sense of the exposure of human resource, FOI/privacy, information technology, financial management, security, and service delivery systems within and across departments and agencies. The costs of having such a monitoring system, unless it is divorced from the managerial reality of departments and agencies,[6] would seem a reasonable investment since MAF reports – along with audits, evaluation, and other studies – feed into a broader risk management profile of departments and agencies. However, there is a legitimate concern on the part of deputies and agency heads about whether the MAF reporting and assessment process leads to genuine internal and external strategic conversations about dealing with administrative challenges, either as single issues or in combination (not to mention overload resulting from waves of change).

Third, MAF stands as a noted practice in many comparative studies (Lindquist 2016), but it is unique: it is neither a forward-looking capability review of the kind found in the UK or Australia, nor is it an outcome-focused performance system, attempting to measure how improvements in the capacities and practices of departments and agencies improve the policies and services they deliver. Capability reviews might seem more strategic, and performance measurement systems more relevant to governments, their critics, and key stakeholders, but neither serve to provide administrative system checks in the way MAF does – they are different enterprises. It is not clear, however, whether it is prudent to substitute one for another. Capability reviews, as practiced in the

6 An important question is whether the 'systems check' MAF reporting should be complemented by 'in-person' review teams to spot-check some departments and agencies, perhaps in certain areas (think of PSC audits), to ensure that the reporting is reliable, and not masking more fundamental issues at play.

UK and Australia, provide a future-oriented stock-take of whether the staff capabilities of a department or agency are aligned with its strategic directions – the report provides a temporary compass for recruiting leaders and requisite expertise, but has proven vulnerable by changes in the machinery and priorities of government (Panchamia and Thomas 2014; Australian Public Service Commission, 2015).

MAF reporting could be tweaked to include future capability dimensions in the reporting, and to more likely inform 'strategic conversations' going forward. Likewise, while performance measurement systems are potentially more externally outcome-oriented, to fulfil their potential they require ministerial and deputy champions along with credible forums for reviewing and testing findings – otherwise they quickly become largely political and symbolic exercises, which might compromise more important use of performance information for learning and adjustment at the program level in departments and agencies (de Bruijn 2008; Lindquist 2016).

VIEWING MAF WITH OPEN GOVERNMENT LENS: OPPORTUNITIES AWAITING?

Much of the debate on MAF proceeds through the lens of monitoring results, cost reduction, and risk management. The previous section added a fourth: that of facilitating rapid learning of central analysts and other observers – e.g. MPs, agents of Parliament, scholars, think tanks, interest groups, and associations – seeking to understand the capacity of departments and agencies. This section invokes a fifth lens on MAF – which involves seeking ways to 'open up' and make government more transparent – and points to some very different ways moving forward.

Together, the Open Government and Open Data movements seek to increase the availability of data for outsiders to use, to better lever and join up different kinds of data collected and held by government to better size up problems, design better policy and service delivery solutions, and to better engage citizens. A less considered aspect of this concerns the need to increase the awareness of the state and capacity of departments and agencies, as well as the many cross-pressures and reporting requirements they have to deal with. In this connection, then, a more transparent and readily accessible MAF portal would dramatically lower the costs of making such information available to internal and external stakeholders in the governance system. Indeed, as noted earlier, most of the data MAF seeks from departments, agencies, and other central agencies has already been generated, and in the spirit of 'open by default' thinking, would involve making the data and resulting assessments accessible as quickly as possible.

Even with the most modest expectations, though, MAF reporting is not very open from an open government perspective; potential users must go to department and agency web sites to obtain the summary MAF assessments, and they have to work hard to obtain comparative or year-over-year information (bearing in mind, though, that some indicators and thresholds change over the years, so comparisons might not be easily made). The TBS MAF pages available to the public do not contain a series of links to the MAF assessments and departmental/agency responses to those assessments,[7] nor, as noted earlier, does TBS provide league tables on the rankings of departments and agencies in each MAF reporting domain.[8] Moreover, although there is a limited public-service wide roll-up and analysis of MAF reports, it is not provided in a standard report format, nor are the implications of the government-wide figures drawn out (Canada 2017a).

Converting the MAF portal into an 'open government' platform would not simply be a matter of opening up a portal designed to facilitate transactions internal to the federal public service. To be sure, the MAF portal proper would have to remain closed in order to facilitate the upstream sharing of data between departments, agencies, and central agencies. However, the repository of prior completed MAF assessments and other documentation on departments and agencies could be made accessible by a 'one-stop' for department performance reports, evaluations, internal audits, external audits by different watchdogs, etc. Indeed, some countries (e.g. Norway and Ireland) have started to experiment by sharing such information as part of a broader commitment to support portals that provide longitudinal information on machinery-of-government changes over many decades (MacCarthaigh and Roness 2012; Hardiman et al. 2014; Lindquist 2017).[9]

7 See http://open.canada.ca/en/suggested-datasets/management-accountabilty-framework-maf-results.

8 On the other hand, the use of indicators and rankings may reduce the extent to which the data is used for internal learning and adaptation at the program level (de Bruijn 2008; Mahler & Posner, 2014).

9 The Norwegian State Administration Database can be accessed at http://www.nsd.uib.no/nsd/english/index.html, and the Irish State Administration Database at http://www.isad.ie/.

The benefit of sharing more administrative-related information on departments and agencies would not simply be to 'expose' them. Sharing MAF and other reports would showcase the huge array of accountability and management requirements for deputy ministers and agency heads, serving as a daunting warning shot to ministers seeking to meddle in the obligations and delegated authorities assigned to deputy ministers and agency heads (Brown 2013). They should show the complexities of leading large organizations in over-determined environments, and provide useful context for critics or observers focused on any one strand or dimension of a department or agency. They would also identify capacity issues that should be taken into account when assessing why policies and services might not have been delivered well after a succession of reforms or expenditure restraint or cutbacks, or when considering the potential and risks of departments and agencies taking on new responsibilities.

Public servants are used to producing reports of different kinds, ostensibly because the public demands such information, when the actual take-up is usually (some would say, predictably) quite low. This breeds a certain amount of despair, even cynicism, among public servants because such background information can easily be seen as an adornment or symbolic, even if it could inform broader debates on issues which do attract attention. There could be similar disinterest for MAF reports and other information available or easily linked from a central 'open' repository. Perhaps governments ought to be more proactive in sharing not only the MAF reports, but also the Department Performance Reports and consider resurrecting the issue-and-outcome focused Canada's Performance reports (particularly given the Results and Delivery orientation of the Trudeau government), which were noted internationally in the comparative literature but drew hardly any attention in Canada.

The sharing of such reports should be accompanied by holding roundtables and panels with public administration and other scholars and observers with interests in administrative issues or the policy or service domains of departments and agencies. This could be led by the Treasury Board of Canada Secretariat and proceed in tandem with meetings of the Canadian Association of Programs in Public Administration (CAPPA) and the Institute of Public Administration of Canada (IPAC), as part of a larger strategy of reconnecting public service institutions to the increasingly interdisciplinary field of public administration. This would not only further the knowledge of interested scholars and observers, but also influence the training and development of the next generation of scholars and practitioners emerging from schools of public policy and public administration.

CONCLUSION

Despite the frustrations of and costs to departments and agencies in supplying data, MAF reports provide a unique and organization-focused form of accountability, drawing together diverse data and information already produced for other purposes. MAF reports are not the only evidence considered by COSO and the Clerk in reviewing the performance of deputy ministers and agency heads, but they do feed into the mix. For Treasury Board analysts and for many department and agency counterparts, MAF reporting provides a good sense of where department or agency practices and systems stand in the system, and a sense of whether they are ready to take up new challenges and constraints. This can inform the briefing of incoming executives on department or agency challenges, to understand the organization 'base' from which various priority government policies or administrative issues are to be dealt with. As noted, it is also essential for getting new Treasury Board and other analysts up to speed on the departments and agencies for which they are responsible.

As the Treasury Board and the government more generally consider adjustments to the MAF assessment process, decision-makers should consider its functions and possibilities through the lens of fast-paced learning and more open government, in addition to the usual lens of cost, oversight, and risk management. MAF reports can play important roles in facilitating quicker learning by TBS program and policy analysts (and those above them) and executives in departments and agencies, as well as educating and providing information on tap for scholars and other observers in the media, think tanks, and other attentive organizations dealing with specific issues as they arise. While MAF remains unique and arguably important as an organizational 'systems check', there is scope to introduce more future-oriented lines of MAF reporting (e.g. recruitment, refreshing different systems), which would increase its relevance for executives seeking to engage in strategic conversations.

An open government perspective also suggests that Treasury Board Secretariat MAF reporting should be improved to provide links to the MAF reports promulgated by all departments and agencies. Related documents in the MAF repository should be made more readily available as part of an 'open-by-default' posture. This would lower the costs of accessing publicly available information on departments and agencies, and better inform current and future generations of scholars and other observers interested in their management and performance.

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Chapter 12
ALLOCATIVE EFFICIENCY IN GOVERNMENT SPENDING: THE CASE OF SKILLS AND INNOVATION*

By Helaina Gaspard

INTRODUCTION

What a government spends is different than *how* the money is spent. How a government spends has at least three components: 1) its overall ability to balance revenues and spending; 2) its alignment of spending and/or reallocations with its priorities; and 3) the efficiency with which public institutions deliver products and services (Schick 1998). Assessing how money is spent goes beyond the amount. It becomes a question of performance, accountability, and credibility. In all of the ways Ottawa spends, testing the consistency between government narratives and action by following the money, gives some insight into how government actions align to its stated priorities. How a government spends or does not spend on programs, transfers, and tax expenditures can say a lot at once about its economic and fiscal assumptions and its values.

Take for instance the current federal government's focus on skills and innovation spending. A touted priority of the government, there have been advisory councils and task forces dedicated to fostering a more 'innovative' Canadian economy, and billions of dollars pledged to new initiatives and entities dedicated to this goal. While the priority area is well-recognized in public discourse, do we know how much is *actually* spent on skills and innovation? Prime Minister Justin Trudeau's government is not the first federal government to invest in 'innovation.' There have been layers of spending from previous governments that instead of being reallocated, serve as the base for new or additional funding.

* This Policy Brief is based on a study by the Institute of Fiscal Studies and Democracy (IFSD) at the University of Ottawa on skills and innovation spending in the federal government, *Skills and Innovation: Where's the money?* Parts of the report are reproduced here.

Most federal funding is bedrock funding—the stuff that does not change, upon which layers and layers of topsoil sit. The bedrock funding are statutory appropriations of the federal government that it pays based on legislation, such as employment insurance, student loans and grants, and the Guaranteed Income Supplement. These and other programs represent approximately 60% of all government spending (Office of the Parliamentary Budget Officer, 2016). Since they were approved as statutory programs, Parliament does not have to provide an annual appropriation to keep them operating; the funding is automatically renewed, and the parameters can only be changed through legislative amendment. Levels of statutory spending can vary based on the influencing factors such as demographic shifts, and economic growth that are defined in legislation. New spending or topsoil may be more interesting politically, does not have the permanence of the bedrock, but can nonetheless become quite thick. These increases or decreases to revenues and/or spending take the form for instance, of programs (or program cuts) and tax expenditures (or tax increases).

Spending or cutting at the top layers of spending soil is easy in the short-term. The revenue and spending decisions however, can settle over time and influence overall fiscal health. Thus, to assess how much the government is actually spending, e.g. on skills and innovation, we have to move beyond the upper layers of soil to dig deeper into the sub-soil levels. This can be done by considering the allocative efficiency of spending, i.e. is the government spending in its stated priority areas?

Using current spending on skills and innovation as an example, this Policy Brief illustrates the utility of assessing public spending through the lens of allocative efficiency for a more accurate picture of not only what money is spent but how it is spent. This chapter proceeds by first, discussing a public expenditure management framework. Second, an overview of Canada's fiscal context is presented, reminding that spending decisions have repercussions. Third, the case of skills and innovation spending is discussed, highlighting the breadth of existing spending and the weak performance indicators used to assess it. This suggests that assessing new spending is only one part of the way Ottawa spends. For a more complete picture, the alignment of new and existing spending to priorities should be considered.

HOW GOVERNMENTS SPEND

According to Professor Allen Schick (1998), a government's ability to manage public money has three components: 1) aggregate fiscal discipline (a government's overall ability to balance spending and revenues); 2) allocative efficiency (a government's ability to align spending with priorities); and 3) operating efficiency (a government's ability to deliver programs and services at a reasonable cost and with suitable outcomes to taxpayers). Moving beyond high-level questions of revenue and spending, this frame requires consideration of a full cycle of public spending: from economic and fiscal assumptions; to spending and priority alignment; to delivery.

Table 1

Reproduced in full from "A Contemporary Approach to Public Expenditure Management," by Allen Schick for the World Bank Institute (1998), p. 2, Table 1.1, "Basic Elements of Public Expenditure Management."

Aggregate Fiscal Discipline	Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium-term and beyond.
Allocative Efficiency	Expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs.
Operational Efficiency	Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices.

Tracking spending decisions in this way may not have the same political appeal – unless there's a scandal – as assessing new spending proposals. It is typically a government's budget proposal that gets the most media attention and theatrics in Parliament. Thus, it is understandable that governments prefer to focus on new incremental spending that they can announce rather than doing the grunt work of assessing the existing bedrock of spending. There are three key reasons for this approach. First, new spending can make a government appear to be active policy and change makers. Who would not want the positive press of building a new bridge or establishing a child tax credit? Second, new spending looks like a lot of money when not directly compared to overall government spending. New announcements in the budget are a metaphorical drop in the bucket when compared to the $290 billion spent annually. Third, reviewing and evaluating existing spending can be challenging and may not have clear political gains. In looking at the spending base, a current government would be examining the decisions of all governments that preceded it. The resulting accountability may or may not be wanted or politically useful. For instance, a review may create political losses when particular constituencies or groups see their program or transfer cut or redesigned. Alternatively, it may help a government understand the realities of its fiscal base and potential problem files. It is an open question as to whether a government really wants to know about the hidden risks behind the base of spending. From the perspective of opposition parties and parliamentarians, these announcements and decisions can be endless sources of debate and commentary as they fulfill their role of holding the government to account.

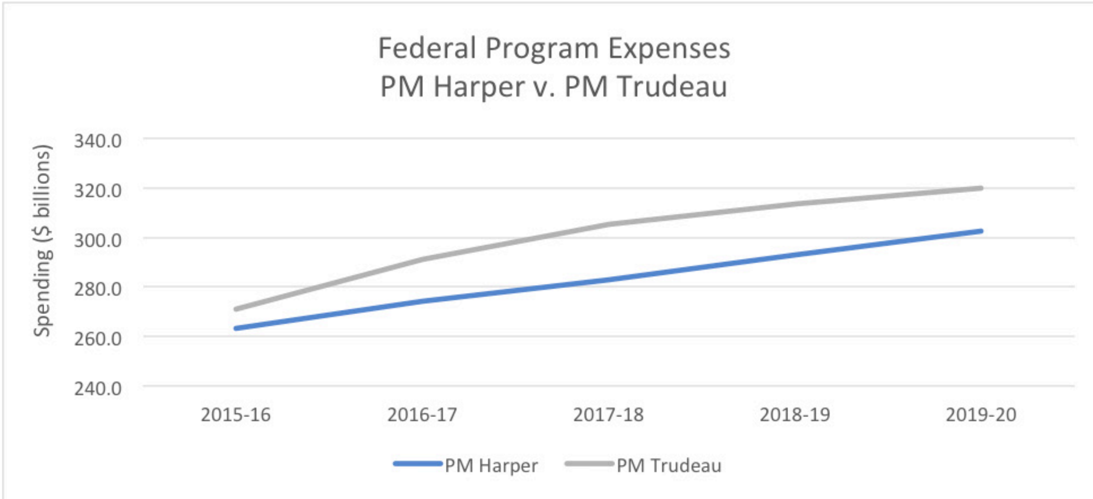
The current government promised in its 2015 electoral platform to use data in their decision-making and that they would “stop funding initiatives that are no longer effective and invest program dollars in those that are of good value” (Liberal Party of Canada 2015). Knowing both what money is being spent and how is the first step in fulfilling a promise for better decision-making. Federal skills and innovation funding is a useful case through which to assess the challenges of spending alignment and the need to review existing spending before new money is allocated.

CANADA’S CURRENT FISCAL CONTEXT

This year, the Government of Canada is projected to spend roughly $290 billion on its activities, people, and capital through its program expenses. Relative to its predecessor, the current government has an ambitious agenda with planned investments in infrastructure, skills and innovation, child welfare, etc. It is little surprise then that Prime Minister Trudeau’s government is projected to outspend that of Prime Minister Harper (see Figure 1).

Figure 1

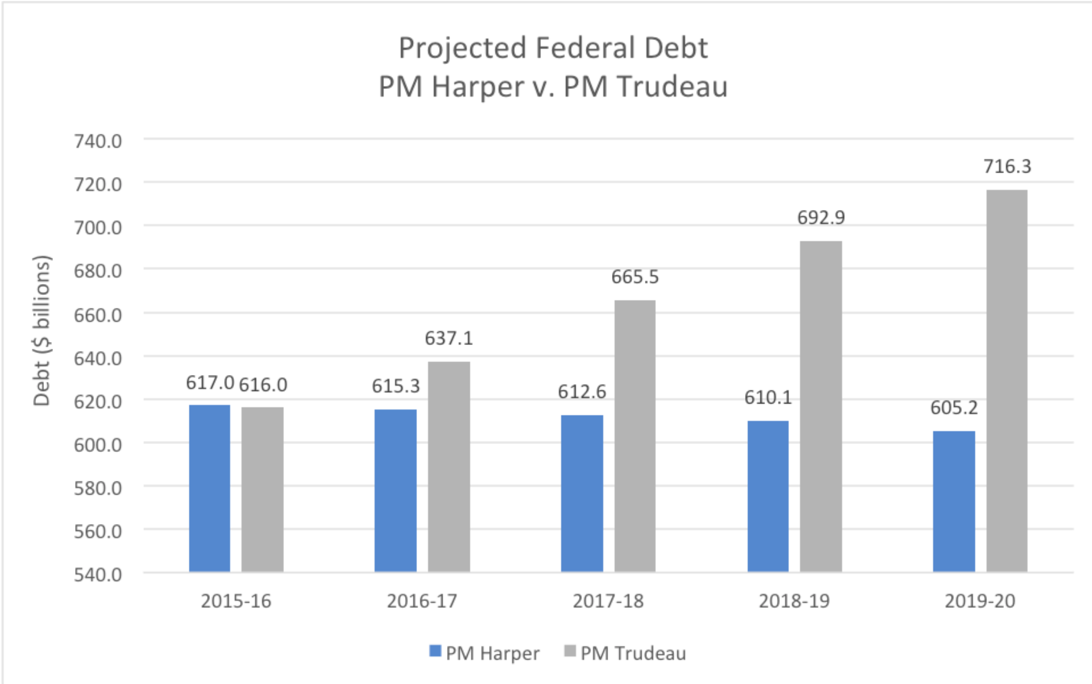
Federal Program Expenses PM Harper v. PM Trudeau



This increased spending is the prerogative of a democratically elected government—it laid out its proposals during the campaign, Canadians made a choice, and now it is up to parliamentarians and Canadians to hold them accountable. Much of the new spending is deficit financed (see Figure 2). Between fiscal years 2015-16 and 2019-20, federal debt levels are projected to increase by 14%. Over the same period under the previous government's spending plans, debt levels were projected to decrease by approximately 2%. With low interest rates, it may be appealing to borrow to finance these investments and activities. This type of spending, however, can be manageable until it is not. If, for instance, interest rates increase or if economic growth weakens, future generations of taxpayers (today's young people) risk being burdened with current spending choices.

Figure 2

Projected Federal Debt PM Harper v. PM Trudeau



This is not to imply that deficit-financed spending is inherently problematic; it should be done carefully and responsibly. When well planned and executed, investments in infrastructure for instance, are expected to yield returns and economic growth (see IMF 2014) that can help to offset increases in debt.

CASE STUDY: SKILLS AND INNOVATION SPENDING

In Budget 2017, the federal government promised $5.2 billion over five years to skills and innovation, fulfilling promises from their 2015 electoral platform. The proposals in the budget connect a skilled Canadian workforce with its capacity for innovation reflected in its proposed spending. For instance, a new organization dedicated to promoting skills development and to measuring the skills gap was proposed ($225 million); there were investments for underrepresented workers like women and Indigenous peoples; and an investment to promote youth in the labour force ($395.5 million). There were also investments for research and development in places like business and post-secondary institutions. A significant $950 million investment over five years to promote integrated innovation was committed to superclusters (see Budget 2017). The current government is but one in a line of governments that have committed to investing in skills and fostering innovation – there is a lot of spending deep in the topsoil to which the government is planning to add another layer. While the nature and merit of the investments will not be discussed further here, citizens and taxpayers should ask themselves what is already being spent by the federal government on these issues, and how that spending base compares to these new proposals.

To understand what the government was already spending, the Institute of Fiscal Studies and Democracy (IFSD) at the University of Ottawa undertook a study of all of the 2014-15 Departmental Performance Reports (DPR) of federal departments and agencies released in 2016 (Treasury Board of Canada Secretariat 2016). These publicly available documents are produced annually to report on the programs of federal departments and agencies, and their planned versus actual costs, and outputs. The Department of Finance's Report on Federal Tax Expenditures (2016) provided the latest available estimates of 2014 tax expenditure information credited to individuals and businesses (Department of Finance Canada 2016). From the DPRs and tax expenditures, all activities related to either innovation and/or skills were captured and sorted based on the following definitions:

> *Innovation:* At its most basic level, innovation can be defined as a means of creating economic and social value through the application of new technologies, products, services, or processes or through their re-application in new and/or different ways (Conference Board of Canada 2011; The White House 2015).
>
> *Skills:* Skills can be defined as the training and development of a labour force to improve human capital for the ends of economic value and productivity. Any labour market or other program that invests in employees and employers and that promotes outcomes for their skills, training, or economic development was considered.

All activities in the two categories were assigned a secondary code to identify their target sector (e.g. science and technology, industry) or populations (e.g. Indigenous peoples, students). The IFSD has made this information available on its website for public access, enabling others to make their own assessments using the data.

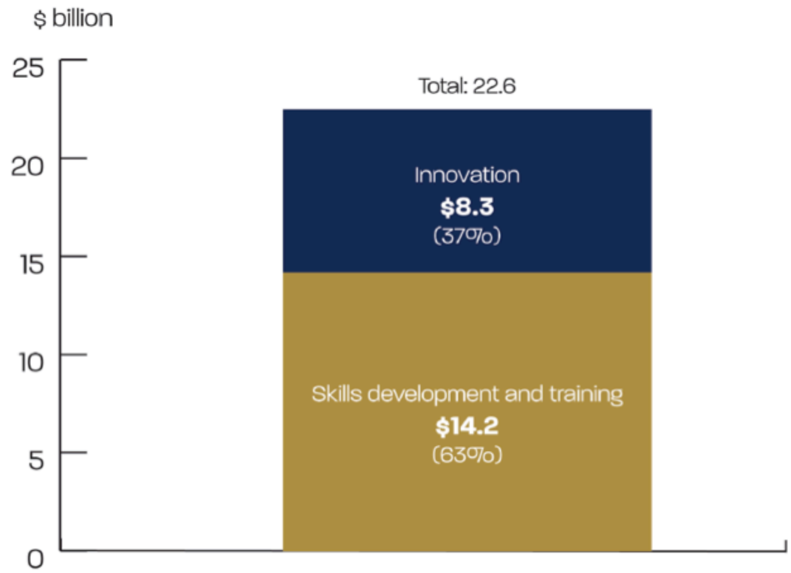
Program information was collected at the most granular level available to present activity details with the most precision possible. In some cases, program descriptions are sufficiently broad that they encompass activities that may be deemed out of scope. For example, a program activity to support both elementary and secondary education for Aboriginal children (what is now Indigenous and Northern Affairs Canada's 'Elementary and Secondary Education,' program, $1.4 billion) was included, although the split between the target constituencies is unknown from the DPR. The reverse may also be true; there may be some programs based on their definitions that were not included but should have been. There was a measure of subjective judgement applied to the government data to make these assessments.

The data suggest that the government is spending approximately $22.6 billion on innovation and skills development and training across 147 activities (programs and tax expenditures) (see Figure 3). Over 60% of the money ($14.2 billion) is spent on skills development and training activities (see Figure 4). These include well-known programs like: the Youth Employment Strategy ($207.7 million) that is used to support the transition of youth into the workforce; the Canada Student Loans Program ($1.7 billion) that provides loans (repayable) and grants (non-repayable) to students to finance post-secondary education; and funding through the labour market agreement that exclusively targets skills ($2.1 billion).[1]

1 Employment insurance (EI) and related 'safety net' programs were not included in this calculation. In 2014-15, employment benefits were valued at approximately $16.2 billion.

Figure 3

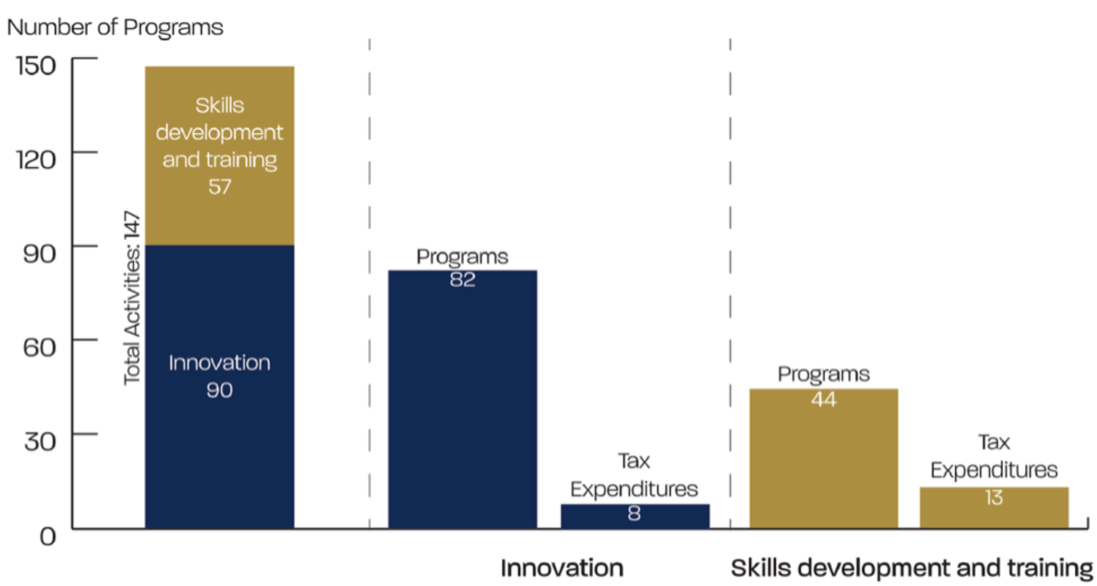
Total Spending on Innovation and Skills Development and Training by Percentage and Dollar Value



Source: Institute of Fiscal Studies and Democracy.
Note: Numbers may not add up due to rounding.

Figure 4

Number of Innovation vs. Skills Development and Training Activities



Source: Institute of Fiscal Studies and Democracy.

Budget 2017 identified six key focus areas for the government's proposed innovation spending, including advanced manufacturing, agri-food, clean technology, digital industries, health/bio-sciences and clean resources, to foster growth and get more Canadians working. There are numerous existing government programs that align with these newly defined action areas. Consider, for instance, the over $1.5 billion in grants and funding for the Natural Sciences and Engineering Research Council (NSERC), the Canadian Institutes for Health Research (CIHR) and the National Research Council, to promote science and health research, as well as the development of related tools and technologies (health/bio-sciences); Agriculture and Agri-food Canada's over $600 million in funding for agriculture research and sustainability (agri-food); and nearly $400 million at Natural Resources Canada alone for initiatives and technologies related to clean technology and clean resources. Broader initiatives such as the Scientific Research and Experimental Development Investment Tax Credit support these focus areas, with $3.0 billion in credits to businesses for eligible expenses related to scientific research and experimental development.

The study demonstrates that the government's proposed $5.2 billion in new spending for skills and innovation, while material, pales relative to the existing $22.6 billion annual spending base. With a significant amount of money already dedicated to programs and tax expenditures, it begs the question – how are these initiatives performing? Is the money aligned to government's priorities? Could the government reallocate the existing spending base to meet its goals instead of deficit-financing new activities?

An important part of responsible financial management is understanding how money is currently being spent before spending more, i.e. assessing performance. If you owned a 10-year old car and were not sure if it would start in the winter, would you buy another car or would you try the one you own first and then decide what to do? The government will find several programs and tax expenditures that align with their goals and may find ways of realigning existing spending to meet their new objectives.

Activity evaluation provides a government with information on program performance relative to stated objectives and outcomes, enabling it to determine whether to continue to fund, redesign or cancel the activity. Value for money assessments consider whether the potential of every dollar spent is maximized. The public, as taxpayers and funders of government activities, are entitled to responsible financial management and should expect activities to derive from a government's declared agenda.

In an attempt to gauge how existing programs are performing, a simple binary code was designed to assess the performance of the 126 programs (performance information is not consistently available for tax expenditures) related to innovation and skills development and training (see Table 2). This framework was intended to roughly assess the robustness of the performance system, not to reapply the current output-focused evaluation framework that the Treasury Board of Canada, Secretariat applies.[2] Performance metrics were considered strong if they contained both a value for money assessment and a requirement for evaluation (i.e. implying that there is assessment not only of program outputs but of outcomes). Anything else was coded as weak. Approaching performance in this way does not assess or comment on the program's underlying policies or target communities; it is instead an attempt to assess the quality of the indicators used to capture information.

Table 2

Performance metric description and count

Metric quality	Description	Count
Strong performance	Output and outcome indicators that support value-for-money assessment and a requirement for evaluation. This is not an assessment of the quality of the outcome, but of the quality of the indicators. Both value-for-money and evaluation must be included for the performance indicators to be considered strong.	20
Weak performance	Anything that is not strong.	106
Grand Total		**126**

Applying the binary frame to the data suggests that the government does not actively assess both value for money and the need for evaluation in its programs. While performance criteria exist, the majority (over 80%) were considered weak as they did not meet the two-part test (see Table 2). Meeting the twin objectives is possible, as demonstrated by the Canada Economic Development Agency for Quebec Regions' Business Performance program's

2 The Treasury Board of Canada, Secretariat's (TBS) guide to developing performance measurement is available here: https://www.canada.ca/en/treasury-board-secretariat/services/audit-evaluation/centre-excellence-evaluation/guide-developing-performance-measurement-strategies.html. While the guide emphasizes the importance of output evaluation, there is no clear requirement to assess the value of money spent.

strong metrics. The program's value for money was assessed by measuring the increase in income and sales volume for coached businesses. This metric suggests that there was measurement of that utility and impact of the spending in relation to stronger business performance. Evaluation was undertaken by assessing the number of businesses that were trained and that disseminated their changes in capacity. Many of the Tri-Council funding agencies program performance metrics were also considered strong as they emphasized the outcomes derived from their investments and not only their immediate products. While not a perfect science, this simple test suggests that the government has an opportunity to more regularly assess program performance and their cost with an improvement to its required reporting criteria.

CONCLUSION

As the case of skills and innovation demonstrates with $22.6 billion in existing allocations, there's a great deal of bedrock spending deep beneath the topsoil of new announcements. One can only imagine existing spending levels across other policy areas. The performance of these programs matters for services, operational efficiency, and is inextricably linked to sound public financial management. Judgements on the salience of incremental spending should be considered in connection to existing programs. A government's ability to balance revenues and spending is but one element of its role. How spending is aligned to its priorities and the results it delivers are as salient for its record, and its capacity to deliver on its promises to Canadians.

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Policy Studies

Chapter 13 POLITICS AND POLICY ON THE FEDERAL- PROVINCIAL JOURNEY TO A LOW-CARBON FUTURE: A NEW ERA OF CANADIAN ENERGY/ENVIRONMENT FEDERALISM?

By Aman Chahal, Zak Jacques, Marc Quintaneiro, and Glen Toner

INTRODUCTION

I*deas* matter in the energy/environment policy domain… but politics drives policy. Sustainable development (SD) ideas began to drive Canadian policies and institutional change in the early 1990s when adopted by the Brian Mulroney Progressive Conservative (PC), and Jean Chretien Liberal governments after being popularized by the publication of *Our Common Future* in 1987, and the Rio Earth Summit in 1992. Five election outcomes between 2013 and 2015 shifted the fulcrum of Canadian energy/environment policy back toward sustainability. Liberal victories in British Columbia (BC), Québec, and Ontario, the New Democratic Party (NDP) victory in Alberta, and the Liberal victory federally opened a window of opportunity for SD ideas to once again shape policy after a decade on the sidelines under the Stephen Harper Conservative government. Without those electoral outcomes and in particular the defeat of Conservative governments federally and in Alberta, Canadians would not be having today's discussion about sustainability and integrated energy/environmental policy. Put simply, a re-elected Harper government would not have launched the policies discussed below; indeed for a decade it aggressively undermined SD policy ideas in favour of a policy framework which blatantly privileged oil, gas and mining developments over environmental considerations (Winfield 2016).

This is the third in a series of *How Ottawa Spends* chapters analysing the politics of the energy/environment policy domain under the Harper Conservative (2006-2015), and Justin Trudeau Liberal (2015-) governments.[1] The first chapter documented the Harper government's wedge politics approach to governance and its attempt to systematically reverse the SD policy innovations introduced by the Mulroney and Chretien governments. The second chapter explored Trudeau's decisive October 2015 defeat of Harper and the reestablishment of a policy agenda imbued with SD values including an intergovernmental engagement approach to governance. This chapter covers developments in the first 18 months of the Trudeau government as it launched an intensive process of engagement with provincial and territorial governments to entrench sustainability values in a Pan-Canadian Framework on Clean Growth and Climate Change (PCF). As Table 1 shows, Canada's four largest provinces include 86% of the population and produce over 80% of Canada's greenhouse gas (GHG) emissions. These provinces are the focus of this chapter as their governments were all strong advocates of the PCF.(VanNijnatten 2016 and Doern, Auld and Stoney 2016) argue that historically federal governments have struggled to provide serious leadership to provinces pursuing sustainability goals. Given this history, we ask if the Trudeau government's policies can deliver adequate support to these provinces' efforts to reduce emissions and strengthen low carbon economic growth and whether this approach represents a new era of energy/environmental federalism.

Table 1: Emissions Intensity Summary

	BC	AB	ON	QC	Canada
Population[1] (million)	4.7	4.2	13.8	8.3	35.8
GDP[2] (million)	$188,308.00	$169,822.00	$501,462.00	$278,313.00	$1,315,785.00
Total Emissions[3] (MT CO_2)	61	274	166	80	722
Emissions per Capita (MT CO_2/ person)	13	66	12	10	20
Emissions Intensity (MT CO_2/ $billion GDP)	0.32	1.61	0.33	0.29	0.55

[1]Statistics Canada, CANSIM, Table 051-0001

[2]Statistics Canada, CANSIM, Table 384-0038

[3]Enviornment and Climate Change Canada, NIR,Table A10-2 and Table 12-2

1 See Toner and McKee 2014 and Toner et al, 2016a.

CONTEXT

21st Century energy policy is intimately intertwined with environmental policy and is now substantially driven by climate change related issues. The Liberals assumed power just before the United Nations Framework Convention on Climate Change Conference of the Parties (COP21) convened in Paris in December 2015, thrusting the climate change file into the limelight and testing Liberal campaign commitments immediately (McCarthy 2015). The 2014 Fifth Assessment Report of the Intergovernmental Panel on Climate Change's (IPCC 2014) consolidated the scientific certainty of anthropocentric climate change leading countries to embrace the goal of instituting mitigation policies to cap global temperature rise to 2 degrees above preindustrial levels (it has just passed 1 degree). "Almost 200 nations pledged to fight climate change when the Paris deal was signed…" (Strauss and Parkin 2017).

Trudeau's governance approach to COP21 could not possibly have been more different than Harper's. It started with a First Ministers Meeting on 23 November 2015 that included a briefing by climate scientists who revealed that Canada's rate of warming is about twice the global rate (Fekete 2015), whereas Harper had simply refused to meet with provincial/territorial leaders for the previous six years and muzzled climate scientists (Hoberg 2017). Trudeau actually invited premiers and Indigenous leaders to join the Canadian delegation to Paris.

In the absence of federal leadership over the Harper decade, provincial governments stepped forward with policy innovations. The Liberal government of BC instituted North America's first carbon tax in 2008. The Québec Liberal government launched its cap-and-trade emission reduction system in 2013 and joined California in targeting major emitters in 2014. In 2015 Albertans replaced a 44 year PC dynasty with a NDP government determined to shed Alberta's status as an 'international pariah' by applying a carbon tax and phasing out coal-fired electricity production (Leach et al. 2015, 23). In 2014 the Ontario Liberal government eliminated coal-fired electricity production and later announced a climate change program that included joining the California/Québec cap-and-trade system, enhancing building efficiency codes and retrofits, and expanding the uptake of zero emission and plug-in hybrid electric vehicles (EV).

Post-Paris, Trudeau met First Ministers in March 2016 to develop an intergovernmental climate change strategy. The Vancouver Declaration on Clean Growth and Climate Change that emerged was built on the 2015 provincial and territorial Canadian Energy Strategy and on the Paris COP21 Agreement (CICS 2016). This was the first time First Ministers had met in over a decade to craft a joint approach to climate change and they understood the need to show progress now that collaboration was possible. To address differences First Ministers created four working groups of federal and provincial officials on: clean technology, innovation and jobs; carbon pricing mechanisms; specific mitigation opportunities; and adaptation and climate resilience. On 9 December 2016 the Pan-Canadian Framework on Clean Growth and Climate Change (PCF) was signed by all First Ministers except the conservative Premiers of Saskatchewan and Manitoba (Canada 2016b).[2]

The first Liberal budget announced over $7 billion of initiatives to: address climate change and upgrade infrastructure; create a low-carbon economy fund; build charging stations for EV and hydrogen and natural gas refueling stations; retrofit buildings and improve standards for vehicles and products. There were also multi-billion dollar investments in science and innovation in both the university and government sectors to support clean energy and environment initiatives (Canada 2016a). In their second Budget in March 2017, the Liberals outlined plans to advance Canada's efforts to build a clean economy by investing $21.9 billion in green infrastructure, including initiatives that will support the implementation of the PCF (Canada 2017). To support those provinces which had already introduced a price on carbon through a carbon tax or cap-and-trade program, the Liberals reiterated their pledge to introduce a backstop carbon levy that would apply in provinces and territories that do not meet the federal carbon pricing benchmark by 2018.

ANALYTICAL THEMES: PARTISAN POLITICS

Electoral politics matter: the governments of the four big provinces were enthusiastic supporters of the spirit and mission of the Pan-Canadian Framework. BC has been a climate change innovator since 2008 when Liberal

2 Premier Brad Wall of Saskatchewan refused to sign on the basis that he rejects the federal government's right to require a minimum price on carbon in all provinces. Newly elected Premier Brian Pallister of Manitoba refused to sign in the hope of using Manitoba's agreement on pricing carbon to extract additional funds for health care from the federal government.

Premier Gordon Campbell introduced a policy framework that created a provincial carbon tax, a low carbon fuel standard, and a clean electricity standard. His successor, Christy Clark, weakened some of these staple policies by freezing the province's carbon tax and amending the clean electricity standard to allow for natural gas generation. So BC was at risk of slowing its progress towards a low-carbon economy. But partisan politics once again shifted power in the energy/environment policy domain. After the May 2017 provincial election Christy Clark was defeated and the John Horgan led NDP formed government with the formal support of the Green Party, which signed an accord providing the NDP with a one vote majority. Andrew Weaver, the leader of the BC Green Party is a highly regarded climate change scientist; therefore the Green's influence should actually strengthen BC's commitment to the PCF.

Two major points of division between the Liberals and the NDP and Greens are the Site C hydroelectric dam project on the Peace River and the expansion of the Trans-Mountain Pipeline (TMX) carrying bitumen from Edmonton to Vancouver. Both the NDP and Greens are opposed to the TMX and have promised to employ every tool available to stop the expansion, and the corresponding increase in bitumen tanker traffic on West coast waters. On the Site C project the NDP will refer the project to the BC Utilities Commission for review on the question of economic viability and consequences for ratepayers.

Motivated by a desire to prevent federal regulation of its oil and gas sector, Alberta introduced an emission charge on industrial emitters in 2002. The Alberta NDP victory in 2015 shifted the balance of power in the Canadian energy/environment policy domain fundamentally, as Alberta moved from an obstructionist approach on climate policy under various PC governments (Macdonald 2016) to implementing a policy framework that covers the main polluting sectors of its economy. Alberta was responsible for approximately 82% of Canada's GHG emissions growth from 1990-2015 (ECCC 2017b) as ineffective PC policies did little to slow emissions growth as oilsands production boomed. In November 2015, NDP Premier Rachel Notley unveiled Alberta's climate change strategy as both a commitment to act on climate change, and as a strategy to get Alberta's oil to global markets. Alberta oilsands bitumen has been labelled 'the dirtiest oil in the world' and the NDP hoped that action on climate change would make bitumen exports more acceptable. The strategy includes: a carbon price; a coal phase-out for electricity production by 2030;

a 100 megatonne (Mt) emission cap on the oilsands sector; reducing methane emissions from oil and gas operations; financial support for renewable power sources; and a province-wide energy efficiency program (Alberta 2017b).

In 2013 the Liberal government of Ontario executed the single most impactful emissions reduction regulation in North America by ending coal-fired electricity production (OPA 2013). Ontario also expanded renewable energy production through the 2009 Green Energy and Economy Act and reduced electricity consumption through efficiency and conservation policies. Ontario's electricity system is now largely fossil fuel free with natural gas generators used only to meet peak demand. Liberal Premier Kathleen Wynne has been a strong proponent of the PCF, however, electricity prices have become an election issue in Ontario and the 2018 provincial election could significantly alter the politics of the PCF if the PCs were to win a majority government. Unlike most conservative leaders in Canada, PC leader Patrick Brown says he believes the science of climate change and supports a carbon tax. Yet he says he will kill Ontario's cap-and-trade carbon pricing system and it is unclear from the PC platform at the time of writing whether Brown would withdraw Ontario from the PCF (Hepburn 2017).

Québec has long had a strong societal and cross-partisan political consensus on the need to mitigate GHG emissions and grow a low-carbon economy. Liberal premier Philippe Couillard was a strong proponent of the PCF and the opposition Parti Québécois has committed to exceed the Liberal's emission reduction commitments by 5 percentage points if elected in 2018. (Parti Québécois 2015). The Liberal's 2013 *Climate Change Action Plan* and *Climate Change Adaption Plan* created a cap-and-trade carbon pricing system and committed the province to meet emissions reduction targets that matched that of the Kyoto Protocol, even though Harper had withdrawn Canada from the Protocol two years earlier (Curry and McCarthy 2011).

PRICING CARBON

Nowhere is the ideological schism between Canadian conservatives and their Liberal and NDP opponents in this policy domain more striking then on the issue of pricing carbon. Putting a price on carbon to account for negative externalities and to incent reduced consumption is a core SD principle. Of the fourteen contenders in the 2017 race to replace Harper as leader of the federal

Conservatives only one supported carbon pricing. The leadership race winner, Andrew Scheer, made only one substantive policy commitment in his victory speech and that was to kill Trudeau's carbon price and to eliminate federal sales tax on heating fuel and natural gas for homeowners. The two provinces with conservative governments are the only ones refusing to price carbon and join the rest of Canada's governments in the PCF.

In 2008, BC introduced the first climate policy to establish a carbon tax. The carbon tax started at $10 tonne CO_2 in 2008 with a five-year scheduled rate increase of $5 per tonne CO_2 until 2012. In 2013, the Clark government froze the price at $30 tonne CO_2. All revenue collected has been refunded through corporate and personal income tax cuts and rural community tax credits. The new NDP government has committed to strengthening the BC carbon tax by $5 a year starting in 2018. This will ensure BC meets the federal price by 2022. To offset the price increase, the NDP will issue rebate cheques to low and middle income households.

A carbon tax is also the centerpiece of Alberta's new framework, starting at $20/tonne of CO2 rising to $30/tonne in 2018. The Alberta carbon price model includes a direct tax on most transportation and heating fuels and emission intensity benchmarks for large industrial emitters, which taxes emissions from facilities that do not meet the province's established benchmark. Over three years the tax is expected to raise $5.4 billion with Alberta rebating money directly to low and middle income Albertans and putting the rest into small business tax cuts, renewable energy production and other climate change mitigation projects. Alberta has phased in its carbon tax and is currently designing its pricing scheme for large industrial emitters.

In 2013, Québec became the first province to join the Western Climate Initiative (WCI), establishing a cap-and-trade system that linked its carbon market with California. As of 2016, Québec firms in the electricity, industrial, transportation, and building sectors with annual emissions greater than 25,000 tonnes are mandated to participate in the cap-and-trade system (ICAP 2017). All revenues from the sale of emission permits are placed in Québec's Green Fund, which is used to fund the province's emissions reduction initiatives. From December 2013 to February 2017, the cap-and-trade system generated over $1.45 billion in revenues for the Green Fund (Québec 2017).

Ontario plans to join Québec and California in the WCI in 2018 and held its first cap-and-trade auction in March 2017. The auction sold out all current emission allowances giving the new market a strong start while raising $472 million. The second auction in June also sold out raising $504 million (Jones 2017). The Liberal government hopes the quarterly auctions will bring in $1.8 billion a year which will be invested in programs that reduce emissions and help businesses and consumers adapt to a low-carbon economy. At this early stage many large emitters receive allowances for free until 2020 to prevent them from moving to jurisdictions without carbon pricing.

In October 2016 the Trudeau government announced it would backstop provincial carbon pricing by introducing a national plan to ensure that all Canadians would participate regardless of where they lived. Budget 2017 reiterated the federal pledge to provide a backup plan for those provinces leading with their own carbon levies. In a technical paper released in May 2017 the federal government proposed to give provinces three options for pricing carbon: legislate their own levy on emissions starting at $10 a tonne in 2018, legislate their own cap-and-trade system which can show it will produce equivalent cuts in emissions as a carbon tax, or use a hybrid model largely based on Alberta's program (ECCC 2017a). The carbon levy will increase by $10 a year to $50 a tonne by the end of 2022. The federal levy will only apply to provinces which do not have a levy or have a levy that does not meet the federal baseline. If the federal government was required to impose its backstop levy, the province in which the levy is imposed would receive the revenues (McCarthy 2017).

DE-CARBONIZATION POLICIES

Tables 1and 2 present the key metrics on each province's emissions, while Table 3 identifies the policy instruments being deployed in each province. This section outlines instruments currently deployed in each province and identifies federal programs and regulations designed to support these provincial initiatives.

Table 2: Canada emissions profile summary by sector and province.

	2015 Emissions (MT CO_2 equivalent)					Sector as percent of total emissions				
Sector	BC	AB	ON	QC	Canada	BC	AB	ON	QC	Canada
Industry[1]	19.9	149.4	39.8	18.9	265.3	33%	55%	24%	24%	37%
Transportation	22.7	32.5	55.0	31.2	173.0	37%	12%	33%	39%	24%
Buildings	0.3	13.5	7.4	1.8	85.6	1%	5%	4%	2%	12%
Electricity	0.7	5.4	7.5	2.4	78.7	1%	2%	5%	3%	11%
Other[2]	17.4	73.3	56.5	25.8	119.1	29%	27%	34%	32%	17%
Total	60.9	274.1	166.2	80.1	721.8	100%	100%	100%	100%	100%

[1] Includes emmission intensive and trade exposed industries

[2] Includes Waste and Agriculture

Table 3: Summary of federal and provincial clean energy program commitments

Sector	Policy Area	Program	BC[1]	AB[2]	ON[3]	QC[4]	Canada[5]
Transportation	Electrification	EV Subsidy	X		X	X	X
		EV Infrastructure	X		X	X	X
		Incentives to Promote EV Use	X		X	X	X
	Fuel Standard	Renewable Fuel Standard	X	X	X	X	X
	Public Transit	Cycling/ Walkability			X		
		Invest in Public Transport	X	X	X	X	X
	Fuel Switching	Investment in Biofuels			X		X
		Promotion of Vehicles Converting to Biofuels	X		X	X	
Electricity	Decarbonize	Increase Renewables	X	X		X	X
		Replace High-Emitting Sources	X	X		X	X
	Conservation	Promote Energy Efficency	X	X	X	X	X
	Infrastructure	Trasmission Connections	X		X	X	X
Industry	Large Emitters	Efficiency Standards	X	X		X	
	Changing Inputs	Invest in Cleantech Adoption		X	X	X	X
	Regulate Emissions	Develop Regulations and Standards	X	X		X	X
Buildings	New & Retrofit	New Building Standard	X	X	X	X	X
		Cleantech Diffusion	X	X	X	X	X
		Appliance Standards	X	X	X	X	X
	Retrofit	Public Buildings	X		X	X	X
		Commercial Buildings			X		X
		School/ Hospitals	X		X		
Economy	Cleantech Innovation	Regulatory Support		X	X	X	X
		Investment Support	X	X	X	X	X
	Carbon Price	Carbon Tax/ Cap-and-Trade	X	X	X	X	X

[1]British Columbia, 2016
[2]Alberta, 2017b
[3]Ontario, 2016
[4]Quebec, 2016
[5]Canada, 2017

From 1990-2005, BC's emissions grew by 12 Mt but after 2005 fell slightly due to policies implemented under Campbell's Climate Action Plan. Transportation and industry are responsible for 64% of BC's total emissions, and will require substantial policy intervention if BC is to reduce emissions further. BC's oil and gas sector accounts for 22% of emissions, and is expected to be the largest source of emissions growth due to expanding gas production (Morgan 2017d). BC is currently designing a methane emissions strategy for the oil and gas sector to reduce emissions by 45 percent below 2014 levels by 2025. The province also has a carbon-neutral public sector commitment and has achieved carbon neutrality by emission reduction programs and investments of $51.4 million in offset projects (British Columbia 2015). The May 2017 election outcome has kick-started a new NDP climate change strategy including a partnership with the Mayors' Council on Regional Transportation and the federal government to improve transit and transportation infrastructure and increase energy efficiency in the buildings sector.

Alberta is responsible for 37 % of Canada's total GHG emissions, despite having only 11.6 % of the population. The oilsands sector is responsible for 50% of the province's oil and gas sector emissions and 24% of the province's total emissions. The oilsands sector was the fastest growing source of emissions in Canada from 1990-2014, growing by 430% due to the rapid increase in bitumen extraction and upgrading. Alberta is redesigning its methane regulations for the oil and gas sector to reduce methane emissions by 40-45% and placing a cap on oilsands emissions. Alberta has also implemented a carbon tax, a renewable energy procurement program, a province-wide energy efficiency program, a coal phase-out plan, and is updating the design of its industrial emissions reduction system. Approximately $500 million in funding from its carbon tax revenue was used to create Energy Efficiency Alberta which will introduce rebates for residential upgrades, appliance upgrades, business and institutional upgrades, and fund residential and commercial solar programs (Energy Efficiency Alberta 2017).

Alberta aims to generate 30% of its electricity by renewables by 2030. Due to its current reliance on coal for power generation, Alberta's electricity sector is the province's second highest source of emissions. The eighteen coal-fired power plants in the province account for roughly 62% of generation and 84% of total emissions from the sector. In a very dramatic example of policy leading to changes in corporate attitudes and practices, Alberta's two largest electricity producers announced in May 2017 that they would convert their generating stations from coal to natural gas well before the NDP's 2030 deadline. ATCO plans to convert from coal to gas by 2020 and TransAlta by 2022. ATCO also stated that it will increase renewable power generation in its portfolio to meet the NDP's target of 30% renewable generation by 2030 (Morgan 2017a).

As Canada's largest province by population and GDP, Ontario is critical to Canada's commitments to combat climate change. The electricity sector makes up just 3% of Ontario's emissions after the coal phase out. At 33%, transportation is Ontario's largest emitting sector. Ontario's Liberal Government, through its Climate Leadership Plan, has announced a comprehensive set of policies targeting the transportation and buildings sectors. Ontario's plan focuses on the electrification of transportation, investments in public transit, and the promotion of fuel switching. Ontario is investing in the diffusion of EV home charging stations while also investing in EV infrastructure to ensure there are connected highway corridors to support EV. In addition to the highway infrastructure, new codes are being developed that will ensure that new houses are ready to support EV charging stations. EV rebates will encourage owners to replace older, higher emitting vehicles.

In addition to electrification, Ontario is developing a new fuel standard that will require a percentage of renewable fuel content in gasoline and a low carbon content standard for natural gas. The Green Commercial Vehicle Program and investments in low emission fueling stations are intended to increase the use of low carbon trucks and busses. Public transportation investments will expand regional rail service and develop infrastructure to promote cycling and walking. Ontario's programs target government buildings, schools, hospitals and social housing for emission reduction retrofits through clean technology diffusion within buildings and strengthened appliance standards. Clean technology incentives to deploy low-carbon energy technologies in private homes, promote Near Net Zero Homes and expand the access to smart meter data to support clean energy programs will enhance energy efficiency. With these programs and the cap-and-trade system, Ontario is targeting a reduction in GHGs of 15% below 1990 levels by 2020 (Ontario 2016).

Transportation is Québec's largest emitting sector, accounting for 39% of provincial emissions in 2015. As a result, Québec's emissions reduction strategy deploys a single overriding policy direction: increased electrification. Québec's 2015 Transportation Electrification Action Plan (TEAP) targets for 2020 are to increase the number of EV in Québec to 100,000, reduce fuel consumption by 66 million litres, and create 5000 new jobs in the electrified transportation industry. TEAP is expected to reduce emissions by 150,000 tonnes annually through rebates for EV and charging units, investment in public charging infrastructure and research, development, and demonstration of technologies throughout the electrification industry's supply chain, and EV sales requirements (Québec 2015).

Québec's 2030 Energy Policy sets out energy efficiency and de-carbonization targets for industry. Funding is available to small and medium enterprises that face higher input and operating costs as a result of the cap-and-trade system. Québec's industrial emissions reduction strategy will help firms convert their industrial processes and boiler technologies to more efficient options. By financially supporting these process conversion projects, the Québec government aims to reduce the sector's use of petroleum products by 40% and eliminate the use of thermal coal in industrial processes by 2030 (Québec 2016). Québec's electrification goals for transportation and industry are made possible by a decarbonized electricity sector which has the capacity to meet the increase in demand that will follow the deployment of these policies. A spokesperson for Hydro-Québec noted that the province could "easily... welcome a million electric vehicles without having to make any major investments in [the] infrastructure or systems" (Dubinski 2016).

In their first two budgets the Trudeau Liberals allocated significant expenditures to support provincial and territorial initiatives, including a $2 billion Low Carbon Economy Fund. Budget 2017 includes $9.2 billion in bilateral agreements to the provinces and territories over the next 11 years to support projects that reduce GHG, safely manage wastewater, help communities prepare for challenges that result from climate change, and help build cleaner, better-connected electricity systems. $11.4 billion over four years was allocated to accelerate the replacement of coal-fired electricity generation by 2030. $3.4 billion was allocated over three years to upgrade and improve public transit and $300 million over 11 years to launch a Smart Cities Challenge Fund. An additional $2.8 billion will be invested over the next 11 years through a series of national de-carbonization programs, including:

- $100 million to support next generation smart grid, storage and clean electricity technology demonstration projects.
- $200 million to support the deployment of emerging renewable energy technologies nearing commercialization.
- $220 million to reduce the reliance of rural and remote communities south of the 60th parallel on diesel fuel, and support the use of more sustainable, renewable power solutions.
- $120 million to deploy infrastructure for EV charging and natural gas and hydrogen refueling stations, as well as to support technology demonstration projects.
- $182 million to develop and implement new building codes to retrofit existing buildings and build new net-zero energy consumption buildings across Canada.
- $2 billion for a Disaster Mitigation and Adaptation Fund to support national, provincial and municipal infrastructure required to deal with the effects of a changing climate. (Canada 2017, 122)

The Budget reiterated Trudeau's 2015 pledge to bring Canada into the international clean technology collaboration "Mission Innovation" (Canada 2015) by doubling Canada's 2014-15 baseline expenditures of $387 million for clean energy and clean technology research, development and demonstration by 2020 and also by strengthening existing instruments deployed by Business Development Canada, Export Development Canada, and Sustainable Development Technology Canada to support companies in the clean technology sector. A new Canada Infrastructure Bank is intended to invest $35 billion and leverage additional private sector and pension plan funds over 11 years to support "transformative projects such as public transit plans, transportation networks and electricity grid interconnections" (Canada 2017, 119). If even a significant portion of this spending is achieved it will be the largest allocation to clean growth and climate change in Canadian history.

Four departments are primarily responsible for implementing these plans. Natural Resources Canada (NRCan) leads energy efficiency and building standards programs and funds and conducts clean technology R&D programs through its Innovation and Energy Technology Sector – all priority areas of the Pan Canadian Framework. Budget 2017 provided NRCan $135.4 million for decarbonizing Canada's transportation sector and developing a legislative framework for offshore renewable energy projects. The Budget also provided an additional $229 million to continue R&D activities in clean transportation areas; $200 million to support clean technology R&D in the natural resources sector; $67.5 million to renew energy efficiency programs (such as Energy Star for products, homes and buildings); and $13.5 million to reduce GHG emissions from federal government operations.

These funding commitments build on energy innovation goals established in 2016, which reoriented NRCan's innovation priorities to include EV infrastructure and clean energy under its new Energy Innovation Program (EIP). Under Harper, NRCan's support for energy innovation focused almost exclusively on hydrocarbons, with the department's largest funding project being the large-scale carbon capture and storage demonstration project at the Boundary Dam coal-fired power plant in Saskatchewan. Projects under the EIP now include: renewables, smart grid and storage systems; reducing diesel use by industrial operators in northern and remote communities; methane and volatile organic compounds emission reductions; reducing emissions in the building sector; and improved industrial efficiency. Specific projects that have received funding under these programs are still being rolled out; however, pivoting the department's innovation focus to include renewables, EV infrastructure, smart grid and storage systems, and the building sector represents an important policy shift for NRCan as Canada transitions to a low-carbon economy.

Innovation, Science and Economic Development Canada (ISED) has developed the Automotive Supplier Innovation Program to develop and commercialize new products to improve fuel efficiency, develop better EV battery charging infrastructure, and design lighter weight engines to reduce vehicle weight and emissions. The Ministers of ISED and Transport Canada (TC) in May 2017 announced an advisory panel "aimed at bringing more zero-emission vehicles to roads across the country" (Siekierska 2017). Budget 2017 injected $400 million into Sustainable Development Technology Canada (SDTC), the largest investment since its inception in 2001. Earlier in 2017 Canada and BC announced a partnership between SDTC and BC's Clean Energy Fund to support the development of clean technologies in BC. With climate leadership plans in Alberta, Ontario and Québec all identifying opportunities to advance clean technology development, additional federal-provincial collaborations are likely. To strengthen demand for these emerging clean technologies, the federal government has committed a portion of federal departmental procurement for clean technology products. The departments will serve as first customers for new technologies and help companies gain credibility and a path to market. The program requires the National Research Council to evaluate the technologies and match them to host departments. In addition, the federal government has committed to improving access to existing programs and identifying "bottlenecks" that impede growth in key sectors like clean technology with the creation of Innovation Canada. Innovation Canada is intended to be a one stop shop for Canadian innovators that will simplify access to government programs.

Transport Canada's ecoTechnology for Vehicles Program conducts laboratory and field testing on new and emerging advanced vehicle technologies for cars and trucks to help inform the development of regulations, codes and standards that will ensure these technologies are introduced in Canada in a timely manner. The Northern Transportation Adaption Initiative is a $4 million grant and contribution program to support territorial governments and not-for-profit private sector R&D activities to develop resilient transportation infrastructure and innovative technologies and practices. The Shore Power for Ports program provides shared cost funding for the deployment of marine shore power technology at Canadian ports. Shore power allows ships to plug into the local electrical grid to power the vessel instead of using their auxiliary diesel engines when docked.

The Trudeau government changed the name of its primary regulatory department in the area to Environment and Climate Change Canada (ECCC). ECCC is rolling out new federal GHG regulations, in addition to the carbon levy, that will backstop provincial policies and drive emission reductions under the PCF. To date, ECCC has accelerated regulations to advance Canada's coal phase-out, strengthened emission standards for natural gas electricity plants, and is developing methane regulations for oil and gas production. It has proposed a

Clean Fuel Standard regulation to increase the use of lower carbon fuels and alternative energy technologies. The purpose of this suite of regulations is to prevent provincial backsliding on carbon mitigation and entrench long-term emission reductions in Canada.

On 15 June 2017 ECCC revealed the content of the $2 billion Low Carbon Economy Fund announced in the 2016 Budget. This fund is a critical part of the Pan-Canadian Framework as it provides finances to provincial and territorial partners to help reduce emissions. $1.6 billion has been allocated to the Low Carbon Economy Leadership Fund which is available to the provinces and territories who have adopted the PCF, while a smaller $600 million Low Carbon Economy Challenge will be available to provincial and territorial agencies, municipalities, Indigenous organizations, businesses and not-for-profit organizations in all provinces. Manitoba and Saskatchewan have been given until the end of 2017 to sign onto the PCF and access the funds available in the Leadership Fund. Each eligible province will receive a base of $30 million plus a per-capita share of up to $1 billion. If Saskatchewan and Manitoba do not sign on to the PCF their shares of the Leadership Fund (about $62 and $66 million respectively) will be transferred to the Challenge Fund where all provinces can apply for funding. ECCC Minister Catherine McKenna stated that "it is only fair" that the provinces that stepped up to help Canada meet its international commitments to reduce emissions get to share in the Leadership Fund (Rabson 2017).

EMERGING CHALLENGES TO THE NEW ERA OF ENERGY/ ENVIRONMENT FEDERALISM

In their first eighteen months in power the Trudeau Liberals revealed their vision of a Canada that is reducing domestic consumption of hydrocarbons and growing the low carbon economy while simultaneously developing oil and natural gas for export. While the PCF is steadfastly about reducing GHG emissions and accelerating Canada's transition to a low carbon economy, Trudeau's approval of the TMX expansion from Edmonton to Vancouver and the Pacific NorthWest LNG export terminal in Kitimat, support for the Keystone XL Pipeline project to carry bitumen to U.S. refineries, and continuing review of the Energy East bitumen export pipeline proposal from Alberta to New Brunswick, shows that the Liberals are also strong supporters of oil and gas development. Speaking in Houston in March, 2017 Trudeau stated "No country would find 173 billion barrels of oil in the ground and just leave them there" (CBC 2017a). Some consider these dual goals to be a paradox that undermines his government's efforts to help transition the world to a low carbon future.

However, critics who consider the Liberal's approach problematic must remember that conservative governments in Canada have not accepted the science of climate change, instituted a serious price on carbon, or shown much interest in a low carbon growth trajectory (Selley 2017). By any measure, the level of programmatic and financial support the Trudeau government has committed to the goals of the PCF is historic. The federal carbon levy backstop to support provinces' carbon pricing regimes and the multitude of climate change mitigation and adaptation programs are without peer. Trudeau's governance approach which engages provinces and territories as partners is refreshing after years of Harper playing provinces off against one another in the wedge politics game of friends and enemies.

Given the disappointing history of federal governments failing to deliver serious support to provinces attempting to reduce emissions and strengthen low carbon growth and other SD oriented goals, we asked in the introduction whether the Liberal's approach and the provincial actions represents a new era of energy/environmental federalism. It is relatively easy to answer the research question as yes. The degree of intergovernmental coordination and cooperation represented by the PCF is an historic high for any period since climate change and carbon emission reduction ascended to the national policy agenda in the early1990s.

The question now is: can it be sustained? As argued in the introduction, partisan politics can intervene to change policy direction, especially now that there is no conservative equivalent to the Mulroney government that treated SD ideas seriously (Toner et al. 2016b). Ontario and Alberta have elections in 2018 and 2019 respectively. In Ontario, the Progressive Conservatives are leading in the polls in 2017 but have squandered pre-election leads before. While PC leader Patrick Brown is attempting to modernize his party by moving it closer to the middle of the political spectrum, it is still an open question whether Brown's acceptance of the science of climate change and the importance of pricing carbon is genuine given his long service in the Harper government. A significant component of his voting base is clearly hostile to carbon pricing and other initiatives to reduce carbon consumption or drive low carbon economic growth, so if Brown is serious about pricing carbon this will likely result in significant tensions with his caucus and base. Alberta's Wildrose and Progressive Conservative parties are attempting to merge in order to consolidate the conservative vote and retake power from the NDP (Tait and Cryderman 2017). The defeat of the Ontario Liberals or the Alberta NDP by conservative parties could strip the PCF of two of its strongest proponents and be a major test to this new era of energy/environmental federalism. However, we cannot be certain that the current governments will be defeated or that even if they were that the new governments would automatically withdraw from the PCF. The national carbon price issue would be a major contention, but a critical consideration is whether the federal spending programs launched from 2016-19 on green infrastructure, climate change resilient communities, clean technology development and the retrofitting of public and private buildings, for example, have developed a constituency of supporters in the provinces who rely on federal funds to strengthen the sustainability of the electricity, transportation, housing, and R&D sectors. A constituency of supporters for such programs may make it difficult for a new provincial government to withdraw from the PCF. In other words, can carbon pricing and other regulatory initiatives and low carbon investment programs build staying power? (Bakx and Johnson 2017).

The first six months of the Trump Administration has been a chaotic and a largely unprofessional operation. But Trump's agenda to dramatically reduce corporate taxes and energy and environmental regulations does move in the opposite direction to the PCF. The loss of the Obama/Clinton continental ally on a low carbon growth trajectory was a setback for the PCF. It is hard to envision at the time of writing how much of Trump's ultra-conservative agenda will be implemented before the mid-term congressional elections in 2018 when he could lose his legislative majority. In June 2017, Trump formally withdrew the U.S. from the Paris Agreement. He did so in the face of major domestic and international pressure to keep America in. Indeed, his decision has prompted a response from a wide range of American stakeholders. "There's been so much activity that it can be difficult to track all the new initiatives and groups. There's the US Climate Alliance, representing 12 states and about a third of the US population. There's We Are Still In, representing nine states, hundreds of cities, and thousands of businesses and institutions of higher learning. There's

Climate Mayors, with 338 US mayors representing 65 million constituents" (Roberts 2017). This extraordinary collection of organizations represents over $6.2 trillion of the U.S. economy and is committed to meeting America's Paris commitments. Anticipating Trump's withdrawal, the Liberal government on 23 May 2017 formed a climate leadership pact with China and the European Union to maintain momentum even after the U.S. pull out (Strauss and Parkin 2017). Still, the most conservative elements of the oil, gas and coal industries in Canada, and their sympathisers in the media and think tanks, have used the Trump agenda as an argument for stalling the PCF, arguing that it will make Canadian companies uncompetitive, despite evidence that major industry players are increasingly enthusiastic about transitioning toward a low carbon future (Morgan 2017b; Morgan 2017c; CBC 2017b).

CONCLUSION

We have underscored the close link between ideas, politics, and policy. Sustainable development ideas were first integrated into Canadian policies and institutions in the early 1990s by the Mulroney and Chretien governments. It appeared that the Harper government had through a sweeping slate of legislative changes in 2012- 2014 reversed the SD agenda and replaced it with a rapid resource development agenda. Politics, however, in the form of partisan electoral victories, re-opened the window of opportunity for a set of ideas that had been shuttled to the sidelines for a decade. The defeat of the Harper Conservatives by the Trudeau Liberals as well as election outcomes at the sub-national level significantly altered the "ideas in good currency" (Pal 2014) and SD ideas once again infused the federal and intergovernmental agenda. If the new era of Canadian energy/environment federalism is to be sustained, the federal and provincial policies and programs inspired by the PCF's sustainability ideas and process of intergovernmental collaboration will have to continue to show implementation results over 2017-2019.

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Chapter 14
FINANCING THE PUBLIC PROVISION OF PRESCRIPTION DRUGS IN CANADA: COMPARISON AND ASSESSMENT OF FINANCING OPTIONS

By Marc-André Gagnon

INTRODUCTION

In recent years, pharmacare has emerged as an important part of policy discussions. Beyond issues of access, coverage and cost-containment, it is also important to think about financing options and mechanisms as part of that discussion. The public provision of pharmaceuticals is a key element of nearly all national healthcare systems. All OECD countries with a universal health care system include prescription drugs as a component of the publicly delivered essential health care services, except Canada. Although public coverage for prescription drugs varies among OECD countries, they all deliver medicine in ways that are aimed to be accessible, equitable, efficient and sustainable.

To provide access to medicines for all, the public provision of pharmaceuticals requires financial resources. Public drug coverage is normally financed through two different methods: general tax revenues or social insurance premiums (or payroll tax). Patient contributions (such as coinsurance, copayments and deductibles) can also partly help support public drug coverage, but must be used with great caution in order not to create financial barriers to accessing essential medicines (Gagnon 2017).

In considering the possibility of implementing a national drug plan or any expansion in public drug coverage, it is important for Canada's policymakers to analyze the different financing approaches that could be utilized, and the benefits and challenges associated with each type of financing. This chapter aims to compare financing options for public prescription drug coverage while taking into account best practices among other OECD countries.

The analysis includes three sections. The first section provides a brief description of the different approaches that can be implemented to pay for drug therapies through public drug programs by analyzing how general revenues, social insurance premiums, and/or cost sharing (deductibles, copayments, and coinsurance) could act as viable financing methods. The second section provides a snapshot of the degree to which general revenues, premiums, and/or cost-sharing financing mechanisms are used in OECD countries, and describes in more detail the financing options used in selected OECD countries including Australia, Finland, France, the Netherlands, New Zealand, the United Kingdom, and Sweden. The third section includes an analysis and comparison of general revenues and social insurance premiums based on the criteria of accessibility, equity, efficiency and sustainability to examine the strengths and weaknesses of different financing methods.

From the start, it is clear there is no magic bullet when it comes to financing the public provision of pharmaceuticals. Furthermore, it must be taken into account that in OECD countries, the financing of prescription drugs is not independent from the financing of other public health care services. In each country, the design and financing of public health care services (including pharmaceuticals) follows specific institutional paths unique to the culture, institutions, and politics of each country (Boothe 2015). Analyzing best practices in other countries, however, can help Canadians find the most appropriate way for them to finance their public drug coverage requirements.

SECTION 1: WAYS AND MEANS TO FINANCE THE PUBLIC PROVISION OF PHARMACEUTICALS

Public financing is first and foremost a system of accounting between payers and providers through different collection and redistribution mechanisms. In OECD countries, pharmaceuticals are normally publicly provided through different public insurance systems. Households obtain their drug therapies through four different ways of payment: public spending of the government, social security funds[1] , private insurance, or out-of-pocket (OOP) expenditures. These means of payment must also be funded one way or the other by households. Thus, it is possible to summarize the accounting principles behind the payment and delivery of pharmaceuticals in OECD countries mainly through four mechanisms.

1 - Households pay net taxes to governments that pay for prescription drugs through their general tax revenues.

2 - Households pay premiums (usually through payroll taxes) to social insurance funds that pay for prescription drugs out of the premiums collected.

3 - Households pay premiums to private drug plans that pay for prescription drugs out of the premiums collected.

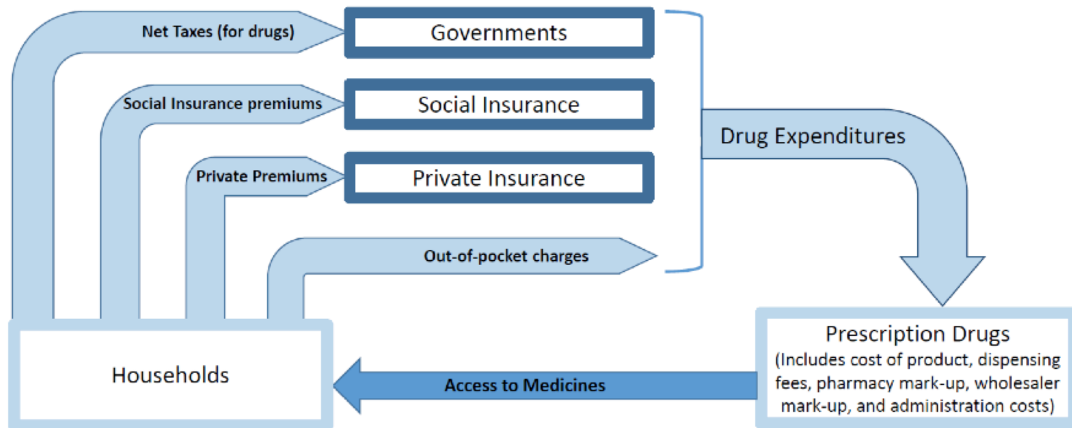
4 - Households pay OOP charges to access their prescriptions. While direct payment by individuals for the full cost of prescription drugs is not common, governments, social insurance funds, and private drug plans often implement cost-sharing mechanisms requiring co-payments, co-insurance or deductibles from individuals to access prescription drugs.

It is important to note, however, that access to prescribed medicines requires not only paying for the cost of pharmaceutical products, but also dispensing fees to pharmacists, mark-ups to pharmacies and wholesalers, taxes, and administration costs for public plans, social insurance funds, or private plans. Figure 1 synthesizes the financial flows between households and providers, and the ways and means involved in accessing prescription drugs.

1 According to OECD Statistics, social security funds are social insurance programs covering the community as a whole or large sections of the community that are imposed and controlled by a government unit. Social security funds are normally separately organized from the other activities of government units and hold their assets and liabilities separately from the latter; they are separate institutional units because they are autonomous funds (or at least they have some degree of autonomy), and engage in financial transactions on their own account. They generally involve compulsory contributions by employees, or employers, or both, and the terms on which benefits are paid to recipients are determined by a government unit.

Figure 1

Drug financing approaches to access prescription drugs



Source: Adapted from Evans 2008

In OECD countries, we normally find three basic financing models for the public provision of health care services (including pharmaceuticals): public, social, and private. In order to better analyze and compare these models, it is important to define each basic financing model found in OECD countries.

1 Public health care systems funded through general tax revenues are one of the two main forms of public financing. Health care services are funded through taxation, and thus allow both income solidarity and risk solidarity, which means that the rich contribute to pay the services for the poor, and the healthy contribute to pay the services for the sick. The main OECD countries using general tax revenues to fund their health care systems are Australia, Canada (but our health care system excludes pharmaceuticals), Denmark, Ireland, Italy, New Zealand, Norway, Portugal, Spain, Sweden, and the UK (Flood, Stabile and Tuohy 2008, 2). Finland also fits this category for their health care system, but the financing of prescription drugs comes from a social security fund.

2 Social insurance systems can be diverse in their forms. They can be universal for all or fragmented based on types of employment. Common features of social insurance systems could be described as follows: "social health insurance funding occurs when it is legally mandatory to obtain health insurance with a designated (statutory) third-party payer through contributions or premiums not related to risk that are kept separate from

other legally mandated taxes or contributions" (Normand and Busse 2002). Countries with social health insurance systems include Austria, Belgium, Czech and Slovak Republics, Estonia, France, Germany, Greece, Hungary, Iceland, Japan, Korea, Luxembourg, Netherlands, Poland and Switzerland.

3 Private health insurance models are funded through voluntary contributions in a competitive market and administered by private for-profit or not-for-profit corporations. While private for-profit health insurance can be found in many countries to supplement public coverage, the coverage of the overall working population through the private for-profit insurance model exists only in the United States and in Canada (in the case of pharmaceuticals). In the private health insurance model, governments can still play an important role. Governments can make private coverage mandatory (like in the case with the Affordable Care Act in the United States), and may regulate private commercial insurers to prevent risk-rating and cream-skimming (as they do in Australia and to some degree in the United States). Under systems of "managed competition", like in the Netherlands, Switzerland, Germany, Belgium or Israel, private not-for-profit insurers manage public drug coverage while potentially introducing the advantages of competition between providers. Under managed competition, heavily regulated insurers can collect premiums themselves, or a unique social insurance fund or general tax revenues can pay insurers based on a risk-adjusted capitation formula. As most systems of "managed competition" rely on social insurance funds, it is often associated with a form of social insurance (Flood, Stabile and Tuohy 2008).

The design of public financing systems for health care services depends on well-established traditions and on the institutional path of different countries. Esping-Andersen (1990) distinguishes between three types of welfare states: liberal, social democratic and corporatist.[2] Each type of welfare state has its own degree of de-commodification[3] and unique outcomes in terms of social stratification. Liberal welfare states, mostly comprising Anglo-Saxon countries, often limit welfare programs to residual assistance, and are mostly

2 This classification has stimulated a lot of literature in social policy in order to refine categories according to additional aspects of welfare states. Nevertheless, the original classification proposed by Esping-Andersen remains a useful tool in comparative social policy.

3 According to Esping-Andersen (1990: 21-22), "de-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market".

designed to serve the needs of the labour market. Social democratic welfare states, mostly composed of the Scandinavian countries, offer a more generous social protection that "de-commodifies" social protection by reducing the dependency of citizens towards market income. Both liberal and social democratic welfare states normally finance their social protection through general tax revenues (Esping-Andersen 1990). Corporatist welfare states finance their social protection through social insurance schemes, which were developed to improve social protection while maintaining existing social stratification according to occupational status (Esping-Andersen 1990). The list of countries funding their health care systems through social health insurance has changed since the 1980s. Most Eastern European countries have turned to social health insurance, while Spain has shifted away from social insurance to general tax revenues. Germany, France and the Netherlands have also reduced their reliance on payroll contributions and social insurance premiums in favour of a broader financing base (Wagstaff 2010).

It is important to note that there is often overlap between social insurance and general tax revenues. The latter is often used to partially finance social security funds. Additionally, general tax revenues indirectly contribute to the financing of private insurance and OOP expenditures through tax subsidies and/or tax credits.

SECTION 2: EMPIRICAL ANALYSIS OF FINANCING OPTIONS USED IN OTHER OECD COUNTRIES

In all OECD countries, prescription drugs are financed by a mix of public and private spending. Sometimes complemented by private health insurance, tax-financed schemes or social security funds normally pay for the bulk of prescription drug expenditures. In most countries, cost-sharing mechanisms also require patients to pay part of the cost of prescription drugs, although most countries provide specific exemptions or subsidies for vulnerable segments of the population, such as children, seniors, refugees, veterans, First Nations or patients with specific diseases. Public coverage of pharmaceuticals is not as developed as other inpatient and outpatient care. In 2013, across OECD countries, the public sector covered on average 79% of the costs of health services, while covering only 57% of the costs of pharmaceuticals, including drugs sold over-the-counter (OTC) (OECD 2015, 180).

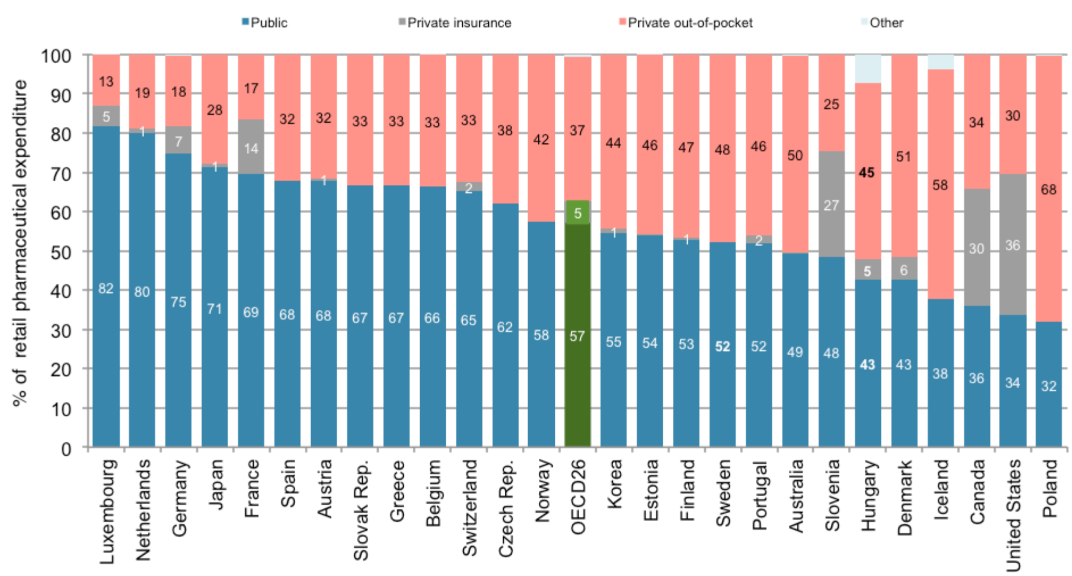
Comparing sources of financing for prescription drugs between countries requires tackling the complexities that comes with using the available data. In order to do so, this section disaggregates the international data to obtain the clearest portrait of the situation based on existing data, and analyzes seven different countries on the different approaches and technicalities that relate to drug financing.

INTERNATIONAL COMPARISONS: TRENDS AND CAVEATS

The OECD usually compares retail pharmaceuticals by the type of financing, distinguishing between private and public sources (see Figure 2). Note that medications used in hospitals are excluded from OECD data since most countries do not report expenditures for drugs financed through hospitals (OECD 2008, 27). In 2013, medications delivered in hospitals represented an additional 9% over the value of retail pharmaceuticals in Canada and South Korea, 10% in Germany and Australia, 27% in Spain and 44% in Portugal (Belloni et al. 2016, 14).

Figure 2

Expenditure on all retail pharmaceuticals by type of financing, 2013 or nearest year, %



Source: OECD Health Statistics 2015. http://dx.doi.org/10.1787/health-data-en.

While Figure 2 offers a good general perspective for international comparisons, it is problematic due to discrepancies resulting from the exclusion of OTC drugs, the tax on pharmaceuticals in European countries, and the impact of confidential rebates offered by drug companies(OECD 2015).

Private OOP expenditures cannot simply be considered as the cost-sharing burden put on patients for prescription drugs because it includes OTC drugs. Although some plans partially cover OTC drugs, such coverage is rare and not substantial. On average, OTC drugs represent 19% of all drug expenditures. Nevertheless, it should be noted that some countries might more easily accept the selling of OTC drugs as a cost-containment strategy for public drug coverage. In such cases, a large proportion of OTC drugs can become a form of cost-sharing for patients. Poland has the highest proportion of expenditures on OTC drugs (52%) while Canada has the lowest proportion, at 9%.

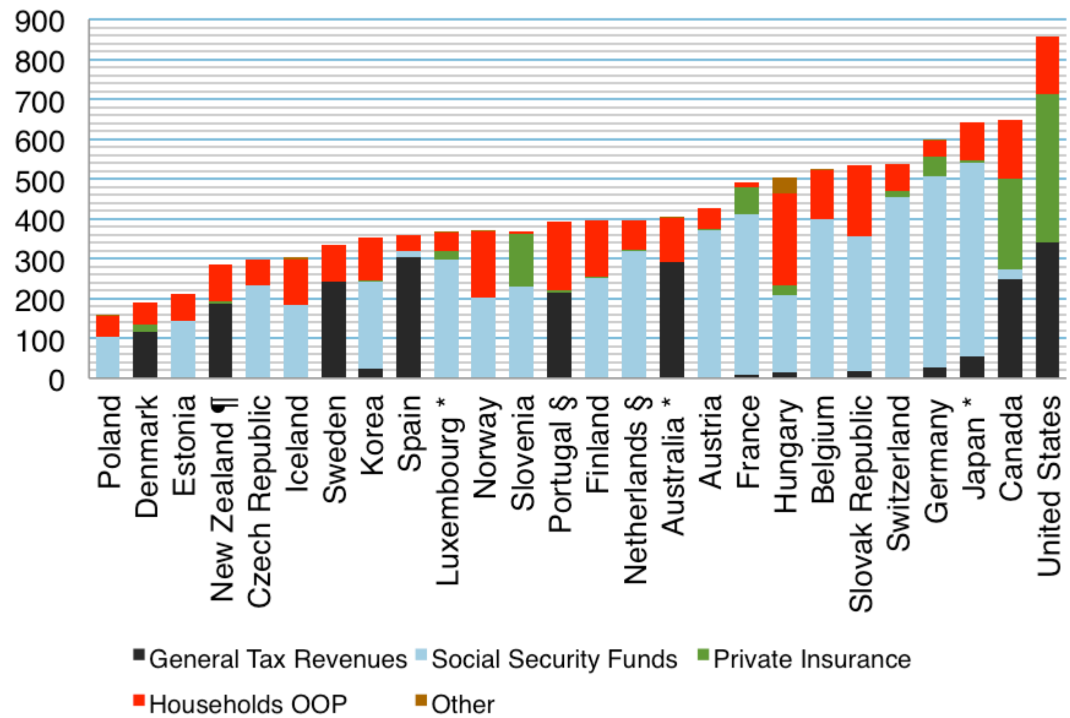
The inclusion of taxes in pharmaceutical expenditures also affects the data and makes comparisons between countries problematic, as some countries include taxes and discounts for pharmaceutical products in their pharmaceutical expenditures. There are no taxes on pharmaceuticals in Canada, but among 23 European countries, taxes represented on average 10% of prescription drug costs in 2013 (EFPIA 2015), making comparisons between Canada and Europe increasingly difficult, as the costs of prescription drugs are artificially inflated in countries where a tax applies. Finally, international comparisons of pharmaceutical expenditures are sometimes blurred by confidential rebates offered by drug companies on brand-name products – such as product listing agreements (PLAs) (see Morgan et al. 2013). The impact of PLAs on international comparisons is limited as most countries report their expenditures based on the overall budget spent, net of discounts and rebates; however, the accounting methods sometimes create a discrepancy between data of sales (which includes rebates), and data of expenditures (which exclude rebates). IMS Health estimates that global off-invoice rebates and discounts represented approximately 25% of global sales growth in recent years (IMS Institute for Healthcare Informatics 2014). Because of its fragmented system and its reduced bargaining power, confidential rebates are likely lower in Canada (Gagnon 2014).

After noting these three significant caveats (proportion of OTC drugs, taxes and PLAs) and how they create noise in the data, it is now possible to turn to the international comparisons of financing sources for prescription drugs.

Figure 3 presents the results in absolute terms (US$, PPP) for the OECD countries for which data are available. A more detailed synthesis and description of financing sources is offered in Table 1, based on information provided by the Commonwealth Fund, the OECD country profiles, and information provided by surveyed country members of the Pharmaceutical Pricing and Reimbursement Information network.

Figure 3

Per capita expenditures on Prescribed Drugs by Source of funding, 2013 or nearest year (US$, PPP)



** : Data from 2012*
¶: Data from 2011
§: Include OTC and medical non-durables
Source: OECD Health Statistics 2015. OECD Health Statistics 2013; Paris 2014. doi.org/10.1787/health-data-en

Table 1 Financing Approaches used in select OECD Countries

	General Tax Revenue	Social Security Funds	Private Insurance	Cost-Sharing	Other
Australia	Y (72%) Ear-marked income tax	N	Marginal	Cost per Rx depen-dent on income. OOP capped for low-in-come. Consumers pay full prices of non-listed medicines. (27%)	Marginal
Austria*	N	Y (86%)	Marginal	Fixed fee (12%)	N
Belgium*	N	Y (76%)	Marginal	Co-insurance (24%)	Marginal
Canada	Y (39%) Provincial and Federal	Y (4%) RGAM in Quebec	Y (35%)	Mix of deductibles, fixed fees and co-in-surance depends on F/P/T public plan or private plan (22%)	N
Denmark	Y (61%) Earmarked income tax	N	Y (9%)	Fixed fee and co-in-surance decreasing with higher OOP drug spending (30%)	N
Finland	N	Y (64%)	Marginal	Fixed fee and co-in-surance (36%)	N
France	Y (2%)	Y (82%)	Y (14%)	Fixed fee and tiered co-insurance depending on thera-peutic value (3%)	N
Germany	Y (5%) Insur-ance-extrane-ous, mostly children	Y (80%) Employer/ Employee earmarked income and payroll tax)	Y (8%)	Co-insurance with minimum and maximum co-pay, plus cost above reference price. Cap at 2% of household income. (7%)	Marginal
Hungary	Y (3%)	Y (38%)	Y (5%)	Fixed Fee, Co-insur-ance (46%)	Y (8%) Occupational health
Netherlands	Marginal	Y (80%) Nominal Premiums by all + risk/ income adjusted premiums by payroll taxes	Y (1%)	No cost-sharing for drugs below the reference price (19%, includes OTC)	N

New Zealand	Y (65%)	Marginal	Y (2%)	Fixed fee per RX, No Cost-sharing after 20 Rx Per year/family. Plus cost above reference price. (32%)	N
Poland	Marginal	Y (66%)	N	Fixed Fee, Co-insurance (33%)	Marginal
Portugal	Y (55%)	N	Y (2%)	Co-insurance (43%)	N
Spain	Y (85%)	Y (4%)	N	Co-insurance (11%)	N
Sweden	Y (68%)	N	N	Deductible and co-insurance with annual cap. Patients pay full price of non-listed drugs (32%)	N
United States	Y (40%)	N	Y (44%)	Varies depending on coverage (17%)	N

Source: Commonwealth Fund 2016; Paris and Belloni 2013; Thomson and Mossialos 2010; Vogler, Habl and Voncia 2011.

Another limitation is that boundaries between categories are not always clearly defined. OECD countries rely on either general tax revenues or social security funds (SSF) to pay for prescription drugs. Some countries rely mainly on SSF, supplemented by general tax revenues to pay for specific non-working populations (e.g. children, veterans, prisoners or refugees). SSF are financed by contributions from employers and employees, but low-income enrollees often receive significant subsidies from the state through general tax revenues, blurring the distinction between general tax revenues and SSF. Also, private health insurance often benefits from public tax subsidies or tax credits. In Canada, private drug coverage benefits from a 13% federal tax subsidy (Gagnon 2012), supplemented by unspecified provincial tax subsidies.

Finally, all countries providing universal health coverage include the public provision of prescription drugs, except Canada. In each country, public financing for prescription drugs is not independent from public financing for general health care services and products, with the exception of Finland, which created a SSF specifically for prescription drugs while the rest of the health care system is financed through general tax revenues. While Finland shows that it is possible to have an independent SSF to finance prescription drugs, the outcomes are far from ideal (see analysis below). Cost-sharing mechanisms implemented by public health plans are often implemented for all covered health care products and services, and are not specific to prescription drugs.

However, many countries include additional cost-sharing mechanisms specifically for prescription drugs.

LEARNING FROM THE PUBLIC FINANCING OF PRESCRIPTION DRUGS IN OTHER COUNTRIES

To understand the public financing of prescription drugs, it is important to grasp each country's overall logic regarding the public financing of health care coverage and the elements specific to prescription drugs. In order to do so, we detail here the public financing of prescription drugs in eight countries: Australia, Finland, France, the Netherlands, New Zealand, the United Kingdom and Sweden.

AUSTRALIA

The public provision of pharmaceuticals in Australia is managed through the Pharmaceutical Benefits Scheme (PBS), which subsidizes and reimburses pharmaceuticals approved for cost-effectiveness (Glover 2016).

Public financing of prescription drugs is done through general tax revenues by way of earmarked income tax. SSF and private insurance have no significant role.

Cost-sharing mechanisms are based on a system of deductibles depending on one's level of earning with low-income earners paying lower deductibles with an annual cap. The general population has higher deductibles until they reach their cap, then they pay the low-income rate cap. When a drug is not listed on the PBS, consumers must pay the full price of the prescription drug.

Cost-sharing mechanisms in Australia are often considered to be very high as compared to other OECD countries, creating a significant financial burden on a large proportion of Australian households (Searles and al. 2013) and reducing the use of essential medicines by many Australians, which end up increasing the uptake of more intensive and expensive health services (Doran and Robert, 2009). The rate of cost-related non-adherence (rate of people not filling their prescription or skipping doses due to financial reasons) has significantly decreased between 2010 and 2016 (from 12% to 6.3%) due to targeted assistance to low income patients, but it remains somewhat high as compared to comparable countries (See Appendix 1).

FINLAND

Finland uses a hybrid system for financing health care services: a basic delivery system for hospital care and family physicians is financed through general tax revenues, while a special social insurance fund was set up to finance out-patient pharmaceuticals. The social insurance plan is managed by the Social Insurance Institution (KELA), an independent agency created in 1937 and responsible for pensions (Mallory et al. 2011). Finland can be considered as a rare exception of a country that uses a hybrid system for financing health care services.

Finland is considered to have one of the least progressive financing systems for health care, due to weak risk-sharing of high-income individuals with individuals of lower incomes (Mallory et al. 2011). Due to chronic deficits in the social insurance plan, the state has contributed since 1998 (Mallory et al. 2011), which forced the introduction of very high co-pay rates that have steadily increased over recent years.

In 2016, in order to be reimbursed for necessary prescription medicines, patients must pay a yearly deductible of US$ 57 (KELA 2016) and meet certain specifications regarding usage, amount purchased, and package size. Certain products have a reference-price system, meaning that if the patient wants a more expensive product than the cheapest available that meets specific therapeutic categories the patient must pay the difference, plus the co-payment. The basic reimbursement rate is 40%, however some products may have a reimbursement rate of 65%, and others of 100%. If the yearly OOP expenditure in prescriptions for an individual exceeds US$ 692, the exceeding part is reimbursed in full, except for a co-payment of US$ 2.83 for each additional purchase.

This dual approach of SSF and general tax revenues based on a sectoral approach for health care services has created what has been described as a logic of silo since there is evidence of cost-shifting where the two systems intersect (Jarvelin 2008). For example, since the funding of prescription drugs is different when taken in-hospital or in an out-patient setting, it creates an incentive for hospitals to release patients more quickly, requiring expensive medications in order for hospitals to save on the cost of drugs (Mossialos and Srivastava 2008, 84).

FRANCE

The French health care system is a mix of public-private coverage with public expenditures administered by statutory health insurance. Less than two-thirds of social insurance funds are financed through social insurance mechanisms, and more than a third of these social insurance funds are financed mostly through general tax revenues.

While the basic coverage is provided by social health insurance, French residents normally face significant co-pays, leading to most French residents (95%) having complementary health insurance through employment-based, not-for-profit mutual associations, as well as by private for-profit insurers. Around 4% of the population has complementary public health insurance through means-tested vouchers for people with low-income (PPRI 2008).

Cost-sharing mechanisms for prescription drugs result in French residents paying a co-payment of US$ 0.60 for each prescription (up to an annual maximum of US$ 60), as well as a co-insurance rate that depends on the effectiveness of the drug, and the severity of the disease (Morgan et al. 2012). Rates of co-insurance are from 40% to 100%, based on therapeutic value, while highly effective drugs, like insulin, carry no co-insurance (Durand-Zaleski 2016).

Cost-sharing mechanisms are used to steer the use of prescription drugs towards treatments with high therapeutic value. However, because complementary private insurance often covers co-payments without discrimination, this steering effect is often defused, except in the rare case where private not-for-profit mutual associations provide complementary coverage respecting, and sometimes intensifying, the steering effect of tiered co-pays (Lechertier 2013). In the end, OOP expenditures in France for prescription drugs are only 3% of total costs (see Table 1).

NETHERLANDS

The Netherlands went through major health care reforms in 2006, moving from a system that relied on a mix of private insurance (for higher income households) and social insurance (for lower and middle income households), to a unitary system where everyone must purchase insurance from private “care insurers” (Jost 2008, 174). In order to promote universal coverage and avoid adverse selection,[4] the Netherlands has an individual mandate requiring each person to obtain health coverage from highly regulated care insurers. This new system is financed partly by an income-related contribution (a payroll tax), and partly by community rated-premiums (while premiums might vary from one insurer to the other, everyone with the same insurer pays the same premium, regardless of age and status). The Dutch government provides grants to help pay insurance for lower income households and residents under the age of 18. Care insurers are required to accept all applicants, and enrollees have the right to change their insurer each year. Contributions are collected centrally, and redistributed to insurers based on a risk-adjusted capitation formula to discourage competition between insurers based on risk selection[5] (Jost 2008, 175). However, despite the risk-equalization mechanisms in place, risk selection is always a reality, but the Dutch system does well on this issue as compared to other countries with mandatory social health insurance (van de Ven 2008).

With its mandatory coverage and risk equalization system, the Dutch system introduced a form of managed competition in which insurers are expected to engage in strategic purchasing with providers, while contracted providers are expected to compete on both quality and cost (Jost 2008, 175). . However, while private for profit insurers were allowed at first to bid as care insurers, the Netherlands imposed a ban on the distribution of profit (Commonwealth 2016), which reduces the incentives for competition. The ban was renewed in February 2017 (Van Aarke 2017). The Dutch "managed competition" resembles a tight oligopoly (a market with few sellers) since the four largest insurer conglomerates account for 90% of all enrollees (Wammes, Jeurissen and Westert 2016).

In addition to statutory coverage through managed competition, 84% of the population purchases complementary insurance for extended health benefits,

4 Adverse selection refers to the idea that individuals with higher risks will demand more insurance than individuals with low risks. By making insurance mandatory to all, adverse selection disappears.

5 Risk selection can be considered the opposite of adverse selection. Risk is selected when an insurer accepts to cover only individuals with low risks while excluding individuals with high risks. If risk selection is systematic, then low risks individuals usually end up covered by the same insurer and pay lower premiums, while high-risk individuals end up covered by other insurers and must pay higher premiums. Risk selection restrains risk pooling, and the result is that healthier and wealthier people end up contributing less to health care expenditures than poorer and sicker people.

including the coverage of the full cost of co-payments for medicines (Wammes, Jeurissen and Westert 2016).

Patients normally have no co-payment or co-insurance for cost-effective drugs, except for rare types of medicines (like psychostimulants). The national drug formulary is split into three sections, with reference pricing applying to 85% of drugs in section 1A (therapeutically interchangeable drugs subject to reference pricing) using tenders to reduce the price of interchangeable drugs. There are no co-payments for drugs under the reference price set for therapeutically interchangeable drugs in different therapeutic categories, but patients must pay the price difference if they choose a drug costing more than the reference price (Morgan et al. 2012). This mechanism allows the system to steer prescription drug use towards more cost-effective drugs without restraining access to medications or patient choice. The Netherlands has a low rate of cost-related non-adherence (CRNA) (see Appendix 1). One should note, however, that the additional voluntary health insurance covering the full cost of co-payments of medicines for 84% of the population could reduce the impact of this cost-sharing mechanism. Overall, considering that complementary private coverage for prescription drugs cover only 1% of total expenditures (see Figure 3), it seems that the Dutch drug coverage system is characterized by a cost-effective use of medicines.

NEW ZEALAND

The public health care system in New Zealand is financed through general tax revenues, which are not earmarked. Supplemental private coverage is also available, but represents only 2% of the financing for pharmaceuticals (see Table 1).

A flat co-payment of US$ 3.40 per item is required for prescription drugs, but after co-payments are made for 20 items per family per year, prescription drugs are free. There are also various means-tested subsidies for low-income people (Gauld 2016). Just like in the Netherlands, all drugs covered by the national formulary, called the Pharmaceutical Schedule, do not have additional co-insurance for drugs under the reference price. If patients decide to buy drugs at higher prices than the reference price, they need to pay the difference OOP. Supplementary insurance schemes can cover co-payment charges (Morgan et al. 2012).

Drug expenditure per capita in New Zealand remains the fourth lowest among OECD countries (see Figure 3) due to strategies to drive down pharmaceutical costs, such as the government's set annual overall budget, which assists the Pharmaceutical Management Agency in charge of the public drug plan to use all available strategies to stay on budget and maximize value-for-money (Brougham, Metcalfe and McNee 2002).

UNITED KINGDOM (ENGLAND)

In England, prescription drugs are covered by the tax-financed National Health Service (NHS). The majority of the NHS financing comes from general tax revenues, with a small proportion coming from a payroll tax and some other minor sources. Public expenditure accounts for 83.3% of health care expenditure. Around 11% of the population benefits from supplemental private health insurance mostly provided by employers. Four private insurers account for 87.5% of the private insurance market (Thorlby and Arora 2016).

The NHS provides comprehensive drug coverage, but outpatient prescription drugs are subject to a co-payment of US$ 11.60 per prescription. People exempt from co-payments on prescription drugs include children, people 60 years or older, low-income people, pregnant women, young mothers who had a baby in the last 12 months, and people with cancer or with certain long-term conditions or disabilities. People requiring large amounts of prescription drugs can buy pre-payment certificates costing US$ 41.10 for 3 months or US$ 147 for 12 months, and users do not incur further charges for the duration of the certificate, regardless of the amount of prescriptions they need. Because of all the exceptions and mechanisms, in 2013 90% of prescription drugs in England were dispensed free of charge (Thorlby and Arora 2016). The United Kingdom has the lowest rate of CRNA among surveyed OECD countries (see Appendix 1) due to the fact that that Wales, Scotland and Northern Ireland went further than England by simply abolishing co-payments for prescription drugs (Sinott et al. 2013).

SWEDEN

The Swedish health care system provides universal coverage for most health care services, including pharmaceuticals, and is organized around three basic principles (Glenngard 2016):

1. Human dignity: All human beings have an equal entitlement to dignity and have the same rights regardless of their status in the community.
2. Need and solidarity: Those in greatest need take precedence in being treated.
3. Cost-effectiveness: When a choice has to be made, there should be a reasonable balance between the costs and the benefits of health care, measuring cost in relationship to improved health and quality of life.

The Swedish health care system is financed primarily through general tax revenues. Financing is a shared responsibility between the central government, county councils and municipalities (Moïse and Docteur 2007). Private health insurance is available but accounts for less than 1% of health expenditures, and is insignificant for pharmaceutical expenditures (see Figure 3).

Because the Swedish health care system is designed to be socially responsible and equity-driven, everyone enjoys the same benefits. Ceilings on OOP apply to everyone and caps are not adjusted for income. Children, pregnant women, and seniors are generally exempted from user charges or granted subsidies for certain services like vaccination programs (Glenngard 2016). For prescription drugs, patients first pay an annual deductible of US$ 123, after which drug costs are subsidized at 50%, 75%, 90% and 100% based on the level of OOP expenditures. The maximum annual amount that a citizen will have to pay OOP is US$ 246 per year. Family with children must pay another maximum amount of US$ 246 per year to cover all children (Morgan et al. 2012). Patients must pay the full price when drugs are not listed on the National Drug Benefits Scheme (and are thus not reimbursed).

An interesting feature of the Swedish health care system when it comes to pharmaceuticals is that the state has a duty to provide the necessary drugs to its population based on the needs of the population. For this reason, Sweden established a public drug manufacturer, Apotek Produktion & Laboratorier AB, which is a branch of its public network of pharmacies, in order to protect the supply management of pharmaceuticals and to adapt prescriptions to specific needs of the population through compounding pharmacies (Sjökvist Saers 2014). This public manufacturer mostly produces generics and compounded medications, allowing for improved cost containment capacity, improved protections for Sweden against drug shortages and better adaptation of drugs to the specific needs of the population (Gagnon 2016). Apotek Produktion & Laboratorier AB has become a strategic asset in Sweden and has developed a great expertise for clinical trials for rare conditions. According to their annual reports, the company is now generating positive revenues for the Swedish government.

SECTION 3: ASSESSMENT OF FINANCING OPTIONS

This section compares the use of social insurance and tax revenues to finance public drug benefits and analyzes how cost-sharing mechanisms can also be used to contribute to the financing of a public drug program. Cost-sharing mechanisms are excluded since they cannot be considered as a form of financing in itself, but as complementary and limited financing mechanisms that need to be used with caution (Gagnon 2017).

COMPARISON BETWEEN SOCIAL INSURANCE AND GENERAL TAX REVENUES

The following comparison between social insurance (SI) and general tax revenues (GTR) analyzes seven dimensions or criteria of the impact of financing sources on the health care system: equity, health care delivery and efficiency, macro-economic impact, sustainability, administration costs, public opinion and transition ease. The analysis is synthesized in Table 2.

EQUITY

Equity refers here to the equity of funding based on health and income risk sharing, which means that the rich contribute to pay the services for the poor, and the healthy contribute to pay the services for the sick. Progressivity in the financing of the program will lead to more equitable results. Progressivity depends on the design of SI or GTR. In the case of GTR, financing through consumption tax is certainly more regressive than income tax or corporate tax. However, some targeted consumption tax can be considered equitable, especially when targeted to harm-related products like tobacco and alcohol. France partially finances its health care system through such a tax, as well as taxes on private voluntary health insurance and on the pharmaceutical industry (Durand-Zaleski 2016).

The design of SI can also make it a progressive financing system. Community-rated premiums for SI (same amount for all enrollees with the same insurers) can be regressive as compared to a payroll tax. For example, in the Netherlands, the inequity of the community-rated premium is partly compensated with a risk equalization system using payroll tax (Jost 2008, 175). However, even an SI system totally funded by payroll tax will never be as progressive as GTR can be. Payroll tax can only tax wage earnings while GTR can tax all income, including interest, rent, and capital income (Gunderson and Hyatt 2008). Finally, in systems with managed competition in which mechanisms are implemented to eliminate risk selection by insurers, it was observed that various forms of risk selection still existed; for example, by attracting healthy people through offering attractive supplementary health insurance over the basic insurance provided to all (van de Ven 2008).

HEALTH CARE DELIVERY AND EFFICIENCY

When it comes to health care financing, SI has been associated in the past with reduced waiting times (Jost 2008), while others have shown that this form of health care financing has no systematic relationship with efficiency (Glied 2008). Nowhere was it found in the literature that there is a correlation between the form of health care financing and the efficiency of the delivery of pharmaceuticals. The creation of an independent SI fund for pharmaceuticals can nevertheless bring a logic of silo into health care delivery, as in the case of Finland where cost-shifting has been observed when silos intersect (Mallory et al. 2011) when, for example, there is a different source of financing for drugs used in hospitals and in outpatient settings (Jarvelin 2008). This issue can be solved when the SI fund is not completely independent, and relies partly on infusion of GTR.

It was nevertheless observed that GTR normally has greater bargaining capacities over powerful providers such as pharmaceutical companies, as compared to the fragmented SI fund (Jost 2008). In principle, the best bargaining capacity against a monopolist supplier (brand-name pharmaceutical manufacturer) can be obtained only through a monopsonist purchaser (unique public drug plan). A unique and mandatory SI system, however, is likely to achieve the same type of bargaining capacity as GTR.

MACRO-ECONOMIC IMPACT

The introduction of an SI system normally has a greater negative macro-economic impact than GTR. Financing a system only through payroll tax increases the cost of labour, which negatively impacts employment. SI is often considered a "tax on labour" and has a greater impact than GTR in terms of a disincentive for labour. However, if SI replaces existing private insurance, its effect would be limited or even be beneficial on employment (Flood, Stabile and Tuohy 2008, 253).

An important issue with SI is that a payroll tax is difficult to collect from the informal sector or for non-standard employment (Wagstaff 2010). If SI is mandatory only for full time workers and not to the entire working population, it creates incentives for employers to offer part-time jobs below the minimum threshold to reduce labour costs, or to outsource employment to self-employed contractors, or even to create jobs in the informal sector (Mintz and Tarasov 2008, 72). The problem is not eliminated if we use community-rated premiums or if we put a ceiling on the payroll tax. In these cases, employers end up with an incentive to have their existing workforce work longer hours rather than hire new recruits (Gunderson and Hyatt 2008, 108). If the adverse effects of the introduction of an SI system are greatly reduced when it replaces existing private health benefits, GTR would still have a less adverse macro-economic impact.

SUSTAINABILITY

In theory, an earmarked payroll tax for an independent SI fund increases the willingness-to-pay for specific programs as compared to GTR (White 2008) and can also better protect the SI fund from political interference (Mintz and Tarasov 2008). However, in practice health care might be an important exception since there is a general consensus that it is acceptable to pay more for health care. This general consensus increases willingness-to-pay through GTR, especially if financing is organized through earmarked income tax or specific and earmarked consumption tax (Flood, Stabile, Tuohy 2008, 256).

The financial sustainability of SI often requires a cash infusion from GTR, and SI funds are not completely immune to politics (Flood, Stabile, Tuohy 2008, 264). The case of Germany shows that payroll tax is less financially stable than community-rated premiums, which implies a trade-off between equity and sustainability (Gress, Maas and Wasem 2008, 135). However, one can argue that it is more sustainable to rely on diversified sources of financing, including SI (Flood, Stabile, Tuohy 2008. 253).

GTR is normally associated with lesser overall health care expenditures than SI (Normand and Busse 2002). However, there is no clear evidence that this is also the case for pharmaceuticals. GTR gives government greater control over costs, especially as compared to a SI system made of fragmented or semi-autonomous funds (Jost 2008, 172). GTR can be said to be more sustainable as it avoids the logic of silos, and increases the degree of integration with other types of expenditures in times when considerations about health care expands to new frontiers, such as with the analysis of social determinants of health.

ADMINISTRATION COSTS

SI normally has higher administration costs than GTR, especially if SI is made up of multiple funds and uses exemptions for premiums or payroll tax (Henke and Schreyogg 2005). The difference is almost non-existent if SI is mandatory and universal for all workers. The economies of scale are the main drivers of reduced administration costs, not greater competition between insurers in a managed competition system (Wagstaff 2010). In Canada, the four provinces[6] using payroll tax have low administration costs because the payroll tax is in fact collected through the income tax system (Gunderson and Hyatt 2008, 101). However, the administration cost to collect payroll tax can remain high with non-standard employment or with the informal sector (or grey economy) (Wagstaff 2010). GTR remains the main benchmark for the lowest administration costs to finance health care services.

PUBLIC OPINION

As mentioned earlier, an earmarked payroll tax can create greater willingness-to-pay, and thus could allow a smoother transition to a public pharmacare plan in Canada. Considering that the Canadian population is already

6 Quebec, Manitoba, Ontario, and Newfoundland/Labrador have payroll taxes that are labeled as health or education taxes, but are based on payroll.

used to paying private premiums for their drug benefits, converting private premiums into social premiums could find little resistance, especially if employers can contribute to paying the SI contribution as they do for private premiums (Flood, Stabile and Tuohy 2008). Political expediency to please public opinion may be the only real reason to choose SI over GTR (Jost 2008). However, as mentioned earlier, earmarked income tax could create the same willingness-to-pay as a SI scheme.

A survey showed that a vast majority of Canadians supported financing a public drug plan using GTR through an increase of corporate tax, instead of an increase of consumption tax, income tax or the implementation of a health care premium (Angus Reid Institute 2015). When asked if universal pharmacare would be better for employers than the current system, 80% of private drug plan managers agreed, and 70% of those even supported the idea of implementing a specific fee to employers, like a payroll tax or an increase on the corporate income tax (Benefits Canada 2015).

An increase in corporate tax could be justified since financing pharmaceuticals through GTR would significantly reduce labour costs for enterprises currently providing drug benefits, and because Canada has among the lowest rates of corporate taxes in the world (KPMG 2016). Considering that many corporations offering health plans pay little or no corporate income tax, a payroll type tax or an increase in personal income tax could also be considered.

TRANSITION EASE

Overall, SI could be easier to implement in political terms if SI would replace the current system of private drug coverage. However, GTR would be easier to implement in terms of its macro-economic effect, its efficiency and lower administration costs. If a universal pharmacare system is considered, it might also require complementary institutions, for example to assess drugs, collect prescription data or influence prescribing habits (Morgan, Gagnon, Mintzes and Lexchin 2016). Financing such institutions would be ill-suited for SI funds and would be better done through GTR (Jost 2008, 177). Thus GTR could allow for the development of complementary institutions to obtain a well-performing public pharmaceutical system, instead of simply a system or group of systems to pay for drugs.

Table 2: Comparing Social Insurance and General Tax Revenues for the Financing of Pharmacare

Criteria	Social Insurance (SI)	General Tax Revenues (GTR)
Equity (Health and Income risk sharing)	Premiums can be regressive as compared to payroll tax. Payroll tax is still less equitable than GTR because it does not tax revenues from capital income, interest or rent. Progressivity depends on design. Remnants of risk selection in systems based on managed competition.	Broader tax base. Progressivity depends on design. Financing through consumption tax is regressive as compared to income tax or corporate tax.
Health care delivery and efficiency	SI for health care is associated with reduced waiting times but no significant differences observed for pharmaceuticals. The creation of an independent SI fund can bring logic of silo in health care delivery. Less of an issue if SI fund is not independent and can rely partly on infusion of GTR (which is normally the case).	Because of the monopsonist capacity of the State, GTR normally has greater bargaining capacity over powerful providers such as pharmaceutical companies.
Macro-economic impact	SI can have a negative impact on employment by increasing labour cost. However, effect is limited (even beneficial) if SI replaces existing private insurance, but remains a problem for non-standard and precarious employment. If premiums are capped, it creates incentives for employers to make current employees work longer hours instead of hiring more people.	Lower labour cost than SI.
Sustainability (political and actuarial)	Earmarked payroll tax for an independent SI fund better protects from political interference. Normally greater willingness-to-pay with SI but unclear with health care for which there is good willingness-to-pay with GTR as well. SI normally requires infusion of GTR. Germany shows that premiums make the system more sustainable than a payroll tax. Might be more sustainable not to rely on only one financing source.	GTR normally is associated with lesser expenditures in health care (unclear for pharmaceuticals). GTR gives government greater control over costs, especially if SI is made of multiple semi-autonomous funds. Avoids silos and allows integration with other costs for health care or social determinants of health.
Administration Costs	Normally higher administration costs as compared to GTR, especially if multiple funds and use of exemptions for premiums. Difference less significant if SI is mandatory and universal, especially considering that, in Canada, existing SI programs collect payroll tax through income tax system. Administration costs can be higher because of non-standard employment.	Lower administration costs.

Public Opinion	Earmarking payroll creates greater willingness-to-pay. SI could be easier to accept for a population already used to paying private premiums, especially if employers can contribute to paying the public premium.	Earmarked income tax could create same willingness-to-pay as SI. Could be difficult to justify increase in consumption tax or income tax. Increase in corporate tax easier to justify since GTR would reduce labour cost for enterprises.
Transition Ease	Overall, SI would be politically easier to implement.	Overall, GTR is easier to implement in terms of macro-economic effect and administration costs. Easier to finance complementary institutions as well, for example to collect Rx data or promote appropriate use.

CONCLUSION

The analysis of alternative financing systems for public drug coverage allows policymakers to make informed decisions.

Based on the available evidence, both SI and GTR can be highly effective in financing public drug coverage. While SI could be politically easier to implement especially in countries with a SI tradition, GTR might provide more positive benefits as GTR performs somewhat better in terms of macro-economic impact, efficiency and administration costs.

In each country, the design and financing of public health care services (including pharmaceuticals) has followed specific institutional paths unique to the culture, institutions, and politics of each country. The SI path and the GTR path are both viable options, each with their benefits and their difficulties. While the SI path could be politically easier to implement by simply replacing current private drug coverage offered by employers, it would create silos between a SSF for prescription drugs and the rest of the health care system funded through GTR. However, these silos could be defused if the SSF for prescription drugs is partly (or wholly) funded through GTR. Another possibility could be to reorganize the financing of the whole Canadian health care system based on SI, which seems like an unlikely possibility. Financing public drug coverage through a corporate tax, however, seems to be the institutional route that would get the most popular support.

Finally, one should not overestimate the cost for financing public universal drug coverage in Canada, which more or less means shifting the cost of private drug coverage to the public budget. Taking into consideration that private drug coverage represents $10 billion in Canada, 13% of which is publicly financed through tax subsidies (Gagnon 2014); that 30% of private drug coverage is in fact the private coverage of public employees (Morgan et al. 2015); and that the current fragmented drug coverage considerably restrains bargaining power to reduce the price of drugs in Canada, and makes Canadians pay the highest cost per capita on prescription drugs after the United States (Gagnon 2014), one can easily conclude that establishing universal pharmacare in Canada will be a win-win-win situation for households, employers, and governments.

Given the wealth of international experience in financing public drug coverage, Canada is well positioned to draw important lessons, specifically that either SI or GTR would be significantly more efficient and less costly than the current patchwork of public and private coverage.

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