

CANADIAN GLOBAL AFFAIRS INSTITUTE
INSTITUT CANADIEN DES AFFAIRES MONDIALES

# The End of the Social Justice Agenda

by Ian Brodie

November 2023

# POLICY PERSPECTIVE

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This year marks the end of a political season that put economic and fiscal issues on the backburner. From 2015 until early 2020, a social justice agenda took centre stage in Canada and the Western world. Climate change, race, gender identities and, in Canada, child poverty and something we called "reconciliation" with Indigenous people, drove the public policy agenda. In 2020, for a year or so, the COVID-19 pandemic took our attention. Governments acted in unison to shut down economic and social activity and then severely to limit it. In Canada, that shutdown strategy came with a program of unprecedented income transfers to individuals and businesses that was funded by unprecedented increases in the money supply. Coming out of the shutdown and responding to the monetary expansion has now given us a two-year cost-of-living crisis. Housing prices are up. Food costs are up more. Occasionally, gasoline costs were up even more. For about another year, policy-makers assumed that as the economy restarted, these problems would work themselves out and the social justice agenda would return. But that rosy scenario is now widely recognized to be impossible.

Three policy trends are now displacing the social justice agenda. That agenda has not and will not disappear, but it is being crowded off the public agenda by other pressing concerns.

One, governments are ratcheting back climate policies to alleviate the costs they impose on consumers. Ambitious – meaning fanciful – near-term climate targets are being postponed. Consumers, especially those on low or fixed incomes, need breathing room. In Europe, the cost of climate policies is compounded by the sudden loss of Russian natural gas from the market (Ogle 2023b). European governments have restarted coal-fired power plants and scrambled to buy out the world's remaining natural gas supplies from under the feet of poorer countries. Last year's mild winter helped. Even though the mild winter led to a terrible wildfire season, European governments are still hoping for a second mild winter.

In the U.S., ahead of the 2022 mid-term elections the Biden administration emptied the Strategic Petroleum Reserve to ease cost-of-living pressures on voters. Now, American media reports indicate President Joe Biden is preparing to lift sanctions on Venezuelan crude oil – the type of crude that competes directly with Canadian production – to get more supply into the U.S. market and reduce the burden on consumers (Crowley 2023).

Canada is now a global outlier on climate and energy. Since 2015, Canadian climate policy has relied on a penalty-heavy approach. Our governments have increased consumer energy costs across the board by levying increasingly heavy taxes, forcing coal-fired power plants into early retirement and imposing regulatory mandates for things like "clean" fuels. Ottawa is late to the game in signalling a rethink of consumer costs. While the Trudeau government has announced a temporary pause in levying the carbon tax on certain heating fuels, that tax remains largely in place and even costlier mandates for so-called "net zero" power generation and zero-emission vehicle sales are coming.

These penalty-heavy policies are all expensive – and getting more expensive – for consumers. What's worse, they were intended to put Canada ahead of global carbon policies, but no one is

following our lead. The Canadian carbon tax was intended to be neutral, economically efficient and ahead of the rest of North America. However, our main trading partner has decided to take a different path. There will not be a U.S. carbon tax. Instead, the U.S. government will subsidize politically favoured climate efforts under its *Inflation Reduction Act* (Forrest and Tertzakian 2023). New government debt will fund these subsidies.

Predictably, Canadian companies say our government now has no choice but to match the U.S. approach. Last year's federal budget announced we would start down this road (Ogle 2023a). Yet, despite the November 3 announcement that some consumers in some Atlantic provinces will get a partial break on the carbon tax, there are no indications of a broader rethink coming in Ottawa. The federal government is not abandoning the penalty-heavy taxes-and-mandates approach. This double whammy puts Canada in the worst-of-all-worlds situation. Consumers face ever higher costs as other countries move to ease the cost burden on their consumers and producers, even as we move to match the U.S. subsidies. This cannot go on forever.

The second trend replacing the social justice agenda is the spiking cost of government debt. Interest rates on long-term public debt are heading higher. Ten-year U.S. Treasury rates are way up, and these rate increases are being exported to other markets. Last decade's loose talk was all about modern monetary theory (MMT). The idea was that since governments could create unlimited money to pay for anything they might want to do, they did not need to set priorities. This kind of thinking pleased the ersatz economists of Twitter, but when it got tested during COVID, MMT created the conditions for today's cost-of-living crisis. The Federal Reserve is now pulling back on creating money and the U.S. Treasury is finding it harder to get public investors for its debt issues (Goldfarb 2023). The trend to ever-increasing amounts of public debt cannot go on forever.

The third trend pushing itself onto the policy agenda is war. We are not in a world war yet, but we are in a deepening crisis of global security. Russia and Iran have launched their war plans. Russia has moved in Ukraine and Belarus. Iran is moving via proxies across the Middle East. Our allies assess that China wants to be able to take military action against Taiwan before the end of the decade. We should assume that the opaque North Korean regime is making its own plans to exploit a wider crisis. These four actors – the CRINKs, as the Halifax International Security Forum puts it (HISF 2023) – are in a loose coalition to dismantle U.S. power, destroy our defensive security alliances and sow division and contempt in our domestic politics. Earlier this week, Chief of Defence Staff Gen. Wayne Eyre issued guidance to defence planners, instructing them to assume that Russia and China think they are already at war with us (Boutilier and Stephenson 2023).

Not long ago, Canada's biggest companies worried the Harper government stood in the way of closer commercial links with China. Today, their lobby group, the Business Council of Canada, is sounding the alarm on our backward-looking national security policies. Canada and our allies are struggling to send Ukraine and Israel the equipment and ammunition they need right now while at the same time preparing for future conflicts with others. This is also a trend that cannot continue.

As Stein's law puts it, if something cannot go on forever, it must come to an end.

The British Tories, who face a general election quite soon, have read the polling on cost-of-living issues and have heard from the financial markets. Prime Minister Rishi Sunak has shredded his country's bipartisan consensus on climate policy and is trying to spur economic growth. He has told investors and consumers that he wants more domestic oil production, not less, and has postponed former prime minister Boris Johnson's carbon production targets. If recent byelection results are a reliable guide, he might have left it too late.

In the U.S., Biden got some short-term help from the leadership fight among Republicans in the House of Representatives and the resulting media frenzy. That leadership fight certainly is not edifying. But it did involve many of the same policy problems facing Sunak. How should the U.S. respond to the looming crisis of climate policy costs, high inflation and excess public debt? What are America's war priorities? The borrowing required by U.S. climate policy will only continue to compound American fiscal and monetary challenges, while leaving less room for national security spending.

So, what do we do now?

First, Canada's political leaders have to put social justice issues behind us. The social justice agenda creates a bad political-economic dynamic. It makes a political issue out of the distribution of economic and status goods between groups in society. That results in a zero-sum political game of redistribution that no one wins. Moreover, once the social justice agenda gets established, it never provides satisfaction. Social justice theorists constantly find evidence that some group, subgroup or sub-subgroup is losing out compared to someone else. Demands for more intrusive measures to correct inequalities never end. Redistribution begets more redistribution. The demand for spending to resolve these inequalities grows faster than government revenues.

The social justice agenda also undermines the social cohesion needed to overcome Russian and Chinese information operations in our domestic politics. It is no surprise that at the first meeting between Chinese officials and the newly elected Biden administration, the Chinese side delivered talking points that it borrowed from fashionable university discourse.

The social justice agenda drives wedges that undermine our sense of a common citizenship. It also locks us into zero-sum thinking that kills economic growth.

Instead, Canada should focus on turbo-charging economic growth in the near and medium terms. Far faster growth is the only way to get ahead of our problems. A growing economy can manage the cost of climate policies, the inflated cost of living and excessive public debt. Much faster economic growth will also give us the resources and confidence to meet the challenges of global security.

We know how to turbo-charge economic growth. Start by liberating individuals to achieve their individual potentials. No one succeeds in the struggle for group, subgroup or sub-subgroup equality. Unleashing the potential of individuals to pursue their destinies is the better path ahead.

We also have to come to grips with the findings of the Parliamentary Budget Officer (Ogle 2023c). Canada's taxes-and-mandates approach to climate policy loads the burden on consumers while contributing nothing to global solutions. Taxes and mandates impose punishing costs on Canadians, especially low-income Canadians. They hurt growth. Canada produces a modest share of global carbon dioxide. Canada has hobbled its economy and loaded costs onto its consumers even as China's carbon dioxide emissions have ramped up. None of this policy contributes to the global effort.

As government borrowing costs spike, we cannot pursue the worst-of-both-worlds approach announced in the last few federal budgets. We cannot borrow enough to match U.S. climate industrial policy and consumers will not tolerate the rising costs of the tax-and-mandate approach. The sooner we shift to more practical climate approaches, the easier life will be for consumers, especially the poorest, and the farther our resulting economic growth will put us ahead in the race to avoid or minimize the debt crisis. And, again, as the PBO reminds us – these policies do not contribute to global climate goals anyway. They only hurt Canadians; they do not help the world.

As borrowing becomes more expensive and consumers demand relief from taxes, the federal government will have to rein in public spending. Treasury Board President Anita Anand has announced some targets for finding spending efficiencies. These efficiencies, she adds, will not lead to spending cuts. Instead, the savings will be directed to other programs in higher priority areas. That approach cannot continue much longer. Perhaps the budget will announce some new fiscal targets for spending and borrowing, but as for the idea that we cut in order to spend more – the time for that approach has come to an end.

Most of Canada's high-value industries are natural resource industries and services (Tombe 2015). Canada's natural resource industries are also our most innovative. The global demand for resources produced with responsible technologies in dependable, democratic countries is on the increase. Canada has excelled at responding to the global demand for high-quality natural resources since the earliest European settlements on these lands. We know how to do that. And responding to that demand is the quickest route to the kind of economic growth that will alleviate our debt problems, ease the cost-of-living crisis and help global security. It will also contribute to global climate goals.

How long will concerns over climate costs, inflation and global security crowd out the social justice agenda? How long will we focus on growth rather than redistribution? I don't know. I do know that the sooner we confront the high cost of penalty-driven climate policies, the high cost of loose monetary policy and inflation and the co-ordinated threats from Russia, China, Iran and North Korea, the better off we will be.

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