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by Andrew Caddell
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POLICY PERSPECTIVE

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This paper was inspired by the author's columns previously published in [The Hill Times](#).



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In August of 1941, Britain was struggling through some of the darkest days of the Second World War. In the United States, the isolationist and anti-Semitic “America First” movement kept the country out of the conflict. Nonetheless, Winston Churchill and Franklin Delano Roosevelt met secretly in Placentia Bay, Newfoundland, where they drafted the Atlantic Charter, setting out a blueprint for the postwar world.

It was bold, perhaps even presumptuous, to consider a world at peace when things seemed so bleak. And yet, we owe to them the beginnings of the United Nations, the Bretton Woods trade and regulatory organizations, and the end of colonialism.

In the same way, in the midst of quarantine, unemployment and death, Canada and other Western nations should be looking beyond the pandemic. There is never a convenient time to set a global agenda: the conflicting interests of international players inevitably lead to unresolved problems. But this time it’s different: if we don’t act, events will determine themselves.

The old saying “power abhors a vacuum” could not be more relevant today. While there are those who predict environmental alternatives and the “new economy” will emerge from this crisis, we should instead think back to the fall of the Berlin Wall in 1989. At the time, there were great expectations of a peace dividend from the end of the superpower conflict between the U.S. and the USSR. Instead, the decade that followed saw greater instability, sectarian strife and genocide.

In the months ahead, we have no choice but to be realists: the debt burden will be suffocating for many countries; there will more than likely be a significant contraction in the global economy, and millions will be unemployed. Despite predictions of a rebound due to pent-up demand, the disposable income of many will have been depleted.

Security is the fundamental priority of any country, as it has been since the Peace of Westphalia in 1648. But many Western democracies, in particular the United States, have never been weaker. After COVID-19, events will conspire to make things worse if they continue on their current trajectory. President Donald Trump’s uneven leadership is bound to have an impact on the morale in that country and elsewhere: the U.S. has hardly been a beacon of light in this time of need.

Into this sea of instability will steam China, now recovering from the pandemic which originated there, and already undertaking public relations exercises to ingratiate itself. Seeking its self-interest as it does so well, China is bound to press for economic and political dominance as the United States flounders. A famous Chinese proverb says: “In crisis, lies opportunity.” If China profits from this crisis, it would be the ultimate irony – rewarding the author of our global misfortune.

I hope there are analysts more influential than I examining this global dynamic, and contemplating “What next?” and “What should Canada do?”



The first has to be a meeting of the G7, the International Monetary Fund, the World Trade Organization and the World Bank, to examine the financial consequences of COVID-19. The horrendous deficits currently being accumulated will have to be anticipated, and dealt with through creative means. Trade has to be expedited and trade barriers loosened to stop economies from falling further into depression.

The second is a meeting of the G20, at which steps should be taken to alleviate potential financial catastrophe. China should be told to help or get out of the way; in no uncertain terms, it should face sanctions if it exploits the crisis for financial gain.

The third must be an overhaul of the multilateral system. We need a rules-based order to respond to adversity, but it has to work effectively. This should mean an end to the gamesmanship at the United Nations in New York, the end of competition for funds among UN agencies, the elimination of some UN organizations and the strengthening of others.

Leaders such as the World Health Organization's Dr. Tedros Adhanom Ghebreyesus should be given their walking papers. We need a WHO that gives good advice, co-ordinates world-class research on vaccines and pandemics, and is not beholden to anyone.

Canada is a member of all those bodies and we can recommend these steps, if we have the courage. While it might be tough medicine, in the global competition for self-interest, it is always wise to presume Murphy's Law will apply.

The alternative – doing nothing – can't be on the table. A world of survival of the fittest is the stuff of the bleakest fiction's dystopian nightmares. We cannot afford to let the world devolve to the rules of the jungle. The international rules-based system Canadians have long relied upon must come to the fore, and we should take a leading role in its renewal.

At home: Shoring up the economy

Post-COVID Canada will have to get back on its feet economically if it plans to meet its international commitments. As any country's prime objective is to ensure its citizens' security, every democratic country will have to retrench, rebuild and restore its infrastructure and instill confidence in its people. Canada will be no different in taking on the challenges it faces.

First of all, the debt – there will be mountains of it; a debt and deficit like nothing most Canadians have experienced in their lifetimes. At the latest count, the government of Canada's deficit, projected at \$28 billion, will be \$252 billion. Add tens of billions in provincial debt to that and the projected federal and provincial debts will be close to \$2 trillion, or almost equal to GDP (which will shrink this year).

Increasing the deficit is justified. There are millions of people out of work who need help, and companies that would go bankrupt without government support. While many think the pandemic's conclusion will be another Great Depression, I think it will be more like the end of the



Second World War. There will be debt, but the economy is sound; there will be disruption, but the infrastructure and people are in place.

It is not dissimilar to what our parents and grandparents found in Canada as immigrants to a new land, or after having fought abroad. Their hard work and dedication led to an extraordinary growth in the postwar economy and the emergence of Canada from colonial backwater to industrial nation. There is a reason they were called the Greatest Generation. The coming years will be a test to see if we have anything close to their determination.

Similarly, many pundits and politicians have called for a “new Canada” to emerge from the ashes of the “old economy”, calling for spending to allow a conversion to alternative energy, independence in the manufacture of health products, or the building of massive greenhouses to grow fruits and vegetables.

Much of that will have to wait until we are back on our feet again. The main focus of all governments will be dealing with the debt. When the economy returns to normal, two things will happen: a bounce in spending as a result of pent-up demand, and an increase in taxes.

Governments will have to get out of debt without crushing the economy, or Canadians. This will require creative ways of raising taxes. One possibility would be a two per cent increase in the GST to seven per cent, which would generate \$90 billion over five years. Second, the three million Canadians abroad should contribute through a 10 per cent tax on income, which could bring in at least \$30 billion a year. Third, tax havens for Canada’s wealthiest have to be closed, and that money taxed.

While there are those who say these measures would be complicated by international obligations and the byzantine world of finance, there must be ways to undertake them – great necessity has to be the mother of invention. All these ideas would generate revenue without stifling the economy. Yet, more must be done to ensure a secure financial future.

In the wake of the collapse in the international price of oil, Alberta will need help. And despite the dreams of environmentalists, oil and gas are not disappearing any time soon. The price will come back with demand, but energy security will be an issue. That will require investment in infrastructure and research. Meanwhile, Alberta will have to come to grips with its own financial challenges and institute a provincial sales tax. A portion of that money could be placed in the Heritage Fund, to invest in alternative energy research and development to make it a centre for the next generation of renewables. The rest would be used to pay off its debt.

On the East Coast, the Maritime provinces are struggling financially; post-COVID, things will be far worse. An old idea should be revived: Maritime union. Many Canadians forget the Fathers of Confederation from “the Canadas” invited themselves to Charlottetown in 1864 where the union of the three East Coast provinces was being discussed.



Today, rather than three small provinces with huge debts and aging populations, the new province of Acadia would have two million people, a far more efficient public service, a stronger credit rating, and the capacity to seek out thousands of new Canadians abroad.

Further east, Newfoundland and Labrador is bankrupt. The collapse of oil will hurt it too, but its biggest liability is the \$13 billion albatross of the Muskrat Falls hydro project. The federal government should encourage Quebec Premier François Legault to sit down with Premier Dwight Ball and broker a new deal on the Lower Churchill Falls contract of 1969, with investments by Hydro-Québec to develop Gull Island and purchase Muskrat Falls power. The Trudeau government is currently keeping Newfoundland and Labrador afloat; it has an incentive to make this work. This could kick-start a national energy grid, with a market for Labrador power in Ontario and B.C. hydro in Alberta.

All these undertakings would make Canada stronger in the wake of COVID, but without decisive action, all the worst predictions could come true. The past two months have proved how much we had in common as Canadians, in our response to the pandemic, and our shared sacrifices with families, friends and neighbours.

On the international front, we have to get back into the game; if our economy falters or our population is unemployed, we will not have the wherewithal or the credibility to be considered a G7 or a G20 country. The relationship between domestic capacity and international responsibility has never been so clearly defined.

As the Greatest Generation passes on due to COVID-19, we should honour their legacy by acting boldly, as they did during and after the Second World War. Our country's capacity to engage internationally may lie in the balance.

▶ **About the Author**

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