

Intelligence MEMOS



From: William White
To: Canada's Policymakers
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Re: **BUILD BACK BETTER MAY NOT BE SUFFICIENT**

There seems general agreement that global policymakers must “build back better” in fostering recovery from the global pandemic. While laudable, the phrase hints at a degree of incrementalism that might be inadequate to overcome the challenges that humanity currently faces.

Perhaps we need a “total reset.” Four of the fundamental systems supporting human survival and progress are showing symptoms of severe stress and potential collapse.

Our market based economic system, the environmental system, our democratic political system, and our public health system are all in danger simultaneously.

Canada has certainly contributed to the buildup of these global problems, but Canada might also be instrumental in recognizing and then advocating the need for urgent solutions.

Stocks eventually matter. The buildup of stocks of global debt, both private and public, was identified as a threat to economic stability well before the pandemic. In Canada, the growing debts of provincial governments, households and leveraged corporations have been a source of concern for years. Now, we can add the federal government to the mix.

The buildup of global stocks of greenhouse gases and the loss of biodiversity were also seen as environmentally threatening, well before the pandemic struck. While not alone, Canada, with very high emissions of CO₂ per capita, certainly contributed to these developments.

At the same time, the political stability of our democracies was being threatened by a steady decline in the stock of trust in our political leadership. Rising inequality and a growing suspicion that “elites” were governing in their own interests have been the main destructive elements. While Canada has been better served than many countries, political and distributional fault lines remain.

The pandemic has only worsened all these elements and, of course, revealed weaknesses in public health and care systems almost everywhere. In Canada, the deaths recorded in care homes for the elderly were particularly shocking.

The pandemic has also heightened the realization that our economic, environmental and political systems have been on an unsustainable path. Debt levels everywhere have exploded since the pandemic struck. Relatively speaking, climate change issues have lost their urgency while threats to biodiversity have actually increased as the decline in tourism has caused incomes in many emerging markets to plunge.

Inequality has also worsened. While poorer workers have either lost their jobs or continued to work in jobs threatened by infection, the better educated have continued to protect themselves while working at home.

In addressing sustainable solutions, the first point is the need for urgency. The systems referred to are all complex, adaptive systems, subject to tipping points, which implies that we cannot extrapolate past stability into the future.

Second, while “quick fixes” are tempting, they are not at all the same thing as sustainable solutions.

Third, these different systems are interrelated, and policy measures directed to overcoming shortcomings in one system might well aggravate problems elsewhere. This implies difficult tradeoffs, subject to uncertainty about systemic outcomes, which will require political compromises. Compromise is more likely to trump popular ideology if the public trusts firmly that government is acting “by and for the people.”

What does this mean in practical terms? It seems increasingly accepted that trust in politics can be generated by more inclusive policies, particularly policies that offer more equality of opportunity. Gender wage gaps, poverty and homelessness, East-West and urban-rural tensions all remain nagging Canadian issues requiring attention.

Threats to Canadian economic and financial stability largely revolve around debt issues. The OECD believes that administrative and judicial and out-of-court procedures for resolving private sector debt issues in Canada are crucial and need to be reassessed. As well, the OECD has suggested how concerns about public sector debt issues might be alleviated, which include medium term “anchors” for debt accumulation as well as the measures likely to be required to meet those objectives.

As for environmental issues, increases in the Pan-Canadian Framework's carbon price beyond 2022, as recently proposed by the Canadian government, will be required to meet Canada's Paris commitments. Also required will be large, incremental increases in carbon taxes to meet Paris Accord targets, along with measures to help Western provinces adapt to the global phasing out of fossil fuels.

Finally, there is the issue of how best to emerge from the pandemic itself. As vaccines increasingly reduce the need for costly “social distancing,” the transition to stronger growth should see monetary renormalization precede fiscal renormalization. This will help avoid a further, dangerous buildup of private sector debt.

Canada must first recognize and then try to solve fundamental problems in its own systems, for its own sake. However, in trying to do so, in an urgent but integrated way, it might also help encourage other countries to think and act similarly. Global problems can only be solved with global solutions. And the time remaining is short, for all of us.

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