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Abstract

This article examines Canada's relative success in restoring 'economic inclusion' and 'inclusive growth' between the political and economic disruptions of the 1990s and the mid-2010s. Noting competing views of the concept of 'inclusion', it explores four major factors which contributed to reducing domestic tensions during this period. These include the intentional accommodation of diverse regional interests through increased decentralization of Canadian federalism, the use of international trade policies to facilitate largely complementary regional economic policies, the restoration of fiscal sustainability in federal economic policies and to varying degrees across provinces, and the cultivation of cross-partisan consensus on immigration policies to avoid the social polarization experienced in other industrial countries. It concludes by noting areas of political vulnerability with the potential to disrupt this consensus.

Keywords: political economy, economic inclusion, economic inequality, federalism, globalization, fiscal policies, immigration policies

Introduction

Profound economic shocks may unearth deep social and cultural cleavages hidden or assuaged during times of relative prosperity. The international financial crisis of 2007–9 triggered ongoing challenges to post-Cold War political and economic orders from both the populist

right and the radical or populist left in several major industrial countries, including the 2016 Brexit referendum, Donald Trump's subsequent election and the disruption or replacement of dominant centre-left or centre-right parties by radical or populist challengers in several European countries.

These developments have seriously disrupted the varied compromises of market (neo-) liberalism, 'third way' social democracy and their national variants in the United States and other countries. Several major factors have contributed to these upheavals: the disruption of established economic or social regimes; prolonged periods of high unemployment and/or widespread income stagnation; growing regional economic disparities, contributing to increased inequality and/or declines in social or economic mobility; and the inability or unwillingness of political leaders to recognize and respond to these challenges.

Twenty-five years ago, Canada faced many of the same disruptions roiling other industrial democracies today. Deep regional, cultural and political divisions, reinforced by ongoing economic changes and declining living standards, challenged the very legitimacy of its political institutions. While not without significant challenges, Canada has generally adapted to domestic and global political change and growing social and cultural diversity. Notwithstanding periodic economic shocks, living standards for most income groups since 2000 have avoided the prolonged stagnation and growing inequality experienced in other major industrial countries. Canada's multicultural society has become among the world's most effective in integrating newcomers from other countries, generally avoiding the backlash politics experienced elsewhere. Its governments have usually managed to maintain valued public services while pursuing economically sustainable fiscal policies. Canada has continued to pursue incremental trade liberalization while avoiding the persistent anti-globalization backlash experienced in other countries or the serious regional tensions which accompanied major policy shifts between the 1970s and 1990s.

This article examines Canada's relative success in restoring 'economic inclusion' and 'inclusive growth' since the 1990s. After reviewing competing views of these concepts, it examines four major factors which have substantially reduced earlier regional, cultural and social tensions. First, Canada responded to deep regional divisions by accommodating diverse interests through an open, relatively decentralized culture of federalism under successive governments. Second,

federal and most provincial trade and investment policies have largely replaced the historic zero-sum game of east–west trade policies with measures to encourage international competitiveness. Third, complementary fiscal policies, however varied across provinces, have facilitated economic and social adaptation, substantially mitigating income inequality within and across most regions. Fourth, successive governments have crafted a largely cross-partisan consensus on broader immigration and related adjustment policies; these have generally avoided the social and partisan polarization over immigration issues which, with rising social inequality, have roiled recent British, French and American politics.

However, recent developments suggest that neither the relative success of these policies nor the ‘permissive consensus’¹ which has sustained them can be taken for granted. Several major challenges require continuing policy adaptation to sustain prosperity, and social and regional cohesion amid the continuing disruption of the international order.

‘Inclusion’ and ‘Exclusion’: Complex and Contested Concepts

The relative ‘inclusion’ or ‘exclusion’ of members of particular groups from the benefits of particular social, political or economic orders remains a topic of extensive debate. All societies and political systems have hierarchies of *relative* power, economic advantage and opportunity for individual citizens or members of particular groups, whether defined through ascription, choice, shared interests or other factors. Capacities to take advantage of such opportunities vary widely. Differences in capacity may result from inherited social conditions, personal choices or obligations which limit or even preclude the pursuit of certain opportunities. They may reflect limited social capital, or conditions imposed by particular institutions or communities on effective participation. They may also result from political choices to mitigate certain disadvantages rather than others, or to shift responsibility for adjusting to evolving societal norms from one group to another.

The concept of economic inclusion is widely contested; it depends on different political and economic assumptions and values, especially relative emphases placed on promoting equality of opportunities or outcomes. Other factors include different perceptions of the relative importance of economic growth as a necessary but insufficient

condition of opportunity, rather than state-conferred entitlements or social privileges associated with group membership.

Market-orientated and neo-institutionalist scholars often emphasize institutional factors which enable or limit widespread opportunities for economic improvement independent of access to or control over political power.² They also note the risks of institutional capture by 'extractive elites': entrenched political, public or private sector interests which use their (access to) political or institutional power to secure disproportionate benefits relative to the broader society.³ Social democratic and critical perspectives tend to emphasize growing income inequality, especially of market and total incomes, and concentrations of wealth and income among top earners.⁴ Other scholars focus on intergenerational mobility, often linked to access to higher education.⁵ The Organisation for Economic Co-operation and Development (OECD) uses a multidimensional index of living standards, incorporating multiple quality of life measures.⁶ However, the relative emphasis on promoting widespread economic opportunities vs relatively equal outcomes remains a principal source of contention.

Economic growth creates the potential for public and private surpluses, which may be reinvested in hard or soft assets (including education and other forms of intellectual capital) yielding measurable economic returns, or distributed to citizens to provide wider enjoyment of its benefits while avoiding 'zero-sum' contests over resources and opportunities. More recently, policy analysts have emphasized 'inclusive growth': 'economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms across society'.⁷ Institutional and policy design can contribute significantly to broader employment opportunities, improved living standards, and access to public services such as functioning infrastructure, education, health promotion and care. They may also facilitate investment, entrepreneurship and employment opportunities for groups left behind by the evolution of national and regional economies.⁸

However, it becomes more difficult to develop or mobilize political support for, and implement policy-driven responses to, these challenges when they become embroiled with overlapping cultural-, class- or racially-based social divisions. Polarization around such divisions often provokes deep, zero-sum approaches to the politics of identity and related issues of power, eroding trust in institutions and those who manage them. In recent years, growing social and economic polarization has deepened political conflicts in many industrial countries, often

reflecting the geographic polarization of social and economic opportunities between major metropolitan regions, on the one hand, and hinterland regions facing industrial decline and the loss of traditional forms of social capital, on the other.⁹ These realities were reflected in Canada's prolonged political and economic catharsis of the 1980s and 1990s. Addressing the challenges experienced then has been critical to its subsequent restoration of economic and political stability.

Economic Inclusion in Canada

Debates over inclusion and exclusion in Canada have taken numerous forms in recent decades. The patriation of Canada's constitution in 1981–2 recognized multiple, constitutionally protected identities and interests: jurisdictional, aboriginal,¹⁰ gender- and ethno-culturally-based. However, it also left multiple abeyances to be skirted, navigated or occasionally reconciled, usually by non-constitutional means. Indeed, the political risks of 'mega-constitutional' change – the reopening of constitutional questions addressing fundamental questions of national identity and related institutions¹¹ – to national cohesion have largely precluded discussions of all but incremental, consensual constitutional changes since 2000, given their tendency to evoke irreconcilable zero-sum debates among competing agendas.

The politics of 'economic inclusion', however defined, have faced similar challenges of reconciling provincial, regional, sectoral, distributive and ethno-cultural interests within open economic systems, even though Canada has enjoyed the fastest growth rate in living standards of any OECD country since 1995.¹² The institutional and fiscal strength of provincial governments has provided significant countervailing power to regionally organized interests, encouraging the accommodation of federal policies to regional diversity. Unlike most federal systems, these realities have contributed to Canada's evolution as the industrial world's most decentralized federal state.¹³

These realities are reinforced by substantial and continuing differences among provincial economic structures and the central role played by provincial ownership of most natural resources and public utilities. Key variables include relative levels of industrialization and economic diversification across provinces, the impacts of commodity price cycles, particularly for resource-dependent provinces (notably Newfoundland, Alberta and Saskatchewan), relative levels of private sector investment, the depth and resilience of capital markets, and

the distribution of major corporate head offices.¹⁴ Although federal efforts to promote regional development have had limited effectiveness, provincial economic strategies have sometimes been successful in promoting economic development and diversification over longer periods.

Government efforts to promote economic development, adjustment and inclusion are necessarily dynamic in a broadly market-based economy open to the effects of diverse, often cross-cutting international economic forces. Canadian governments since the 1980s have invested heavily in structural reforms and ongoing policy refinements intended to promote growth and facilitate adaptation to economic change. However, public support for such changes is generally contingent on the widespread distribution of their cumulative benefits, and on governments' ongoing capacity to mitigate or offset their costs to groups which face continuing economic disadvantages resulting from shifting patterns of economic activity.

Canada's continental scale and widely dispersed population have prompted continuing pressures to decentralize power within its federal system since Confederation.¹⁵ However, groups from regions with limited economic resources or power – and outsider groups in particular provinces – have often sought federal intervention to redress power imbalances in their favour. In recent years, Canada's Supreme Court has generally avoided zero-sum interpretations of federal and provincial powers, preferring to recognize a 'double aspect' approach to federalism: '*de facto* concurrent jurisdiction' of both senior orders of government across multiple policy fields.¹⁶

The interaction of these dynamics with constantly changing economic realities and processes ensure that the pursuit of 'inclusion' involves multiple dimensions, largely precluding its conceptualization either as a coherent process or a lasting destination:

- debates over regional economic disparities – rooted in varying levels of urbanization, industrialization, economic diversification, relative commodity dependence, seasonality of employment, patterns of investment, education and other factors contributing to the economic resilience of communities and individuals;
- balancing the interests of major metropolitan areas and their hinterlands in general economic policies, support for relevant infrastructure and regionally important industries;
- balancing regional, particularly urban and rural interests *within* provinces;

- addressing social challenges within cities, especially those with large numbers of recent immigrants and internal migrants, particularly indigenous peoples from economically marginal hinterland communities;
- generational equity, notably fostering educational and related economic opportunities for young people, and reducing intergenerational transfers related to social benefits;
- promoting opportunities for women in various socio-economic settings.

Levels and regional divergence of economic growth often shape discussions of economic inclusion in Canada. Although Ontario's economy was the greatest relative beneficiary of trade liberalization during the 1990s, the post-2000 commodity boom displaced much economic activity from Ontario, Canada's traditional economic heartland, towards Alberta, Saskatchewan and Newfoundland, the three largest resource-producing provinces. Population growth since 1991, mainly from international migration, has centred in three provinces: Ontario, British Columbia and Alberta. Income levels in major urban centres, especially those with significant public sector employment, often exceed those in smaller cities and towns, reflecting differences in their industrial mix and related demand for employment-related skills.¹⁷

However, there has been less economic 'hollowing-out' of smaller cities than in non-metropolitan areas of the United States, the United Kingdom and France. In some cases, these trends reflect the persistence of high-skilled industrial employment, supported by locational advantages. In others, they indicate varying levels of public sector, university and/or health sector clusters, often sources of higher-paying employment, reflecting efforts by provincial governments to balance sub-regional economic interests.

Canada's distinctiveness in addressing the politics of inclusion derives largely from its success in emerging from the fiscal overextension and contentious zero-sum politics of the 1980s and 1990s. Lessons from this era have continuing value for addressing the challenges of Canada's economic and social prospects.

The Politics of Disruption: How Canada Almost Fell Apart

Canada went through deep domestic political and economic turmoil between 1980 and 1995. The Trudeau government returned to office

in 1980 faced rising, seemingly uncontrollable inflation, deep regional conflicts, particularly over control of energy policies and revenues, and a Quebec government seeking a popular mandate for 'sovereignty-association' with Canada. Political compromises made to secure major constitutional changes in 1981–2 won broad provincial support but reinforced profound alienation in Quebec.¹⁸ Trudeau left office in 1984 with record fiscal deficits and unsustainable public expectations, which were reinforced by his Progressive Conservative successor, Brian Mulroney.

During two terms in office (1984–93), Mulroney introduced extensive policy changes which, sustained by the subsequent Liberal governments of Jean Chrétien (1993–2003) and Paul Martin (2003–6), largely transformed Canada's economy. These policies included embracing liberalized trade and investment policies, particularly the negotiation of free trade agreements with the United States and Mexico (1988, 1993), varying degrees of economic deregulation and liberalization of the oil and gas, financial, rail and air transport sectors, competition and tax reforms, and reduced restrictions on foreign investment.¹⁹

However, a new federal value-added tax (1989–90), proposed constitutional changes and the pressures of continuing adjustment to globalization provoked a widespread backlash and intense, cross-cutting political and social conflicts. These passions resulted in the defeat of two major constitutional reform initiatives (1990, 1992) despite their general endorsement by Canada's political elites. They also triggered the break-up of Canada's national party system, the rise of competing populist and separatist parties in the 1993 election, and the defeat of a second Quebec sovereignty referendum in 1995 by a wafer-thin margin.²⁰

Both Trudeau and Mulroney had recognized that the circumstances they inherited were politically and economically unsustainable. Mulroney initially succeeded where Trudeau had failed because he deliberately negotiated provincial support for his free trade and constitutional proposals, while paying careful attention to the distributive effects of personal and corporate tax reforms in 1987–8. However, while income levels in several provinces generally recovered from the economic shocks of the early 1980s (see Table 1), the cumulative impact of falling commodity (especially oil) prices, post-FTA industrial reorganization, central bank efforts to reduce inflation through high interest rates and the resulting post-1990 recession led to cumulative reductions of 14–22 per cent in the real market incomes of families in Western Canada and Quebec by 1993, only slightly less in after-tax terms. These realities, combined with the intense frictions of constitutional and

Table 1. Economic Disruption and Living Standards, Canada and Provinces, Economic Families, 1980–93

	Median Real Market Income				% change 1988–93	Median Real After-Tax Income			
	1984	1988	1993	1988–93		1984	1988	1993	1988–93
	1980 = 100					1980 = 100			
Canada	89.7	99.3	84.8	-0.146	93.3	98.7	89.2	-0.096	
Saskatchewan	86.7	88.5	78.9	-0.108	92.1	90.9	83.7	-0.080	
British Columbia	78.6	89.6	77.9	-0.131	85.1	90.3	84.8	-0.061	
Quebec	91.2	99.2	82.0	-0.173	94.7	96.7	85.6	-0.115	
Alberta	84.7	90.7	83.7	-0.078	87.6	89.0	85.6	-0.038	
Manitoba	92.7	94.3	85.6	-0.092	95.1	96.2	87.1	-0.095	
PEI	85.8	91.1	78.9	-0.133	93.6	96.4	91.2	-0.053	
Newfoundland/ Lab.	84.1	102.1	79.5	-0.221	97.1	109.2	98.9	-0.094	
Nova Scotia	96.4	107.0	89.9	-0.160	101.2	104.3	99.0	-0.050	
Ontario	94.4	108.1	91.2	-0.156	94.3	105.0	99.2	-0.055	
New Brunswick	95.5	103.9	92.7	-0.108	102.0	105.2	99.8	-0.051	

Source: Statistics Canada (2017), *CANSIM Table 206–0011 (Ottawa: May)*; author’s calculations

identity politics, reinforced the resurgence of Western alienation and Quebec separatism, which had disrupted Canadian politics in the 1990s.

Constitutional exhaustion, regional alienation and the pressing need for federal and provincial governments to correct their fiscal over-extension after years of chronic deficits²¹ prompted governments of all political stripes to look for new approaches to increase their effectiveness and efficiency in dealing with Canadians’ day-to-day concerns over ongoing pressures from trade liberalization and other aspects of globalization. The cumulative effect of these policy shifts largely reversed the adverse effects of economic and fiscal restructuring on living standards after 1998.

Restoring Economic Growth and Higher Living Standards Since 2000

A widespread criticism of economic policies in many industrial countries is that they have often produced economic growth without sharing

Table 2. Median household incomes (in 2015 constant dollars), adjusted for family size, 1980–2014

	1980	1989	1997	2008	2014
(Adj.) household market incomes	55,300	52,500	42,700	51,900	52,700
1980 = 100	100.0	94.9	77.2	93.9	100.4
(Adj.) household total incomes	60,200	59,200	51,400	61,000	63,800
1980 = 100	100.0	98.3	85.4	101.3	107.8
(Adj.) household after-tax income	52,200	49,600	43,700	53,700	56,200
1980 = 100	100.0	95.0	83.7	102.9	113.3

Source: Statistics Canada (2017), *CANSIM Table 206–0011*; author's calculations

its benefits effectively. This critique was true of Canada during much of the 1980s and 1990s. Real median household market incomes fell 22.8 per cent during this period. Although changes to Canada's tax-transfer system introduced after 1987 mitigated these effects (see Table 2), median total real household incomes fell 14.6 per cent, while real disposable (after-tax) incomes fell 16.3 per cent, reflecting continuing adjustments to trade liberalization and widespread fiscal retrenchment after 1993.

These trends were substantially reversed between 1997 and 2014. Although median market incomes recovered their 1980 levels only in 2014 and slipped slightly in response to global commodity price shocks in 2015, both total and disposable incomes had regained the lost ground by 2008. Median total incomes rose 24.1 per cent in 1997–2014, with median after-tax incomes rising 28.6 per cent; these trends continued in 2015. The figures suggest that the combined effects of federal and provincial tax and transfer systems contributed to significant improvements in living standards, although gains were greatest in provinces with growing resource sectors and slowest in Ontario and Quebec. These trends contrast sharply with the United States, where median incomes regained 1999 levels only in 2017.²² Real disposable household income has continued to grow since 2016 in most provinces.

Fiscal and economic restructuring between 1980 and 2000 led to substantial increases in various measurements of income inequality (see Table 3), especially in Ontario, which experienced wholesale industrial restructuring. Although year-to-year patterns are highly variable, due to limitations in data measurement, most provinces have experienced modest reductions in all three measures of inequality since 2000, with some exceptions in Saskatchewan, Manitoba and Alberta. The overall

Table 3. Market, Total and After-Tax Income Inequality, Gini Coefficients, Canada and Provinces

	1980-2014	1980	1990	2000	1980-00	2008	2014	2000-14
Market Income Gini	Canada	0.370	0.403	0.439	0.069	0.430	0.427	-0.012
Highest 1980, 2014	Nfld	0.440	0.473	0.501	0.061	0.472	0.441	-0.060
Lowest 1980	Ontario	0.342	0.379	0.437	0.095	0.431	0.429	-0.008
Lowest 2014	Alberta	0.360	0.388	0.411	0.051	0.393	0.394	-0.017
Δ Highest - Lowest		0.098	0.094	0.090		0.079	0.035	
2000: Lowest: Manitoba, Alberta; 2008: Lowest: Alberta								
Total Income Gini	Canada	0.313	0.326	0.362	0.049	0.355	0.352	-0.010
Highest 1980	Alberta	0.326	0.327	0.351	0.025	0.344	0.353	0.002
Highest 2014	Ontario	0.297	0.319	0.372	0.075	0.363	0.358	-0.014
Lowest 1980	N.Scotia	0.289	0.308	0.336	0.047	0.337	0.333	-0.003
Lowest 2014	PEI	0.295	0.292	0.327	0.032	0.300	0.316	-0.011
Δ Highest - Lowest		0.037	0.058	0.045		0.063	0.042	
1990: High: SK; Low: PE; 2000, 2008, 2014: High: ON; Low: PE								
After-Tax Gini	Canada	0.286	0.286	0.317	0.031	0.314	0.311	-0.006
Highest 1980	Nfld&Lab	0.297	0.278	0.302	0.005	0.301	0.293	-0.009
Highest 2014	Alberta	0.295	0.285	0.312	0.017	0.309	0.319	0.007
Lowest 1980	N. Scotia	0.262	0.270	0.295	0.033	0.294	0.291	-0.004
Lowest 2014	PEI	0.267	0.257	0.285	0.018	0.263	0.275	-0.010
Δ Highest - Lowest		0.035	0.049	0.040		0.056	0.028	
1990: High: SK; Low: PE; 2000, 2008: High: ON; Low: PE								

Source: Statistics Canada (2017), *CANSIM Table 206-0033*

Table 4. Regional Impacts of Commodity Price Crash on Inequality Selected Provinces, Change in Gini Coefficient, 2014–15

	Market Incomes	Total Incomes	After-tax Incomes
Canada	0.009	0.002	0.003
Nfld/Lab	0.007	0.024	0.021
Alberta	0.026	0.012	0.005
Ontario	0.005	0.002	0.002
British Columbia	0.002	-0.003	0.004
Saskatchewan	0.005	-0.004	-0.004

Note: Positive = higher inequality

Source: Statistics Canada (2017), *CANSIM Table 206-0033*

dispersion of income levels *across* provinces declined significantly between 1980 and 2014, despite significant variations in disparities of total and after-tax income inequality across provinces.

The widespread collapse of commodity prices in 2014–5 contributed to notable increases in market income inequality (see Table 4). However, tax and transfer systems effectively mitigated the effects on the distribution of total and after-tax incomes, except in Newfoundland, whose government imposed sweeping tax increases to reduce record budget deficits.

The next section examines the first of four sets of institutional and policy developments that have enhanced the capacities of governments and communities to adjust to continuing economic liberalization and change – the continuing decentralization of Canada’s federal system.

Canadian Federalism: Adapting to Changing Realities

The evolution of Canadian federalism since the 1980s has changed the context for and meaning of ‘inclusion’ in civic, social and economic terms. The constitutional debates noted above attempted to balance three very different concepts of national community based on contested concepts of equal citizenship, equality of founding nations and equality of provinces. Canada’s Supreme Court has typically enforced the first in a series of decisions expounding the rights of individuals and designated groups under the Charter of Rights. However, its federalism jurisprudence has tended to walk a fine line in discouraging federal unilateralism, while acknowledging the existence of legitimate federal and provincial roles within many policy fields.²³

Quebec's provincial political classes have typically approached that province's relationship to the rest of Canada as expressing a 'national compact' between Canada's two founding (European colonial) nations, as articulated by the 1956 Tremblay Commission report,²⁴ filtered through the secularism and state-centred linguistic and cultural nationalism of Quebec's Quiet Revolution (1960–80).²⁵ Subsequently, varied partisans of this outlook have sought the 'affirmation' of Quebec's distinctiveness as North America's only predominantly French-speaking jurisdiction, and provincial 'autonomy' within the Canadian federation, including its 'right to difference' in the exercise of its constitutional jurisdictions, not just its cultural distinctiveness.²⁶

The intensity of language debates in Quebec has diminished since the late 1980s, when they contributed substantially to disrupting proposed constitutional reforms. However, issues of cultural diversity (and related economic opportunity) remain controversial. The multi-cultural diversity of greater Montreal often conflicts with the cultural nationalism of predominantly French-speaking regions outside the metropolis.²⁷ However, the size and concentration of immigrant communities in major cities have made efforts to exploit these tensions as politically counterproductive in Quebec as in other parts of Canada, as seen by the Parti Québécois' crushing defeat in the 2014 Quebec election.

Some aboriginal leaders and scholars have used the concept of the equality of founding nations to pursue constitutional recognition for aboriginal sovereignty within a multinational federation.²⁸ This concept has received some judicial recognition in successive court decisions.²⁹ However, its practical implications remain uncertain given the immense diversity of indigenous communities, and their varied relationships with other Canadian governments and the wider society. In practice, political inclusion is most advanced in the indigenous majority communities of Canada's north and in more remote regions of Quebec, which have evolved shared governance regimes.

The concept of provincial equality takes at least two distinct forms: formal equality among provinces as autonomous self-governing jurisdictions accountable to their respective electorates; and sovereign equality between federal and provincial governments in their respective jurisdictions. During the 1980s and 1990s, some provinces' pursuit of equality found expression in advocating an 'elected, effective Senate' with equal provincial representation, and in resisting greater veto powers for individual provinces on proposed constitutional changes affecting other provinces. These objectives conflicted directly with

Quebec's insistence on its historic constitutional veto and extensive autonomy, distinguishing it from other provinces, whose commitment to 'province-building' has typically been contingent on their relative demographic, fiscal and administrative capacities.

These competing expectations and demands have led McRoberts to observe that 'Canada is caught in the contradiction between the nationalism of the Canadian state and the nationalisms of its "internal nations"'.³⁰ The deliberate accommodation of multiple approaches to identity since the 1990s may not have resulted in the creation of a multi-national state, as suggested by some scholars, in the sense of institutionalizing these identities within representative governmental structures. However, most political leaders have recognized the risks to national survival of reopening fundamental constitutional questions on which the Canadian public is irreconcilably divided, preferring to remain instead within what Montpetit describes as the 'low risk of explosion zone'.³¹

In practice, successive federal governments have sought to square this circle of competing constitutional cleavages by pursuing what Montpetit calls 'incremental disjointed federalism'.³² This approach is sometimes described as a 'soft, asymmetrical' federalism in which Ottawa negotiates terms of cooperation with individual provinces, issue-by-issue, in areas of shared or overlapping jurisdiction, conceding varying degrees of autonomy depending on the policy capacities and political agendas of individual provinces. Examples range from agreements on labour market training, to the extension of provincial nominee programmes linking immigrant selection to provincial economic and cultural priorities, to fiscal arrangements for pricing carbon and cooperation in enforcing environmental regulations³³ – although the latter have faced growing political pressures with the progressive turnover of provincial governments since 2017.

Different federal and provincial party systems and Ottawa's frequent need to negotiate with provincial governments of different political stripes also reinforce incentives for bilateral rather than pan-Canadian approaches to federal-provincial negotiations. Party competition aligns along substantially different federal and provincial lines in at least five provinces. Governments of the same political party have only governed simultaneously in Ottawa and various provinces about 30 per cent of the years since 1988 (see Table 5), although politically 'compatible' governments have shared office during 19 per cent of this period.

Some observers have suggested that strong provincial governments, federal restraint in unilateral assertions of jurisdiction in contested policy

Table 5. Partisan Composition of Federal, Provincial Governments, 1988–2019

	Same Political Party	Different but Compatible Party	Competing Parties	Total
BC*	5	13	13	31
Alberta*	15	3	13	31
Sask.*	3	16	12	31
Manitoba*	5	8	18	31
Ontario	5		26	31
Quebec*	8	12	11	31
NB	13		18	31
NS	19	6	6	31
PEI	7	1	23	31
Nfld. Lab	15		16	31
	95	59	156	310
	0.306	0.190	0.503	

fields and a judicial adjudication of differences which attempts to avoid visible institutional partisanship have helped to legitimate Canada's federal system when different parties have held power in federal and provincial politics over long periods. Raney and Berdahl note that, except in Ontario and Manitoba, Canadians identify with their province as strongly (or more so) than with Canada.³⁴ Awareness of these shared loyalties has encouraged greater federal accommodation of regional interests, most clearly in the Harper government's embrace of 'open federalism' – although the current Trudeau government faces growing challenges in this area.³⁵

The concept of 'open federalism' was intended to respect provincial jurisdictions, limiting federal efforts to control provinces' use of related fiscal transfers. Respecting the limitations of minority government, Harper maintained his predecessor's commitment to annual 6 per cent increases in health-related transfers (following major transfer cuts during the 1990s as part of deficit reduction), while enforcing tight internal spending restrictions after 2010 to balance its budget by 2015. Harper also sought to square competing identity claims by recognizing 'Québécois' (but not Quebec) as a nation in a 2006 (non-constitutional) parliamentary resolution without conceding formal powers unavailable to other governments. Occasional departures from open federalism, particularly its unilateral efforts to introduce a national securities regulator (replacing an evolving interprovincial compact) and Senate reform, were brusquely dismissed by the Supreme Court as *ultra vires*.³⁶

Harper's open federalism also extended to carbon pricing policies. Noting the Obama administration's failure to secure enabling legislation in 2009–10,³⁷ Harper sidestepped potential 1970s-style debates over the pan-Canadian redistribution of carbon tax revenues by allowing the provinces to implement pricing schemes suited to their respective industrial structures. He pledged that future revenues raised by such measures would remain within each province under any federal policy. Since 2015, the Trudeau government initially made similar commitments in its national carbon reduction policy, while implementing other, sometimes controversial, environmental measures to mitigate risks from the construction of future pipelines.³⁸ Subsequently, British Columbia and some First Nations have challenged both federal primacy over and the adequacy of federal policies for environmental protection in coastal waters to pre-empt the expansion of interprovincial pipelines – prompting pushback by energy-exporting provinces. These developments reflect a mix of shifting party/ideological dynamics, regional tensions and those related to the recognition of indigenous rights claims, demonstrating the fragility of efforts to balance competing interests in this field.

Although Canada's evolving federal system has not addressed all substantive or symbolic issues of inclusion – particularly those affecting indigenous communities and Atlantic Canada's demographic stagnation – until recently it has enabled provinces to pursue their particular interests in ways generally conducive to 'positive-sum' politics of regional and national advantage. These realities are most visible in successive governments' approaches to trade and investment policies, responding to economic globalization and competitive liberalization.

Globalization, Economic Disruption and Inclusion

Canada's embrace of globalization and its adoption of numerous 'neoliberal' policies were as controversial in the 1980s and 1990s as they remain today in many Western industrial countries. Their public acceptance – although contingent on economic outcomes and preservation of domestic 'capacity for choice'³⁹ on major issues, including the preservation of major social programmes – persists despite periodic economic shocks and changes of government.⁴⁰

American political scientist James Rosenau has coined the term 'framegration' – the interaction of integrating and particularistic

dynamics at multiple levels of analysis⁴¹ – as a fundamental characteristic of the dynamics of globalization within and among nations. International trade negotiations often take the form of two- (sometimes multi-) level games in which governments seek to construct international *and* domestic coalitions supportive of policy change. Building domestic coalitions requires careful attention to anticipated distributive effects, with careful attention to domestic institutional structures and interests capable of wielding or securing policy vetoes if their interests are not consulted adequately.⁴² Ottawa paid careful attention to such consultative and distributive arrangements, actively engaging provinces and sectoral advisory committees when negotiating the initial Canada–USA Free Trade Agreement (CUFTA) in 1987–8,⁴³ followed by NAFTA – the North American Free Trade Agreement of 1993. Successive governments have managed sectoral and regional sensitivities in subsequent trade negotiations with the European Union and Asia-Pacific trade partners – particularly in balancing export-orientated and protected ‘supply managed’ agri-food sectors.

Provincial consultation remains a stable, if evolving element of ongoing trade negotiations.⁴⁴ Public attitudes towards NAFTA have fluctuated with economic activity, but generally remain more favourable than in the United States or Mexico. However, they are less open to trade agreements with countries with very different business or legal cultures or human rights records, especially large authoritarian governments with state-controlled legal systems.⁴⁵

Several factors help to explain Canadians’ relative acceptance of existing trade and investment regimes. First, most Canadians recognize their relative dependence on US markets, which have accounted for about 75 per cent of exports and 24 per cent of gross domestic product (GDP) in recent years, despite persistent efforts at trade diversification. Secondly, despite significant trade deficits, Canada has benefited from growing Asia-Pacific economies since 2000, although some industries, especially steel, machinery and equipment manufacturing, have experienced disproportionate effects from international, particularly Chinese, competition.⁴⁶ This relative complementarity of Canadian and Asian economies contrasts sharply with the impacts of Chinese imports on US employment and incomes, which have reinforced the polarization of American domestic politics.⁴⁷ Third, Canada’s position in North America – whose formal integration has never passed beyond that of a free trade area with distinct national institutions – is fundamentally different from those of the European Union or the United Kingdom.

Three sets of asymmetries contribute to these differences. First, sizeable differences in size, power and wealth between the United States and its neighbours have effectively precluded political integration, leaving each country with considerable domestic discretion, subject to national treatment rules. Neither the political classes nor the broader publics in each country are inclined to pool sovereignty – only to negotiate its boundaries through reciprocal agreements.⁴⁸ Second, the US executive–congressional separation of powers and Canada’s federal–provincial division of powers impose practical limits on legislative harmonization as neither country functions as a ‘unitary actor’ in bilateral relations.⁴⁹ Third, major jurisdictional asymmetries in federal systems often reinforce these distinctions – requiring accommodation of regional differences to negotiate or maintain support from institutionalized congressional and sub-national interests.⁵⁰

These differences are significant. Provincial and regional trade patterns have evolved along different lines since the negotiation of CUFTA (see Table 6). Only four provinces exported more to other countries than to other provinces during the late 1980s. By 2004–8, international exports exceeded interprovincial exports in all provinces to varying degrees, before declining after 2008.

Degrees of regional advantage, or relative ‘exclusion’, from CUFTA or NAFTA’s benefits have varied significantly in each decade. The Canadian dollar’s largely commodity-driven appreciation in 2002–8

Table 6. Average Ratio of International to Interprovincial Exports Canada and Provinces, Current Dollars

	1986–90	1996–2000	2004–8	2011–15
Canada	1.171	2.096	1.808	1.548
Nfld/Lab	2.366	3.000	1.485	1.675
PEI	0.447	0.992	1.056	0.697
Nova Scotia	0.800	1.207	1.050	0.857
New Brunswick	0.941	1.197	1.425	1.322
Quebec	0.944	1.916	1.652	1.385
Ontario	1.336	2.639	2.174	1.835
Manitoba	0.656	0.986	1.064	0.861
Saskatchewan	1.037	1.673	1.390	1.780
Alberta	0.811	1.576	1.832	1.605
British Columbia	2.187	2.381	1.696	1.272

Source: Statistics Canada (2016), *CANSIM Table 384–0038* (September)

(and 2010–4) greatly benefited Canadian firms investing abroad, while attracting large-scale foreign investment. But exchange rate shifts, sometimes reinforced by inept provincial policies, eroded the comparative advantages of other manufacturers, especially in Central Canada.⁵¹ The resource boom created upstream and downstream benefits for industries, workers and communities linked to related supply chains and trade corridors.

Resource and infrastructure firms subsequently have recognized the necessity and value of negotiating benefit agreements with indigenous and other local communities in major corridors to secure social (and sometimes legal) acceptance for new developments.⁵² However, such initiatives risk ‘joint decision-traps’, particularly when determined stakeholders can delay projects long enough to make such projects uneconomic or divert political and investment capital to more productive activity – as seen with the demise of the Energy East and Mackenzie Valley pipeline projects in 2017.⁵³ The 2008–9 recession also significantly affected Canada’s other export sectors, particularly its deeply integrated automotive sector. Overall exports fell by 22 per cent, although non-energy exports have recovered with exchange rate depreciation since 2014. Sectoral and employment effects have varied widely across provinces, reinforcing economic decentralization.

Ongoing structural change and economic volatility reinforce the need for federal–provincial cooperation and coherent provincial approaches to distinct industrial, resource and human capital policies to integrate economic adaptation and inclusion. Various studies suggest that Canada has adapted relatively well to these challenges, although significant pockets of relative (and sometimes, absolute) social and economic disadvantage persist.⁵⁴ The automation (or, in some cases, migration) of many semi-skilled, routine manufacturing jobs eroded one major source of well-paid employment, especially in Central Canada. At the same time, the resource boom of 2000–14 played a major role in sustaining and increasing incomes for many families in resource and related service sector firms, especially in Western and Atlantic Canada.⁵⁵

Canadian governments since the 1990s have made major changes to education and labour market policies to assist workers and communities in adapting to the pace of economic change. Such incentives included improvements in labour standards (including improved requirements for severance pay), employment adjustment assistance for firms facing plant closures or substantial downsizing, improved access to post-secondary education and training, expanding access to employment insurance for part-time and other contingent

workers, and retraining and reemployment support for members of ‘vulnerable’ populations. These policies have evolved through trial and error, allowing considerable decentralization to accommodate differences in regional employment conditions and facilitate cooperation among governments, educational and non-profit organizations, and local employers. Governments have also sought to foster inclusion by continuing to identify sources of, and barriers to, economic opportunity for various social groups, so that governments, businesses and other social actors can help their members adapt to changes beyond their immediate control.

Canada liberalized its investment policies significantly after 1985, although historic protections remain for some politically sensitive sectors.⁵⁶ The resulting influx of foreign takeovers initially evoked considerable controversy, particularly over fears of declining Canadian ownership and control of major sectors.⁵⁷ The international expansion of Canadian-based firms over successive market cycles (see Table 7), and new regulatory measures to secure public policy objectives in labour, environmental and social regulations, have partially offset these fears. However, Canadian public opinion remains reflexively protectionist and nationalist on foreign investment, particularly from countries with poor human rights records and labour conditions.

The evolving ‘permissive’ consensus on foreign investment is closely connected to principles of effective reciprocity, and to provincial reactions to transactions affecting their core interests.

In recent years, foreign investors’ contribution to spiralling house prices has provoked rising public concern. Escalating costs have triggered serious, if geographically focused, concerns about housing affordability and mortgage default risks, despite successive federal efforts to contain these risks.⁵⁸ These pressures heavily influenced provincial decisions to impose offshore ownership taxes on residential

Table 7. Foreign Direct Investment (Inbound, Outbound) as Percentage of GDP

	1990	2000	2010	2016
Canadian Direct Investment Abroad	14.2	31.6	37.5	50.8
Foreign Direct Investment in Canada	18.9	28.3	34.9	39.9
Ratio	0.752	1.117	1.076	1.271

Sources: Statistics Canada (2017), *CANSIM Tables* 376–0051, 384–0064; author’s calculations

real estate in 2016–17,⁵⁹ demonstrating the limits of the permissive consensus on foreign investment.

Fiscal and Tax Policies

Canada's fiscal restructuring of the 1990s, while painful, ultimately reinforced public support for liberal trade and investment policies by facilitating a return to relatively inclusive growth. The general return to fiscal balance gave federal and provincial governments the flexibility to improve citizens' living standards and business competitiveness with broad tax reductions, while strengthening key public services and responding effectively (if belatedly) to the 2008–9 recession. Canada has progressed from one of the industrial world's worst fiscal positions in the early 1990s to among the most favourable ones in the late 2010s, although some provinces face continuing challenges.⁶⁰

Federal and several provincial governments had run chronic deficits since the 1970s, contributing to rising debt levels relative to GDP, disproportionately growing interest costs and significant public resistance to both tax increases and spending reductions. Combined with broadly declining living standards (discussed above) and the high interest rates used to reduce inflation, these challenges had created a vicious fiscal circle by 1990.⁶¹

The Mulroney government lacked the political capital to pursue sustained deficit reduction. However, it succeeded in restructuring the income tax system in 1986–8, where its predecessors had failed, lowering rates and broadening the tax base, following other major industrial economies. It paid enough attention to distributive effects to ensure tax reforms left most Canadian households modestly better off – for example, by substituting tax credits for deductions to target major tax preferences towards middle- (and later lower-) income families – although limits on inflation indexing surreptitiously boosted revenues through the 1990s. However, Ottawa's replacement of previous taxes with a value-added sales tax applicable to domestic consumption of most goods and services, but not exports (1989–90), while necessary for Canadian firms to compete in a free trade environment, prompted a bitter public backlash.⁶²

Although some provinces had moved towards balancing budgets, the 1994 Mexican peso crisis led the Chrétien government to take decisive action to balance its much larger deficit by 1998. Ottawa restructured social programmes, targeting more benefits to lower-income

families and contingent workers, raised taxes, substantially reduced transfers to provinces and took decisive measures with provincial support to place Canada's seriously underfunded public pension system on a sustainable footing.⁶³ As with parallel provincial initiatives, their success depended on centralized control of budgetary processes, sufficient tactical flexibility to address unanticipated fiscal shocks, and the ability to move quickly to reach targets and reward citizens' sacrifices with a mix of targeted spending increases, lower taxes and incremental debt reduction. Fiscal decentralization allowed each province to tailor its policies to local preferences within its fiscal capacity, reinforced by Ottawa's restoration and escalation of transfers after 1998.

Successive federal governments ran fiscal surpluses averaging 0.7 per cent of GDP between 1998 and 2008. Together with economic growth, these measures reduced federal net debt from 68.8 per cent of GDP in 1995–6 to 28.1 per cent in 2008–9. The resulting fiscal dividend financed new initiatives and reduced the burden of intergenerational transfers. (Federal net debt in 2018–19 was 30.8 per cent of GDP. Provincial debt levels east of Saskatchewan ranged from 34.7 to 44.9 per cent of GDP.)⁶⁴

Electoral dynamics dictated successive rounds of personal and corporate tax reductions in 2000–4 and 2006–8, with careful attention to distributive effects. The scale of personal tax reductions, including increases to lower-income refundable tax credits, was generally proportional and prior to corporate tax relief, with incremental tax reductions packaged as parts of a larger fiscal plan. The Harper government delivered personal tax relief mainly through goods-and-services tax reductions, contrary to the advice of most economists. These cuts, which extended the greatest proportional benefits to lower- and middle-income families, provided political cover for cutting corporate tax rates by 30 per cent between 2006 and 2012 to attract investment and reduce incentives for international tax arbitrage.⁶⁵ Corporate tax measures were generally geared towards economic efficiency, attracting investment and promoting growth, reflecting recent academic research, while personal tax measures were usually orientated towards political efficacy.

The Trudeau government elected in 2015 has left Harper's corporate and sales tax measures largely undisturbed while increasing personal tax progressivity by lowering rates for taxpayers earning less than C\$200,000, increasing upper income tax rates and cancelling most of its predecessor's 'boutique' tax credits. It has also introduced plans to impose a national carbon tax of C\$50/tonne by 2022, offset by revenues from comparable provincial measures to accommodate varying resource

endowments.⁶⁶ However, poorly targeted efforts to increase taxes on high-income professionals by tightening tax preferences for small businesses prompted a widespread public backlash and a policy retreat in 2017.⁶⁷

Provincial tax and spending measures have varied widely since the 2008–9 recession, reflecting diverse economic and political conditions.⁶⁸ The Harper government promoted the continued harmonization of sales tax regimes. Ontario and tiny Prince Edward Island did so without serious incident. However, a populist backlash in British Columbia successfully challenged sales tax reforms.⁶⁹ With rare exceptions (notably British Columbia), most provinces have avoided political temptations to externalize their political or budgetary challenges to other provinces, although periodic gestures of annoyance towards Ottawa remain part of the ritual theatre of Canadian federalism.

In summary, Canada's overall fiscal and tax policies have encouraged greater economic inclusion by moving towards greater sustainability in most jurisdictions, giving citizens greater benefits relative to taxes paid, reducing overall tax levels for most income groups and incorporating distributive considerations into overall tax system changes. Fiscal decentralization has enabled greater policy experimentation, while allowing for the accommodation of diverse political cultures and social realities. However, this equilibrium remains vulnerable to exogenous policy changes, not least major shifts in US tax, trade and macroeconomic policies which threaten to destabilize economic relationships within and beyond North America.⁷⁰

Pursuing Positive-Sum Immigration Policies

Social, partisan and ideological divisions over immigration and social adjustment have been among the bitterest sources of political polarization in Western countries in recent decades. Canada and Australia have been positive outliers in crafting a largely cross-partisan consensus on the integration and promotion of immigration and related adjustment policies with broader policies of economic opportunity and social cohesion to make these policies mutually reinforcing. Their cumulative effect, despite continuing challenges since 1990, has created a broadly positive-sum culture supportive of immigration, mutual adjustment and non-discriminatory inclusion.

At least four key factors help to explain the relative success of Canadian immigration and adjustment policies in fostering cultures

of inclusion for most immigrants and their children, without prejudice to opportunities for other Canadians who lack backgrounds of social privilege. First, political leaders of all major national parties have generally promoted the extension of the post-1970 cultural narrative of Canada as a ‘country of immigrants’ to include racial minorities. Second, Canada’s immigration policies since 1990 have emphasized ‘economic class’ immigrants under successive centre-right and centre-left governments. Ottawa has enabled provincial governments, which share jurisdiction over immigration, to tailor immigrant selection to their priorities through provincial nominee programmes, accounting for 25 per cent of economic immigrants in 2013.⁷¹ Such policies have given priority to immigrants with the education, occupational and language skills needed to integrate more rapidly with the support of existing societal networks. Table 8 notes the distribution of permanent immigrants across major categories between 1988 and 2015. The economic backgrounds and aspirations of parents frequently spill over into their children’s lives. Younger immigrants and children of immigrants have significantly higher participation rates in post-secondary education than the children of native-born Canadians,⁷² a necessary if not sufficient condition of economic success and ‘inclusion’, although such outcomes vary notably across ethno-cultural groups.

Third, governments have addressed successive anomalies and inconsistencies in immigration policies that disadvantage legal immigrants or bring the system’s administration into disrepute. Such changes have included ongoing attempts to streamline the often sclerotic immigrant selection processes, expanding ‘Canadian experience’ and (on occasions, curtailing) temporary worker permits to address sectoral

Table 8. Distribution of Permanent Immigrants by Category, 1988–2015

	1988	2000	2012	2015
	percent			
Family class	31.8	26.6	25.2	24.8
Economic class	49.7	59.9	62.5	62.7
Refugees	16.6	13.2	9.0	11.8
Other	2.0	0.2	3.5	1.4
New permanent immigrants				
– number (thousand)	161.6	227.5	257.9	271.8
– percentage of Canada’s population	0.60	0.74	0.66	0.76

Source: Hale, *Uneasy Partnership*, 2nd ed.; Immigration Refugees and Citizenship Canada 2017

labour shortages, encouraging movement towards permanent resident status, streamlining refugee approval processes, expediting the removals of those judged ineligible and the developing 'safe third country' processes to limit asylum shopping. Ongoing policy adjustments have been necessary to address chronic challenges such as the recognition of foreign credentials and declining economic performance among certain groups.⁷³

Fourth, demographic shifts, interacting with Canada's electoral system, have encouraged most political parties to compete for support from immigrant communities, while penalizing parties and leaders seen to treat them – or other sizeable groups of Canadians – with disrespect. Naturalized Canadians account for sizeable population shares, sometimes majorities, in most of Canada's largest urban regions. Politicians or parties that challenge these outlooks – as with the Parti Québécois' proposed 'Charter of Values' in 2012–14 – have generally paid a significant political price. While these relative successes do not preclude challenges of adjustment, acceptance, prejudice or periodic abuses of power, they have helped to mitigate them, providing opportunities for widespread economic and social advancement among new Canadians while encouraging more favourable views of immigration and cultural diversity within Canadian society.

However, public support for Canada's immigration regime is contingent on two major factors. First, Canadians react viscerally to perceptions that employers are using foreign workers, especially temporary workers, to displace Canadians (of whatever origin) or to enable sub-standard employment practices, including paying below-market wages. Second, inconsistent application or end-running of immigration rules will provoke strong criticism from Canadians who perceive the application of double standards, especially if they are seen to disadvantage people like themselves. The sharp spike in irregular migration in Canada, stemming initially from changes to US 'temporary protected status' policies towards former migrants from Haiti and Central America, and subsequently from the abuse of US visitor visa policies by residents of Nigeria and other countries beyond North America has threatened to overwhelm asylum adjudication and social housing facilities in major central Canadian cities. These developments, while mitigated by close cooperation between Canadian and US border agencies and the US State Department to date, have exposed the vulnerability of Canada's immigration system to external forces beyond its control.

Conclusion

Canada's enormous size and historic diversity make it a challenging country to govern. These factors – magnified by the challenges of adjusting to economic liberalization, North American integration and fiscal overextension – almost tore the country apart in 1980–95. Successive centre-right and centre-left governments have pursued greater economic inclusion by adapting to changing circumstances, enhancing fiscal sustainability, addressing the distributive effects of fiscal and tax policies, and above all, accommodating regional, cultural and political differences within Canada's decentralized federal system. Ottawa has usually avoided zero-sum politics related to national (or regional) identities, while pursuing incremental rather than wholesale policy changes in recent years, avoiding the social, cultural and economic polarization which has become endemic in many Western countries.

This relative cohesion cannot be taken for granted given continuing economic and social challenges. As with other countries, the country's public services need to adapt to demographic ageing while maintaining levels of economic growth to pay for the intergenerational transfers built into many social programmes, especially its iconic health-care system. It faces continuing challenges in balancing diverging social values and economic priorities in its major urban centres and provincial hinterlands, which often depend on resource sectors whose fiscal rents subsidise public services. Quebec's successful challenge to Energy East and British Columbia's attempted pre-emption of the Trans-Mountain pipeline point to the difficulties of sustaining federal policy trade-offs involving deep conflicts among regional interests and ideological agendas. It is far from clear that proposed federal policy changes will be able to bridge major regional and ideological divisions in ways which combine regulatory predictability and transparency for proposed inter-provincial infrastructure projects.

Canada has successfully reduced poverty among older Canadians and reformed its public pension system to limit the growth of intergenerational transfers. However, significant challenges remain – not least in caring for and maintaining the dignity of seniors in precarious health.⁷⁴ This challenge is particularly acute in rural regions, especially Atlantic Canada, which is vulnerable to demographic hollowing-out as younger residents pursue greater economic opportunities elsewhere. Gaps in retirement savings opportunities between public and private sector workers may prompt other social stresses as public sector pension funds shift capital offshore to pursue higher returns.⁷⁵

Canada will continue to experience rising ethno-cultural diversity, encouraging sufficient integration by newcomers to bridge social and cultural changes and the continuing gap between residents of major urban centres and rural, small town Canada through mutual respect and accommodation. This challenge will remain particularly acute in Quebec, in terms of balancing Montreal's diversity with its culturally and linguistically homogeneous hinterland. Under foreseeable circumstances, relatively high levels of education among newcomers to Canada and their children should continue to reinforce both the reality of inclusion and wider public perceptions that immigration policies provide positive outcomes for most Canadians.

Expanding social and economic opportunities for indigenous Canadians, in all their diversity, remains a major shortcoming in Canadian policies aimed at greater economic inclusion. The fragmentation of aboriginal communities, their often remote locations and limited resources, the social challenges faced by urban indigenous communities, and the persistence of significant social prejudice and internal demoralisation remain massive challenges which must be addressed, but lack easy, short-term solutions. Some of these issues are addressed by other contributors to this edition.

Economic history provides ample reminders that rising prosperity and incomes in one generation provide no guarantee of continued economic growth or its widespread enjoyment among citizens. Canada's record of productivity growth, a major factor in rising incomes, remains well below that of its major competitors, especially the United States.⁷⁶ Economic innovation remains relatively weak compared with other industrial competitors. And it faces continuing challenges in managing protectionist pressures in its largest market (the United States) while diversifying its exports enough to take advantage of continuing growth in Asia-Pacific economies, given widely varying provincial trade profiles and areas of vulnerability.⁷⁷ Maintaining public support for such negotiations will become even more difficult if they are extended to authoritarian powers such as China, whose rejection of Western institutions of the rule of law, labour and other human rights protections which, however imperfectly observed, are important elements in achieving genuine reciprocity. This reality has been reinforced by China's arbitrary detention of Canadian travellers and administrative obstruction of Canadian exports in reaction to widening US–China disputes over Huawei's commercial activities and alleged security risks in 2018–9.⁷⁸ The outcome of ongoing US–China trade negotiations and debates over the ratification of NAFTA's successor agreement in the United

States may well determine Canada's capacity to benefit from North American economic integration, while retaining sufficient domestic policy flexibility to adapt to continuing economic and social change.

However, political and fiscal decentralization – the single largest factor in Canada's adaptation to the social and economic shocks of the last generation – appears to be sufficiently embedded within Canada's political culture to impose helpful constraints on the 'zero-sum' politics of competitive exclusion that have roiled other major Western societies in recent years.

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