

THE UNITED STATES TO 2020
AND
THE REQUIREMENT
FOR CANADIAN INITIATIVE

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Author's Note

With history as a guide, this paper provides a perspective on the trends and developments in the economic, political and social life of America with an appreciation for its history and the workings of American government. It then offers some observations and a series of suggestions to advance the interests of Canada and British Columbia over the next decade.

This paper drew from a variety of sources, including a series of conversations that took place during the past 30 years and the experience diplomatic assignments in New York, Los Angeles and Washington, membership in the teams that negotiated the Canada-US Free Trade Agreement and NAFTA, and travel to every American state. It drew especially on the Carleton University Canada-US Engagement Project that I have directed this past year under the co-chairmanship of Derek Burney and Fen Hampson, director of the Norman Paterson School of International Affairs. The overview and project papers can be found at <http://www.carleton.ca/ctpl/conferences/Canada-US-Project-2008.htm>

These experiences have given me a profound optimism about American resiliency and a conviction, to paraphrase Winston Churchill, that Americans will almost always do the right thing even if they exhaust all the alternatives in that process.

Various works are cited in the text. In terms of historical perspective, sources included the published volumes in the Oxford History of the United States, the National Geographic Centennial edition (1988) *Historical Atlas of the United States*, Alistair Cooke's 1974 thirteen part series *America: A personal history of the United States* and the accompanying book, James McGregor Burns three volume (1982-9) *The American Experiment*; Walter McDougall's *Promised Land, Crusader State*; Paul Johnson's 1999 *A History of the American People (1999)*, Owen Harries Boyer Lectures "Benign or Imperial: Reflections on American Hegemony" (2003), Peter Schuck and James Q Wilson *Understanding America: the Anatomy of an Exceptional Nation* (2008); David Reynold's BBC series *America: Empire of Liberty* (2009) and the accompanying book and Simon Schama's PBS series and accompanying book *The American Future* (2009). For trends and developments I relied on William Frey, Bill Abresch and Jonathan Yeasting's *America by the Numbers: A Field Guide to the U.S. Population* (2001) and Sam Roberts *Who we are Now: The Changing Face of America in the 21st century* (2004), the National Intelligence Council report *Global Trends 2025: A Transformed World* (2008) and the Pew Research Center for People and the Press survey reports, particularly their *Overview of Trends in Values and Core attitudes 1987-2009* (2009).

For consistently insightful coverage on America watch *Charlie Rose* and *The NewsHour with Jim Lehrer* both on PBS. For an entertaining, informative appreciation of American government I recommend Warner Brothers' *The West Wing (1999-2006)* and for an insight into the darker side and an understanding of crime, blue collar decline, the problems with inner city schools, city hall and the newspaper I recommend the HBO series *The Wire (2002-8)*.

The United States to 2020 and The Requirement for Canadian Initiative

For trade, economics and finance I drew on William J. Bernstein's *A Splendid Exchange: How Trade Shaped the World* and *The Birth of Plenty: How the Modern World was Created* (2004); Samuel Brittan's *Against the Flow: Reflections of an Individualist* (2005); Niall Ferguson's *The Ascent of Money: A Financial History of the World* (2008) and *Colossus: The Rise and Fall of the American Empire* (2004); Paul Krugman's *The Return of Depression Economics and the Crisis of 2008* (2008); Robert Samuelson's *The Great Inflation and Its Aftermath: The Past and Future of American Affluence* (2008) and *The Good Life and its Discontents: The American Dream in the Age of Entitlement* (1997); Martin Wolf's *Fixing Global Finance* (2008).

For comparative Canada-US perspective I drew on the scholarship of David Bercuson, Michael Bliss, Jack Granatstein, Norman Hillmer, Des Morton, Denis Stairs. I also drew on the collected works of Michael Hart especially *From Pride to Influence: Toward a new Canadian Foreign Policy* (2009) and Evan Potter's *Branding Canada* (2009).

Journalism is the first draft of history and I acknowledge and admire the reportage and commentary of the various Canadian correspondents in Washington beginning with James M. Minifie, Knowlton Nash and Val Sears and including contemporaries Sheldon Alberts, Henry Champ, Tom Clark, Andrew Cohen, Michael Colton, David Halton, Tim Harper, John Ibbitson, Neil Macdonald, Lawrence Martin, Barrie McKenna, Joyce Napier, Alison Smith as well as Richard Gwyn and Jeffrey Simpson.

For diplomatic approach and advice I acknowledge a debt to the late John Holmes - *Life with Uncle: The Canadian American Relationship* (1981). I have learned from former Canadian ambassadors to the United States: Marcel Cadieux, Jake Warren, Peter Towe, Raymond Chretien, Michael Kergin and, especially, Charles Ritchie - *Undiplomatic Diaries 1937-71* (2008), Allan Gotlieb - *I'll be with you in a minute, Mr. Ambassador: Education of a Canadian diplomat in Washington* (1991) and *Washington Diaries 1981-9* (2007)), Derek Burney - *Getting it Done: A Memoir* (2005), and Hon. Frank McKenna. I also benefited from serving with Canada's chief negotiators on the FTA - Simon Reisman and Gordon Ritchie - *Wrestling with the Elephant: The Inside Story of the Canada-US Trade Wars* (1997) and to the NAFTA - John Weekes and Bob Clark, and to my colleagues Michael Hart and Bill Dymond with whom I collaborated in *Decision at Midnight: Inside the Canada-US Free Trade Negotiations* (1995). A similar appreciation to American ambassadors Jim Blanchard - *Behind the Embassy Door: Canada, Clinton and Quebec* (1998), Gordon Giffin, Paul Cellucci - *Unquiet Diplomacy* (2005) and, David Wilkins.

The paper also benefited from readership by experts, with particular appreciation to Bernie Etzinger, Dr. Jack Granatstein, Dr. Peter Heap, Ralph Lutes, David McPhee, and Chris Thomas.

Executive Summary

America will remain the principal power in the coming decade, with preponderant military capacity. America's greatest asset is its resiliency and its capacity for hard work, creativity and risk-taking. President Obama has launched an ambitious, radical renovation of the American economy that will encompass health care and education, as well as climate change.

There is a growing diffusion of power – an emerging multipolarity at the state level that is complicated by threats that defy classic relationships. Most important for Canada is the rise of China and India, a European federation preoccupied with internal cohesion and disinclined to interventions requiring force, and a Russia that is reasserting a sphere of 'privileged influence', including in the Arctic. Terrorism, pandemics, religious and tribal animosities and cyber threats further confuse the international arena and underline the requirement for reform and restructuring of the international system.

For Canada, the U.S. is principal ally, economic partner and friend.

Like it or not, know it or not, a vigorous Canada requires a robust America. It is critically important for Canadian security, livelihood and prosperity that we understand the changes taking place in America and their interplay with our own interests and the rest of the world. The changes – economic, demographic, regional - will have profound implications for Canadians, particularly as they relate to security and the border, economic integration, and policies for the environment and energy.

The responsibilities of global primacy and a preoccupation with domestic concerns on the part of the U.S. mean that Canada, never top of mind in American calculations, must constantly, consistently and forcefully make its case. Geographic propinquity and integrated economies provide the platform, while the need for joint, complementary action is illustrated by events as diverse as 9-11 (and closing down Canada-US airspace), pandemics (eg. SARS), and the restructuring of GM.

To advance mutual prosperity we require a 'smarter' partnership with the U.S. The onus for initiative lies with Canada. American leadership responds best to big ideas that play to their agenda. By framing our own interests around the American preoccupation with national security, economic recovery and, climate change we can advance our own agenda.

To succeed in the complex American arena we need to have a thousand points of intersection and a high profile media strategy. Thus the requirement for bold, pragmatic leadership – beginning with the prime minister and premiers, with a role and responsibility for Business and Labour, first to develop a coherent set of policies, and then a multi-level strategy to advance and follow-through on Canadian interests.

Summary of Observations & Recommendations for Canada

1. Security is the abiding American preoccupation. We must be their ‘safest’ and ‘most reliable’ partner – progress on all other files begins with security. The U.S. needs a high level of confidence that we ‘watching their back’ and to be consistently reminded that we are a reliable partner in collective security (eg. Afghanistan).
2. ‘Smart, bold partnerships’ on energy, the environment, labor mobility, regulatory standards and perimeter management will advance Canadian interests. We can’t take our well-being in the North American space for granted. Continued incrementalism means eventual decline.
3. ‘Being there’ is the best way to understand America. We should have a diplomatic presence in every American state by 2010.
4. Canadian universities and think tanks need to develop ‘knowledge centres’ around critical aspects of the U.S. and develop closer relationships in the U.S. And make maximum use of ‘star-spangled Canadians’ to connect2Canada.
5. Advancing Canadian interests requires a permanent campaign with activist, visible outreach – no other trading partner creates as many jobs for Americans as Canada. It requires a commensurate effort to educate Canadians about the importance of the U.S. for their own livelihood
6. The abiding strength of the Canada-US relationship lies in the hidden wiring – the relationships between states and provinces, business and labour and especially the personal connections between premiers and governors, and legislators.
7. Now is the time to begin an aggressive investment promotion campaign to capitalize on the comparative advantage that Canada will enjoy coming out of the economic downturn. And seek to reduce the friction of cross-border arbitrage by creating the conditions for commensurate productivity with the U.S.
8. A ‘Team Canada’ mission to Silicon Valley and other high-tech centres led by the prime minister and premiers and involving university presidents should aim to create joint research and development projects to enhance Canadian-American competitiveness.
9. Governments must resist the temptation to over-regulate. Business and Labour need to recognize that the changed situation requires them to improve their own game and step up for the common good. Political leadership must be vigilant to the bureaucratic instinct to control and over-regulate. Risk management coupled with good intelligence is the better way to ensure the beneficial flow of people and trade.

10. Canadian resources are central to American energy security. Withholding them is a hollow threat and would only threaten our own unity. But efforts to discount 'dirty oil' should be fiercely resisted as protectionism wrapped in 'green'. Achieving an early, joint approach to carbon management will give us the initiative on the road to Copenhagen. Hydro electricity is an important Canadian card. It's clean, it's there and it's what the smart grid needs. There is a particular opportunity and contribution to nuclear non-proliferation if Canada were to assume stewardship of uranium from 'cradle to grave'. Commence planning to build a pipeline from the oil sands to the West Coast to diversify and open markets with Asia.

Summary of Observations & Recommendations for British Columbia

1. Regional collaboration, particularly strong between western governors and premiers and legislators (ie. PNWER) is practical, advances mutual interests and can have very positive application to the national level (eg. smart drivers license).
2. Premiers and governors are consistently ahead of the curve in their appreciation of the Canada-U.S. relationship. Launching annual meetings between the National Governors' Association and Council of the Federation would temper protectionist instincts by underlining the 'best customer' relationships between states and provinces.
3. British Columbia's pioneering experience with a carbon tax should be integrated into the Canada-US 'Clean Energy Dialogue' and into the evolving global dialogue.
4. Water will emerge as the most important resource issue in the 21st century. It offers both an opportunity for business development, especially in clean water technology and sustainability, and a challenge for policy management.
5. Lumber: As with energy, our dependence on the U.S. market requires a rethink of our marketing strategy – we need to aggressively market to Asia
6. Fish: The ongoing effectiveness of the Pacific Salmon Treaty in 1985 and the Pacific Salmon Commission is a reminder that binational institutions with close state and provincial involvement are the most effective mechanisms for managing resource issues.
7. British Columbia needs to remain vigilant in combating crime to prevent Vancouver and its port from being seen as a gateway in illicit trafficking in people and drugs.

8. Vancouver has become a global hub for creative industries – film and television production, electronic games. They are the incubators for ‘creative communities’. Policy initiatives that respect intellectual property and promote infrastructure, transportation and education are smart investments for the future.
9. Talent will increasingly determine economic prosperity and smart immigration policy, using the provincial nominee program, fast-tracks applicants with skills and talent. It is equally important to sustain and enhance the long-term flow of Asian students seeking high school and university education and to put more emphasis into targeting American, especially Latino students, as a bridge into the Americas and America’s growing Latino population.
10. Drawing on the best practices of the 2000 Sydney and 2008 Beijing Olympics, use the 2010 Olympics as a trampoline to market British Columbia and Canada as a ‘clean and green’ destination for tourism, trade and investment.

Introduction

Ken Burns has said that to truly understand America you need to see the Constitution, the Civil War, baseball, the West, and jazz. Include in this list the car, civil rights, football, the Broadway musical, and you begin to appreciate that America is more than a country – it is a civilization. Their enduring frontier spirit has given Americans an extraordinary sense of imagination, an appetite for learning, and a ‘can-do’ application that is the envy of the world and that should serve to inspire Canadians who also share the North American DNA.

A century and a half ago, Alexis de Tocqueville, in trying to explain America to Europeans concluded that the “great democratic revolution” rested on individualism. It was a quality on which de Tocqueville had mixed feelings but , he concluded, it made America ‘exceptional’. De Tocqueville’s *America* remains one of the best guides to ‘understanding’ America.

Alistair Cooke, the BBC correspondent whose letters and dispatches from America through seven decades gave him a unique vantage point, concluded that America was always in a race between vulgarity and vitality. Cooke retained his faith in the energy, spunk and generosity of its people and in *America Observed* he concluded: “there doesn't seem to be any decline in curiosity, inquisitiveness, enlisted in the dogged belief that things can be made better, that tomorrow ought to be better than today. The stoic and fatalist are not yet familiar American types.”

To look at what lies ahead for America requires looking back – an historical perspective is still the best guide to the future. Spotting trends, the social scientist Everett Ladd observed, was a bit like star-gazing – “there was so much to see but so little to work with...the star that shone brightly tonight might be gone tomorrow or last a millennium.”

The talent and technology of the American intelligence networks could not predict the collapse of the Soviet Union. No one in the summer of 2008, not even Nouriel Roubini, would have predicted that Wall Street would have gone belly-up and venerable firms like Bear Stearns and Lehman Brothers would literally disappear. Or that GM would declare bankruptcy and become a ward of the Canadian and American governments. Ian Bremmer, president of the Eurasia group and co-author of the recently published *The Fat Tail: The Power of Political Knowledge for Strategic Investing* argues that it is increasingly impossible to do scenario planning beyond 12, 18, 24 months because the breadth of potential outcomes is much greater when a situation reaches the ‘tipping point’.

Americans are a problem-solving people. They are convinced that with ingenuity and determination they can make things better. History supports their optimism.

Living next to them can be frustrating and uncomfortable. Yet it has given Canadians access to the biggest market in the world and, by seizing opportunity, to create a prosperity that pays the bills for those things that define our own national identity. It also affords us a unique seat for influence that when we think and act big is a source of pride throughout Canada and reinforces our own, sometimes indifferent and often insecure, sense of unity and self. But it obliges initiative and ideas. It requires self-confidence.

Most of all, it demands bold leadership and vision from the prime minister, the premiers, business and labour. Inscribed into the paneling of the old cabinet rooms on Parliament Hill is the biblical verse: 'Where there is no vision, the people perish'. This point needs to be underlined. As Tom Fingar, then chair of the National Intelligence Council, writes in the introduction to *Global Trends 2025: A Transformed World*: "leadership matters, no trends are immutable...timely and well-informed intervention can decrease the likelihood and severity of negative developments and increase the likelihood of positive ones."

Debt and Dollars

American prestige and global respect for the American 'way of life', notwithstanding the appeal of Barack Obama, is at a low ebb and a future Gibbon would find much evidence to support the case for decline.

By the end of First World War, the United States had become the world's largest creditor nation, a position that it sustained until the 1980s. By 2000, it had become the world's largest debtor country. The U.S. has balanced its budget only five times since 1961, notwithstanding growth averaging about three per cent a year. Experts reckon that the current 'structural deficit' - - the basic gap between the government's spending commitments and its tax base - - to be at 3 to 4 percent of GDP and rising.

The total accumulated federal debt did not surpass one trillion dollars until 1982. By 1990 it was over three trillion dollars. From 2000 to 2009 the debt doubled again. To put it another way: the debt was 41 per cent of GDP at the end of 1988, President Ronald Reagan's last year in office, the same as at the end of 2008, President George W. Bush's last year in office. It is projected to be 80% of GDP by 2012. By contrast, at the end of 2008 Canada's net debt-to-GDP ratio was 24 per cent, less than half of the average for all G7 countries. Canada's debt burden has fallen nearly 50 percentage points from the peak in 1995, when it was the second highest in the G7.

To implement the priorities of the Obama Administration in healthcare, education and economic recovery will balloon the deficit and debt - . The Obama administration set aside a healthcare "downpayment" of \$600B over 10 years in its 2009 budget. Most analysts think that comprehensive reform will cost much more - at least \$1.5 trillion. Even without healthcare reform, President Obama's long-term budget does not balance.

The rising cost of the debt - it is projected to be 80 percent of GDP by 2012 will create even bigger deficits that weaken economic growth by 'crowding out' private investment. The Congressional Budget Office estimates that interest on the debt as a share of federal spending will double between 2008 and 2019, to 16 percent.

American taxes seem destined to rise, most likely after the 2012 presidential election. This will have significant implications for Canadian competitiveness and investment promotion. Canada's federal capital gains tax rate is lower than that paid by US investors. Canada has cut its corporate tax rate from 28% to 15% and most provinces have trimmed corporate tax as well. The U.S. federal tax rate stands at about 40%; the Obama administration plans to increase corporate taxes. Canada individual income taxes were higher, particularly in the top

brackets but if the Bush tax cuts expire in 2010 as planned, the US federal-state tax rate will average 46%, the same as in Canada.

'We as a country have become General Motors'

The New Deal built America's dams and bridges. The Second World War developed its industrial and manufacturing capacity and made its ports and airports the best in the world. The launch of the Soviet satellite in 1957 created the 'Sputnik moment' that prompted a massive programme to strengthen science and math education in schools, major science installations like Berkeley's Lawrence Livermore Laboratory and the Lincoln Lab at MIT. It also provided the funding for America's interstate highway system and airports.

A half century later the plight of American infrastructure has been well reported on by Tom Friedman, the *New York Times* foreign affairs columnist and author on globalization. Reporting on a visit to Hong Kong in 2009, he describes boarding the train from Hong Kong Island for the half-hour trip across the South China Sea to the new Hong Kong airport, all the while using wi-fi without interruption. Landing at New York's JFK airport Friedman remarks it is like "going from the Jetsons to the Flintstones" and concludes "we as a country have become General Motors."

The Obama stimulus package began the much needed reinvestment in the construction and renovation of roads, bridges, ports, airports, aqueducts and sewage systems. While the \$100 billion devoted to the projects is significant, restoring failing infrastructure would require an estimated \$3.5 trillion – the equivalent of the 2009 mega-budget.

Perhaps nothing captures the challenge facing American industry better than the automobile, that quintessential American product. Its story is highly relevant to Canadian interests because since 1965 the Autopact has created joint integrated production with the Big Three – GM, Ford and Chrysler.

General Motors is the biggest of the Big Three. Once upon a time "What's good for General Motors is good for the country" was not just an expression but a statement of American industrial might, one that helped establish America's car culture and the middle class - the epitome of a uniquely American style. It was the first vast paternalistic corporation that its employees and their families could rely on for insurance, health insurance, and retirement benefits. The automobile industry was a vertically integrated business. The United Auto Workers was a powerful union with a monopoly on shop labor. GM counted for as much as 60 percent of the U.S. car market by the early 1960s. During the '70s it was America's largest private employer.

Then came the transplant companies: Toyota, Hyundai, Honda, now Tata, from Asia, and from Europe – Mercedes and Fiat, creating global competition.

Automobile production became a multi-polar world. The Big Three were not up to the competition. From 1970 to 2001, there were 0.76 vehicles sold per driver in the United States. Today that figure has dropped to 0.4 vehicles per driver and the market for new cars has collapsed by 46 percent from 17 million to below 10 million.

Both Chrysler and General Motors are now under government-sponsored restructuring with Canadian and American taxpayers having effectively become shareholders. Many questions remain beyond the restructuring of the industry. What is important for Canadian policy-makers is that the automobile industry is symbolic of a profound development – Canada and the United States no longer trade with each other; they build things together using value chains and other modern production techniques. With as much as 40 per cent of bilateral trade intra-firm, involving different parts and services from within the same company, the need for regulatory authorities on both sides of the border to move in tandem and in alignment is obvious.

American society continues to display a flexibility and openness that gives it not only renewal potential but also – despite its flaws – a high degree of competitiveness. It is no accident that so many of the discoveries, innovations, and new businesses and industries that are defining the early 21st century originate in America.

From the outset, wealth creation has been an integral part of the American dream. Jamestown, John Steele Gordon writes in his *'An Empire of Wealth: The Epic History of American Economic Power* (2004), was founded by a profit-seeking corporation and the early Puritan merchants would often write, at the head of their ledgers, "in the name of God and profit." And the link between evangelism and capitalism continues writes Bethany Moreton in *To Serve God and Wal-Mart: The Making of Christian Free Enterprise* (2009). Moreton argues the financial success of Wal-Mart was the product of Christian networking. Using a Christian service ethos, evangelical workers, overseas missionaries, Christian business students and Sun Belt entrepreneurs advanced capitalism at home and abroad.

The United States remains the most prosperous society in the history of the world and America consumption drives the world's economic engine. The United States may not be the industrial dynamo it was a half-century ago, but the United States still accounted for 19.5 percent of the world's manufacturing output in 2007. Manufacturing jobs have been in long-term decline since they peaked in 1979. In this, manufacturing is following the same trend as agriculture. A century ago, almost one in three Americans worked on a farm. Today, it is fewer than one in twenty. American productivity continues to improve, largely due to continuous innovation in the manufacturing sector and high investment levels in new technology.

Technology, aligned with globalization, especially after the end of the Cold War, spread market ideology around the world. It is also part of the reason why the American economic crisis was so rapidly exported abroad. The willingness to 'think big' and to extend its reach beyond its grasp has created a prolific environment for technological innovation and entrepreneurship, even in the toughest of times. The Depression saw a 30 percent contraction in economic output and 25 percent unemployment but, even throughout the 1930s, American companies continued to pioneer new ways of making and doing things: think of DuPont (nylon), Proctor & Gamble (soap powder), Revlon (cosmetics), RCA (radio) and IBM (accounting machines). During the double-digit inflation of the 1970s Bill Gates founded Microsoft in 1975 and a year later Steve Jobs began the Apple story.

Today, the United States still spends more on defense research and development than the rest of the world put together. It was funding from the Defense Advanced Research Projects Agency (DARPA), founded as part of the response to Sputnik, that helped develop the Internet. The US still dominates in the world of nanotechnology and life sciences – the industries of the future. It has more dedicated nanocentres than the next three (UK, Germany, China) combined and many of its centers focus on practical, marketable applications. Its nanotech funding in government terms is twice that of its closest competitor, Japan. American patent licenses lead the world and initial public offering (IPO) activity in bio-technology is four times that of Europe. Silicon Valley remains the magnet both for ingenuity and venture capital.

The U.S. remains a highly dynamic economy with continuing innovation at the cutting edge and it is vitally important for Canadian prosperity that Canadian industry and educational institutions deepen and broaden their relationships with their American counterparts.

Inconvenient Truths?

The American environmental movement surged during the 1960s around the youth movement and a growing consciousness sparked by Rachel Carson's *Silent Spring*, underlined in succeeding decades by environmental disasters like Three Mile Island (1979) and the Exxon Valdez (1989). Growing public awareness of climate change was accentuated by a series of natural disasters. Hurricane Katrina (2005) provided a visual backdrop for the messages contained in former vice president Al Gore's 2006 Oscar winning documentary *An Inconvenient Truth*. Climate change became not just a political and environmental issue but a cultural movement as well, not just for the left but from the right as evangelicals preached about 'creation care'.

Writing for the *New York Times Magazine* in April 2007, Tom Friedman observed that after traveling around America he could report "that green really has gone Main Street — thanks to the perfect storm created by 9/11, Hurricane Katrina and

the Internet revolution.” Their convergence, he wrote “has turned many of our previous assumptions about “green” upside down in a very short period of time, making it much more compelling to many more Americans.” The bad news, he continued, is that while “green has hit Main Street” it has “not gone anywhere near the distance required to preserve our lifestyle. The dirty little secret is that we’re fooling ourselves.”

The Bush Administration largely turned its back on efforts to deal with climate change. President Obama has made climate change a priority and Congress is acting. At the global level there an increased sense of urgency and acknowledgement of the problem as well as the need to find a successor to the ill-fated Kyoto Accord, a treaty never ratified by the U.S. Senate.

A successful response to climate change should reflect an integrated approach by Canada and the U.S. Indecision and division will leave us either playing catch-up or, as we learned with Kyoto, trying to conform to something that doesn't fit or work.

The eventual transition out of fossil fuels will have significant implications for energy producers, including Canada. Historically, it has happened only once a century with momentous consequences – the transition from wood to coal helped trigger industrialization. Eventually new technologies – biofuels, clean coal, wind, solar or hydrogen will provide solutions and an alternative to fossil fuels but they are currently inadequate. Major technologies, moreover, usually have an ‘adoption lag’ of around 25 years.

Global warming is closely linked to the problem of diminishing water supplies, especially in the south-western U.S. Analysts reckon the water market in the United States will be worth at least \$500 billion by 2020. Its growth and prosperity depended on the skill of 20th-century engineers to conquer rivers like the Colorado and establish a reliable water supply. In 2007, Steven Chu, the then director of the Lawrence Berkeley National Laboratories (and now Secretary of Energy) remarked on the diminished supplies of fresh water in the American southwest. The most optimistic climate models for the second half of this century suggest the disappearance of 30 to 70 percent of the snowpack in the Sierra Nevada that provides water to northern California.

The Colorado river, which depends on snowmelt from the Rockies, is also diminishing and it provides water to 30 million people in seven states: Colorado, Utah, Wyoming, New Mexico, Arizona, Nevada and California. Over the past few decades, the driest states in the United States have become some of our fastest-growing. California predicts that there will be 60 million Californians by midcentury, up from 36 million today. Yet the water that it relies upon has all been appropriated by farmers, industries and municipalities. Meanwhile, water tables all over the United States have been dropping, sometimes drastically, from overuse.

Various schemes have been discussed to move water from Canada or the Great Lakes to arid parts of the United States. While such a construction project would generate thousands of jobs the environmental implications and energy requirements for such a project would be stupendous. To prevent such a development, Great Lakes states, in concert with Ontario, had Congress pass preventive legislation. Canadian provinces and the federal government have passed similar legislation. This complementary approach, with the initiative taken at the regional level and leadership from premiers and governors, should continue to be the standard operating procedure and builds on a bi-national environmental cooperation that dates back a century to the 1909 Boundary Waters Agreement and the creation of the International Joint Commission.

Wealthy, Healthy, and Wise?

During the first 70 years of the 20th century, inequality in the U.S. declined and Americans prospered together. But beginning in the mid 1970s, the United States developed the most unequal distribution of income and wages of any high-income country. Between 1979 and 2000 the real income of households in the lowest fifth (the bottom 20% of earners) grew by 6.4%, while that of households in the top fifth grew by 70%. In the decade before the onset of the 'Great Recession' of 2009, the top one percent of America's earners received more than 20 percent of the total national income, a situation not seen since the run-up to the Great Depression. By 2009 the top one percent controlled 34 percent of U.S. private wealth. The wealth of the bottom 90 percent of households was less than the top one percent and the wealth of the top one percent had risen to 189 times that of the bottom fifth. While the gap in Canada widened in recent years, studies by the Fraser Institute and Center for Social Justice indicate it is not nearly as profound.

The unions, who spoke and acted for 'working' America, fell into eclipse and it is very doubtful whether the 'Great Recession' can resurrect their previous power. Union membership which included almost a third of the American workforce in 1960, was down to 12.5 percent by 2009. In the private sector, the figure was 8 per cent. In Canada, union membership is much higher, slightly less than 30 percent. Underlining, once again, Canadian and American bi-nationality, about 30 percent of Canadian members are affiliates of U.S. based unions, including Canadian steelworkers and the international president of the United Steelworkers of America, Leo Girard, is the former head of the Canadian affiliate.

More than 76 million baby boomers born between 1946 and 1964 – roughly a quarter of the US population, will begin to draw social security in 2011, at a point when entitlement overstretch will have reached a critical stage. Appearing before the Senate Budget Committee in early 2007, Ben Bernanke, chair of the Federal Reserve, was asked when was the right time to do something about Social Security, Medicare, and Medicaid. He answered: "I think the right time to start is about ten years ago."

When Social Security was introduced in 1935, the worker-to-retiree ratio stood at about 16 to 1; in 1960 it was 5 to 1; by 2010 it will be closer to 3 to 1; and by 2020 it will be almost 2 to 1. Council of Foreign Relations chair and former Secretary of Commerce, Peter G. Peterson, laments “Social Security trust funds are a misnomer, and in fact they’re an oxymoron. They shouldn’t be trusted and they’re not funded.” As the baby boomers age, by 2050, one in 20 Americans will be 85 or older compared to one in 100 today. The Canadian population demography is almost identical. The working population will be obliged to assume a crushing tax burden that threatens to create intergenerational conflict between aging boomers and the generation that will need to support them.

Yet, says the OECD, the Social Security challenge pales in comparison to U.S. spending obligations under Medicare. In 2008, Americans spent almost 17 percent of GDP on health care. No other major nation spent more than 12 percent – the figure for Canada. Per-capita health-care spending in the U.S. is approximately twice the level of average spending in the major Western European nations, Japan, and Canada. And every other major nation provides health insurance for all its citizens, while 45 million Americans have none.

The health-care sector is also a major impediment to the competitiveness of U.S. businesses. Beginning in 2004, the once-upon-a-time Big Three auto makers began to produce more cars and light trucks in Ontario than in Michigan, saving \$1500 per car in workers’ health-care costs.

But perhaps the most pernicious problem facing America is the decline in the quality of its education.

For much of the 20th century, the United States led the world in the quality of its K-12 public schools. By 2005, U.S. high school graduation rates had already fallen to the bottom third among major Western nations. The 2008 Global Competitiveness Report reveals that U.S. is 48th--behind its Asian and European competitors--in math and science education from kindergarten through 12th grade. Even in higher education, U.S. enrollment is only sixth in the world and enrollment levels lag behind those in Korea and Taiwan.

The decline came in spite of continuing warnings. As long ago as 1982, the National Commission on Excellence in Education’s *A Nation at Risk* reported that America’s schools were falling behind their international counterparts. The report’s recommendations languished on the shelves.

Looking back at the report in 2009, the McKinsey consulting group concluded that if America had closed the international achievement gap between 1983 and 1998 and had raised its performance to the level of such nations as Finland and South Korea, American GDP in 2008 would have been higher by an estimated \$1.3 to \$2.3 trillion. Instead, according to McKinsey’s *The Economic Impact of*

the Achievement Gap in America's Schools, almost a million teenagers were dropping out of high school when they reached the age of 16. Of those that graduated, less than two-thirds were judged ready for college or technically skilled employment. Microsoft Founder Bill Gates despairingly called American education "obsolete" saying "when I compare our high schools with what I see when I'm traveling abroad, I am terrified for our work force of tomorrow."

If there is a saving grace, it is the university elite schools that continue to be the best in the world. They are a magnet for the world's brightest students and professors and are part of the reason why the United States continues to scoop the majority of Nobel prizes in economics, physics, chemistry and medicine.

While Canadian K-12 education is ranked ahead of that the U.S., it suffers from many of the same challenges around competition for funding, sclerotic unions and a concern that graduates are not equipped for the modern workforce. At the regional level, state and provincial authorities are increasingly sharing best practices, while university research has enjoyed a long cooperation that unfortunately has been slightly hampered by security restrictions post 9-11.

'Give me your tired, your poor, Your huddled masses yearning to breathe free'

The safety valve for America's K-12 educational deficit has been immigration. Peter Drucker observed that destiny was determined by geography and demography. It is very difficult to change geography but national policy on immigration can have a determinant effect on demography. Half of the high-tech companies created in Silicon Valley in the past twenty years were founded by immigrants. Russian-born Sergey Brin co-founded Google. Hungarian-born Andy Grove co-founded Intel. Taiwanese-born Jerry Yang co-founded Yahoo. German-born Andy Bechtolsheim and Indian-born Vinod Khosla co-founded Sun Microsystems.

America's promise, like that of Canada, is built on immigration.

Yet beginning in 2002, strict limits were placed on visa allocation for the highly skilled and on students from designated, mostly Muslim, nations. This more 'closed' approach was partly in reaction to 9-11 security concerns and fear of terrorism but also because of a resurgent nativism over immigration. The new regulations also circumscribed the ability of foreign students to remain after graduation. It has obliged commuting from places like Vancouver or Toronto to Canada's benefit. In other cases, and with the inducement of lower wages, it has resulted in the re-location off-shore of critical engineering and technical groups.

Between 1820 and 2000, America welcomed over 60 million immigrants to its 'melting pot' and integration into the 'American Creed', largely through the teaching of English in the state school system. Since the civil rights movement of

the 1960s even the poorest of Americans, the black population, has gone through a similar process to the point of adopting its own hyphenated identity, African-American.

The most recent and largest numerical influx of newcomers from Mexico and Latin America (estimated at over 40 million since 1980) is once more testing the American capacity for integration. Latinos account for about half the growth in the US population since 2000. There are now more Latinos in Chicago's Cook County than in Colorado. San Jose has passed Detroit as America's tenth most populous city on the strength of its Latino growth. This new influx is already changing American diet and culture. Most Latino population growth in the U.S. is now due to natural increase; that is, children born to those who already live in the U.S. Half of the Latino population is under the age of 27. By comparison, half of non-Hispanic whites are over 40 years.

Immigration remains a 'hot button' political issue and the public continues to overwhelmingly support limiting the number of immigrants entering the country, and for two decades Pew Research Center (Pew) reports a slight majority agrees that "the growing number of newcomers from other countries threaten traditional American customs and values."

In his 2004 book *Who We Are: Challenges to American National Identity*, the late Harvard political scientist Samuel Huntington argued that large scale immigration to the United States from Latin American countries, coupled with the high fertility rate of these newcomers, constitute the single most immediate and serious challenge to America's traditional "Anglo Protestant" culture. Huntington argues this was brought on by a liberal, intellectual, elitist ideology which believes that all ethnic cultures are equally valid and that a multicultural, multiethnic, politically correct society should be the ultimate national goal. Huntington warned that there is a deep nativist current in American society that is at odds with the political elite and that it would resurface, especially in time of economic recession. Nativism has emerged, not just in America but in Europe and, for Canada, within Quebec. However, while France in particular has endured flare-ups with its Muslim community, the effects of migration have not yet resulted in the tumultuous and ongoing social upheaval that Huntington feared.

Immigration continues to change America. Today, foreign-born citizens make up at least 10% of the population in fifteen states compared to just five states in 1990 (California, Florida, Hawaii, New Jersey and New York). And the demography of population is different: Mexicans dominate in California, Texas and Illinois; Dominicans, Chinese and Indians are prominent in New York while Cubans continue to settle in Florida. Almost one in five Americans now speaks another language at home, especially in California where about a quarter speak Spanish and another ten per cent speak an Asian language.

Over the next fifty years, America will undergo significant transformation. Immigration and higher birth rates, among minorities, especially Latinos, is increasing American diversity. One in four children under five is Latino. By 2050, it is estimated that one third of America will have Latino roots. Concentrated in the Southwest - in California and Texas, as well as in Florida these three states are soon expected to have Latino majorities.

America's 'experiment of a democracy of diverse races', as English philosopher G.K. Chesterton described it, mostly works. There is much to suggest that the latest wave of Latino immigration will integrate in the same fashion as have previous 'feared' waves, notably the Irish in the 19th century and the Italians in the 20th century. Immigrants affirm traditional American values and display even more optimism about the American experiment than much of the native-born population. As ongoing research by the Pew Research Center reveals, immigrants say that they came to America seeking economic opportunity and freedom for themselves and their children, and that they have not been disappointed. They say they've encountered some discrimination, but that on the whole they have been welcomed.

Canadians are generally supportive of immigration and an 'open-door' based on talent, family ties and humanitarian obligation. But as demonstrated by the controversies in Herouxville, Quebec in 2007 or the right of Sikh's to carry ceremonial daggers or wear a hijab at school or on the soccer pitch, integration into a pluralistic society has its rough edges. As two of only four nations (Australia and New Zealand are the others) to consistently celebrate immigration as critical to nation-building we learn from one another's experience. Recently, considerations around security and border access from both the Bush and Obama administration are putting more pressure on Canada to adopt a harmonized approach to visa issuance.

'A nation on the move'

The population of the United States recently passed two milestones: it reached 300 million and married couples fell to fewer than half of all households. More than half of Americans are at least 35 years old. Unique in the western world, in terms of population growth, American fertility rates are above the level necessary for replacement due in large part to Latina immigration.

In *On Paradise Drive*, author and *New York Times* columnist David Brooks describes the re-segregation of America through migration into suburbia and the creation of like-minded communities. Gated communities are increasingly the norm in all new developments – particularly in the south with the construction of adjacent golf courses – golf has become the preferred outdoor pastime for the middle class. Brooks also remarks that after a half century where the emphasis had been on a confluence of taste and culture, America is shifting back to a nation where regional differences count for more, rather than less.

America continues to be a “nation on the move”. There are more Americans (40 million plus) shifting their abode each year than there are Canadians. During the nineties, 73 million people (more than double the population of Canada) moved across state lines and another 13 million migrated from other countries. Mobility breed mobility, especially for immigrants who continue to move as local economies change through patterns of boom and bust in the Rust Belt, the oil patch, the various high-tech silicon valleys, and elsewhere. A part of this is the continuing drift inland of the middle class from the coastal areas, especially on the West Coast, to avoid high housing costs and the congestion of commute.

Growth in America continues to be in the South, both west into New Mexico, Nevada and Arizona and east into Florida, Georgia and the Carolinas. It has been facilitated by technological innovation on everything from air-conditioning to housing to communications. If patterns continue, by 2030 nearly two-thirds of all Americans will live in the South and West and 30 percent of all Americans will be living in the states of California, Texas and Florida. Aging boomers seek sun and space for retirement and youth follow the growing job markets from firms seeking cheaper land and a ‘free market’ for labour, i.e., non-union jurisdictions. The ‘renaissance’ of cities is uneven. More than half of Americans live in the suburbs and suburbia continues to hold its attraction.

In electoral college terms, California, Texas and Florida represent over 1/3 of the electoral votes needed to win the presidency. By 2030, Florida will have more electoral votes than New York and Massachusetts combined. Arizona will match Michigan in electoral might, and North Carolina will be the equal of Pennsylvania. Over half of House districts have a suburban majority as a result of congressional reapportionment and districting that occurred in the first half of this decade, as well as the population shifts during the 1990s (that were reflected in the census of 2000).

These developments have significant implications for Canadian interests and representation. Our diplomatic representation outside of Washington traditionally ringed the coast and border. While we have expanded into Denver, Dallas, Miami and Raleigh, being there counts, especially given our profound economic interests. We should establish a presence in every American state beginning with the growth states. Pomp and protocol are less relevant in America – start small by engaging ‘star-spangled’ Canadians working out of their homes or incubator offices in the local chamber of commerce to act as our ears, eyes and voice.

Faith and Race

G.K. Chesterton once called America the "nation with the soul of a church". Faith and race have long met in the public square and the United States remains a highly religious nation. Since the first Pew values survey began in 1987, there has been very little shift in attitudes about key beliefs: eight-in-ten say they never

doubt the existence of God, and comparable percentages agree that prayer is an important part of their life, and that “we will all be called before God at the Judgment Day to answer for our sins”.

As a rule of thumb, if you go to church, or mosque, or synagogue then you are more likely to vote Republican. If you are not religious you are likely to vote Democrat. But, 9 in 10 African-Americans, whether they attend church or not, vote Democrat. If you are white and male, then 6 in 10 vote Republican. The last time a Democratic presidential candidate received a majority of the white vote was in 1976 when Jimmy Carter, a southerner, beat Gerald Ford (Barack Obama received 53% of the total vote but only 43% of the ‘white’ vote).

Appeals to faith are as American as apple pie. Religion furnished at least half the vocabulary, and more of the music, and also helped inspire the civil rights movement. Nobel laureate and economic historian Robert Fogel believes that great political trends are to a large extent “spawned by changes in American religiosity” from the anti-slavery movement in the 1840s, to the temperance movement in the 1920s, to the Reagan revolution in the 1980s. As the late political scholar and philosopher Wilson Carey McWilliams observed, Lincoln, no orthodox believer, invoked God and the language of the Bible. William Jennings Bryan likened the gold standard to the Crucifixion. Theodore Roosevelt saw Armageddon in the election of 1912. Franklin Roosevelt compared his opponents to the money-changers that Jesus had driven from the temple. “Divine justice”, he told the Democratic Convention in 1936, “weighs the sins of the cold-blooded and the sins of the warm-hearted in different scales.”

Unlike much of the rest of the western world, religious faith in the United States endures because it is bottom-up, populist, and democratically inspired. The Framers of the Constitution rejected any effort at enforced religious uniformity, regarding attempts to dictate to the soul as violations of natural, inalienable rights.

From the debate on abolition, womens' suffrage, and civil rights to today's debates on abortion and gay rights, faith has inspired policy and policy has inspired faith. In a reflection of the American consumerism, nearly half of Americans say they had 'shopped' for a place of worship. As Ralph Reed of the Christian Coalition once observed, “If you want to reach the Christian population on Sunday, you do it from the church pulpit. If you want to reach them on Saturday, you do it in Wal-Mart.” The 'success' of the evangelical movement in particular has been its capacity to respond to peoples' need for faith and community through developments such as televangelism, diversity of religious offering, and mega-churches like that of Saddleback in Lake Forest, California. Saddleback's preacher Pastor Rick Warren's 2002 spiritual guide, *The Purpose Driven Life*, has become one of the best non-fiction bestsellers of all time in America.

In *God and Race in American Politics*, University of Notre Dame historian Mark Noll observes that throughout American history Americans have called on their religious institutions for moral authority, inspirational leadership and institutional power in almost every significant political and social movement. For many Americans, Noll observes, "religion is visceral, not cerebral; biblical, not philosophical; supernatural, not rational; prophetic, not theoretical" and this helps to account for its strength and staying power.

The coupling of religion with race has profoundly shaped American history from the original settlement in Jamestown and the arrival a decade later of the first slaves. In 1961, the year Obama was born, 'Jim Crow' laws meant that black Americans faced big barriers when trying to register or vote in large swaths of the USA.

But attitudes change and evolve. A half century ago, 53% of voters told pollsters they wouldn't vote for a well-qualified black candidate. Today, that number is 5%. With the election of Barack Obama, African-Americans have now pierced every glass ceiling. African-American athletes and entertainers have a disproportionate effect on American culture - the country's most popular entertainer is Oprah Winfrey, and Will Smith is its top grossing film star.

Yet the challenges for African-Americans remain. Too many are still stuck in the crime-ridden, jobless ghettos depicted in the superb HBO series *The Wire*. The gap between what African-Americans and whites learn and earn narrowed steadily between the 1940s and the late 1980s, but it has more or less remained constant since then. The proportion of African-American babies born out of wedlock has nearly doubled since 1970, to 69%. The achievement gap between white and minority students has not narrowed, despite the focus of the *No Child Left Behind* Act (2002) on improving the scores of African-Americans and Hispanics. Academically, an average African-American 17 year-old performs no better than a white 13-year-old. African-Americans die, on average, five years earlier than whites. In 2005, African-American murder rate was seven times higher than that for whites and Latinos combined. African-American poverty rates are still three times that of whites, and they are six times more likely than whites to be incarcerated.

While affirmative action and diversity programs were critical for black entry, it has begun to run its course, in good part because it has succeeded in its goal of seeding the nation's elite and middle class with African-Americans. There has been a downside, however: white male hostility and an understandable sense of grievance about fairness and the promotion of 'distinctiveness' have reinforced a sense of separation that runs against the national interest.

The Living Constitution

Visit the National Archives on Constitution Avenue – it resembles a Masonic temple. Inside, the long line snakes around a series of documents – the Declaration of Independence and the Constitution of the United States – that are America's secular icons. Go to Philadelphia and across from the Liberty Bell is the National Constitution Centre that each year thousands of Americans, especially school-children, tour to learn more about their living Constitution. America's veneration is unmatched elsewhere but the effect of these American icons is universal. Arthur Schlesinger Jr. once observed, "When the Chinese students cried and died for democracy in Tiananmen Square, they brought with them not representations of Confucius or Buddha but a model of the Statue of Liberty."

The enduring features of the American political system are a separation of powers between Congress and the Executive, federalism, an activist judicial review and a media that since Watergate has moved beyond vigilance into habitual opposition. The Constitution consolidates the national ideology through those values observed by de Tocqueville: individualism, liberty, equality and property rights. What distinguishes America from other developed nations and thus conditioning the 'exceptionalism' of its politics is the absence of a strong socialist party, the weakness of its labor movement, the acceptance of economic inequality and the limited development of government programs in welfare and health care.

The Framers designed the Constitution as neither presidential nor parliamentary. Rather it is a system in which the president and Congress, as separate entities, must cooperate to make laws. In practice, they actively compete in exercising influence and direction over the 'permanent government' that has grown exponentially with each major war. Conflict and sometimes gridlock characterizes this competition, even when the same party rules the White House and possesses majorities in the Senate and Congress. It confuses outsiders, especially those accustomed to a parliamentary government with disciplined parties that follow the lead of the executive.

The growth of governments – federal and state - continues like day after night. Both the President and Congress have expanded their reach and their staff – Franklin Roosevelt's 'New Deal' and waging of the Second World War ballooned the size of the Administration with the acquiescence by FDR's third term of a compliant Supreme Court. In the wake of Watergate, the staff and agencies supporting Congress quadrupled.

Modern government is increasingly regulatory government. At the national level, the Federal Register is a crude measure of sheer volume of government and in some years it has run to as many as 75,000 pages. Nor does this include the

regulatory effect of the laws of the states, local ordinances and the decisions of the courts.

Ambition for government action is balanced by a loathing for big bureaucracies that, inevitably, encroach on individual liberties. This is partly responsible for that distinctive characteristic of American civil service - the large numbers of political appointees that reach much deeper and wider than in most other modern democracies. The 'contracting out' of government services through highly complex public/private/non-profit networks is the newest development in delivery of service and it ranges from health care to running prisons (the great growth industry in the U.S.) and waging war in Iraq. It is a trend increasingly adopted by Canadian federal and provincial governments.

There is debate about whether the spread of government by proxy is a good thing. Syracuse University's Arthur Brooks argues it will only increase given the limited appetite for enlarging the role of the state, the strong history of citizen participation in civil society and the acknowledged efficiency of non-profits and the private sector. He also notes that there is a "substantial negative relationship" especially between government activity and private, voluntary action. When government steps in it usually results in 'crowding out' both donated time and money.

The Courts: Umpire of the System

When the Constitutional Convention of 1787 established a new federalism, James Madison assuaged fears of a centralization of power through the separation of the government into legislative, executive and judicial branches. If one of the three overreached, he wrote in the *Federalist Papers*, another would stop the abuse of power. The Constitution has assumed sacred status and the Supreme Court is its high priest. The courts were to bring fairness: in equal measures impartial arbiter and, hopefully, to bring an additional level of consent to the social community.

The court system and ultimately the Supreme Court act as the umpire for the system. On many of the defining aspects of American culture, from abortion, to race, to the death penalty, the Supreme Court has had the last word. For the most part, its decisions have had a liberalizing effect, including banning segregation of schools, and guaranteeing women the right to choose. Under the Rehnquist court (1986-2004), gay rights and affirmative action were extended, and in rulings on the rape of children, the execution of juveniles, and the mentally retarded, the death penalty was narrowed.

Business issues don't usually get the attention devoted to the social issues, but in the wake of the financial crisis and the extraordinary government intervention into the economy, it is quite likely some of the legislation will be subject to judicial interpretation. The 'modern' court is usually dated from the celebrated "switch in

time that saved nine" in 1937 when the Supreme Court, succumbing to pressure from President Franklin D. Roosevelt, radically altered its views on the scope of Congressional Power to implement the commerce clause. The Court's decision permitted Congress to regulate virtually anything, and to implement the liberal goals of the Roosevelt administration. It pushed the federal government into many areas that had formerly exclusively been the domain of the state and local governments.

The politics of Supreme Court decisions, and what was considered 'liberal' judicial activism, particularly under the Warren and Burger Courts, were instrumental in creating the conservative movement that railed against and exploited the image of an undemocratic court to mobilize their supporters. Since Chief Justice John Roberts joined the court in 2005, he and his colleagues have taken a tougher line with legal advocates requiring them to produce evidence that a law has actually violated someone's rights, and name names if you can. Only then might the court rule that a law is unconstitutional for those in the same situation.

From John Jay onwards, presidents tended to select those with political experience and national prominence and Court decisions tended to mirror the political decisions of the time. Most of those selected in recent times have been appellate judges; all of the Roberts court are former judges, including the first Obama nominee, Justice Sonia Sotomayor. Richard Nixon aimed to increase both the professionalization and ideological bent of the court and succeeding presidents have followed suit. Barack Obama, a Harvard-trained lawyer who taught constitutional law at the University of Chicago Law School, has said "my judges" should have "the heart, the empathy, to recognize what it's like to be a young teenage mom, the empathy to understand what it's like to be poor or African-American or gay or disabled or old."

The explicit Bill of Rights in the Constitution has made the judiciary, especially the Supreme Court, the arbiters of ordering relations in American society. Since the 60s, observes Stanford scholar Lawrence Friedman, the courts have also broadened the rules of standing, making it easier to seek judicial relief. The result has been to significantly expand the role of the courts in the administration of government and "on behalf of the underdogs – criminal defendants, aliens, sexual minorities, women and African Americans". Vice has been substantially decriminalized with one big exception – drug laws that over time have grown tougher and account for nearly half of those serving time.

'Adversarial legalism' is an American specialty, characterized by heavy use of lawyers, lawsuits and litigators. But for now, business law is no longer a growth business and contrary to conventional wisdom, litigation is actually in decline. In 2002, there were actual trials in only 1.8% of federal court cases and it is now official policy, at both the federal and state level, to discourage litigation in favour of mediation, settlement or alternative dispute resolution.

When Congress and legislatures pass or punt on contentious issues, the interpretation of policy is often referred to state and federal courts and Canadian business – look to Research in Motion's experience on intellectual property - have learned that having American legal representation is essential to doing business in the U.S. It was a capricious decision by a federal judge in Montana, for example, that kept the border closed to Canadian beef. Even with a supportive Administration and positive 'rule' by the Agriculture Secretary, it took a decision by the 9th Circuit Court to reopen commerce in cattle.

Federalism and the Party System

Federalism in the United States was constructed from the bottom up and on a foundation of the 13 British colonies (and the Articles of Confederation made provision for the 14th colony – Canada).

It is common to refer to 'the government', as if it were only one – the national government and, in particular, the Administration, but in fact the Census Bureau counts 87,000 units of government including the fifty states and 39,000 general-purpose governments at the county and city level.

American federalism, like its Canadian counterpart, has proven highly adaptable. As with other federal systems, the pressure for centralization rises when there is a sense of common danger - such as war, terrorism or environmental hazard, or the common need for action, as with civil rights.

Federalism also underwrites the national two-party system, a virtual oligarchy that has endured for nearly 150 years. The national parties are loose coalitions of the state parties with a fundamental difference: Democrats are primarily a mosaic of interests 'making claims on government', while Republicans are bound together more by ideological agreement. In looking at the institutions of Congress, political scientist Nelson Polsby likened the Senate to a 'carpool', solicitous of individual members, while he described the House as more like a 'bus line', scheduled and controlled by its leadership.

Unlike the Canadian system, party label is worn loosely and considerations of state, region or belief make cross-party coalition building the norm. This is particularly important to Canadian advocacy efforts – shifting coalitions means that we have to work members of both parties based on their interests and we need to remember that there are no permanent friends or enemies. Politics is like business.

During the past half century there have been two big structural changes to the party system.

First, in the manner of selecting presidential nominees, it has evolved from a system of brokerage among state party leaders. The outcome now depends on state primaries, relying on a broader base of membership that is reached through the media and, increasingly the Internet. This development, along with weak campaign financing laws, has made politicking an expensive proposition. It is estimated that the average member of Congress must raise \$5000 every day for elections that come every two years on the first Tuesday of November.

Second, political realignment that began in the late 60s is now virtually complete. The once grand coalitions that crossed party lines - the conservative alliance of Republicans and southern Dixiecrats and the more liberal mainstream Democrats aligned with moderate northeast state Republicans have collapsed. The southern Dixiecrats disappeared in the wake of the civil rights legislation of the sixties, while the moderate Republicans in the north-east have faded away in the face of an increasingly conservative and Southern GOP.

The lack of competition in the majority of congressional races means that incumbents are as worried about being outflanked by ideologues in the party primary as much as they are by winning the general election. This concern also diminishes opportunities for bipartisanship and compromise, especially on cultural issues. More damaging has been the effect on the public credibility of Congress – with almost 80 per cent consistently registering their lack of confidence in the institution.

Notwithstanding the current Democratic ascendancy in Congress, Pew reports that by a two to one margin (37% versus 19%) Americans still self-identify as conservatives rather than liberals. This ratio has remained largely stable over the past nine years, even while the balance of party affiliation has changed substantially. While Republicans are nearing the historic lows of the post-Watergate era (GOP 21% and Democrats 35%), their losses have not translated into Democratic gains. Instead a record number of Americans (36%) describe themselves as independents; a figure last reached in 1992 when Ross Perot ran a widely popular independent party candidacy.

Polarization and the ‘Broken Branch’

The Framers of the American Constitution created a system of checks and balances to prevent factionalism from upsetting the political balance. Only when there was a broad coalition that favored a change would it succeed. Gridlock was a safeguard to prevent the triumph of a particular faction.

American political historian Richard Hofstadter once observed that the Democrats and Republicans were a hodge-podge of conflicting interests, and that the parties' main business was to seek compromise. Today, voting in Congress increasingly takes place on partisan lines. Americans themselves increasingly live in ‘political ghettos’, the result of what the *National Journal's*

Ronald Brownstein and author of *The Second Civil War: How Extreme Partisanship Has Paralyzed Washington and Polarized America* calls “the great sorting out” in this “the age of hyperpartisanship,” in which political life “operates as an integrated machine to push the parties apart and to sharpen the disagreements in American life.”

Ideologues of the left and right divide themselves along party line. In their book *The Broken Branch: How Congress Is Failing America and How to Get It Back on Track*, Tom Mann of the Brookings Institution and Norm Ornstein of the American Enterprise Institute cite “the escalation of the permanent campaign, the collapse of the center in Congress, the growing ideological polarization of the parties” as among the factors “relegating bipartisanship on Capitol Hill to a nostalgic, bygone time.”

Their political and cultural perspectives, especially on the ‘Right’, are reinforced by the medium of FOX News and talk radio – Rush Limbaugh became the personification of passionate dissent. White southerners, once ‘solidly’ Democratic began shifting their party affiliation to the Republicans with the passage of the civil rights legislation in the mid ‘60s.

The Reagan ‘revolution’ accelerated the new loyalties and by 2009 white Southerners were the bedrock of the Republican party. Political gerrymandering helped the “sorting out” making turnover less likely through the creation of partisan ‘super-majorities’. Loose campaign spending laws and the primary-election system meant the triumph of ‘cause-driven’ factions and the election of legislators who were both more partisan and more polarized than in the past.

One cost of polarization, observes James Q. Wilson, dean of American political scientists, is that the international standing and influence of the US are much lower and the nation was more deeply divided than at any time since the early 1970s. In a 2006 *Commentary* article, ‘How Divided Are We’, Wilson concluded:

“Sharpened debate is arguably helpful with respect to domestic issues, but not for the management of important foreign and military matters. The United States, an unrivaled superpower with unparalleled responsibilities for protecting the peace and defeating terrorists, is now forced to discharge those duties with its own political house in disarray.... A divided America encourages our enemies, disheartens our allies, and saps our resolve—potentially to fatal effect. What General Giap of North Vietnam once said of us is even truer today: America cannot be defeated on the battlefield, but it can be defeated at home. Polarization is a force that can defeat us.”

Polarization also complicates Canadian advocacy efforts as coalition building along regional or functional interests increasingly runs into the ‘Berlin Wall’ of party ideology.

In his farewell address in 1796, George Washington warned of the dangers of ‘faction’ because it puts the immediate ahead of the important, weakens the

government and, “agitates the community with ill-founded jealousies and false alarms”. Interest group politics, present from the creation of the Republic, are a constant and, like government, have mushroomed and made it difficult to deal with long-term problems, like the budget deficit and reform of entitlement programs that require mutual compromise.

Culture Wars

The ‘culture wars’ were once about ‘rum and romanism’, prohibition, segregation, creationism, free enterprise and, always, immigration. They resurfaced in the mid 1970s around busing, gun control, school prayer, the death penalty and abortion. They continue into the 21st century with the inclusion of gay marriage. The culture wars define the polarized nature of American politics and make it much more difficult to forge consensus around the big problems.

To the defenders of morality, ‘anything goes’ means that nothing matters, while to those in the more permissive camps, it means live and let live – social mores are private matters and the state, as Pierre Trudeau famously remarked, has no place ‘in the bedrooms of the nation’. In Canada this debate was largely concluded in the sixties; not so in America where changes in the structures of interest groups, party organizations and media institutions have helped to keep moral issues on the political agenda. No Democrat can get ahead in national politics without supporting Roe v Wade and affirmative action, while Republicans are increasingly beholden to evangelical churches and other morally conservative groups to mobilize their voters.

Even though there has been little change in the number of Americans holding strong religious beliefs, the percentage with conservative views on social values has been steadily declining over the past two decades as a result of generational change. Maine recently became the fifth state to legalize same-sex marriage, and legislative efforts to pass similar laws are underway in other states. However, a majority of the public remains opposed to same-sex marriage. Even while they were casting their ballots decisively for Obama in November 2008, California voters supported an initiative that overturned a court ruling granting the right and the California Supreme Court recently upheld the voters’ decision.

News Media

In the last transformative technological revolution before the Internet — television’s emergence in the late 1940s — the newspaper lost its primacy as the main news source. Today, its existence is under extreme pressure, at least with its current business model of home delivery supported by advertising.

Newspapers’ revenues have shrunk even as their audience has grown. *The Los Angeles Times* to *The Philadelphia Inquirer* are near bankruptcy and the reporting ranks on network and local news are being reduced. The New York

Times Company threatened to close *The Boston Globe*. Foreign bureaux have been closed or consolidated and some papers have curtailed daily delivery by dropping Monday delivery and sometimes more. The Canadian newspaper business is no different – Canwest Global is fending off receivership. Some newspaper advertising has moved to newspaper websites but online-ad revenue does not come close to replacing print-ad revenue. For all the growth in eyeballs on the Internet versions, the Internet still accounts for less than 10 percent of newspapers' revenues. Advertising has also shifted to sites like Google and Craigslist. The drop in circulation has significantly reduced the demand for newsprint with commensurate implications for the forest industry.

A workable revenue model for Internet content has yet to be developed but the Arkansas Democrat-Gazette offers a possible model. When the paper began to lose circulation to the Internet the publisher moved the paper to the Internet behind a subscription barrier. It is making money; in 2008 its publisher was named Publisher of the Year.

There will be a public cost as newspapers retrench and investigative reporting declines. Commenting before the U.S. Senate, David Simon, the former reporter and producer of HBO's *The Wire* observed: "The next 10 or 15 years in this country are going to be a halcyon era for state and local political corruption. It is going to be one of the great times to be a corrupt politician."

...and the world of Entertainment

The scale and scope of America's role in global media, both as exporter and investor, is unique. Push the power button on the remote control almost anywhere in the world, and you will see America – films from Hollywood, news from CNN, 'ER' and re-runs of 'Baywatch'. America's biggest export is no longer Boeing aircraft or even IBM computers, but the mass-produced products of its popular culture -- movies, TV programs, music, books and computer software. Canada is also a consumer. We buy twice as much as we produce in places like Vancouver. As I would tell the runaway production lobby in Hollywood, the runaways are the Canadian talent, beginning with America's sweetheart, Mary Pickford, to British Columbia's David Foster, Bryan Adams, Michael Buble and the ubiquitous Pamela Anderson.

Globalisation and Americanisation, for most of the post-war period, have gone hand in hand. Now the media business, and especially television – witness the international success of Al-Jazeera, are becoming increasingly multinational. This trend is tied to the commercialization of media, especially the carriages and pipelines of telephone, cable and now broadband. What was once mainly state-owned and monopolistic is becoming privatised and competitive.

This development was driven partly by the trend to privatization but accelerated by technological innovation, which has both increased the production and

distribution capacity of media companies, and reduced costs. The industry has had to find a new profit model. File-sharing, via Napster and its look-a-likes has obliged the music and film industry to adapt; I-Tunes came up with the 99 cent model. It works. Not long ago the idea of pay TV was derided; cable and satellite have become the national norm. Hollywood movie studios, radio and the Broadway theatre, though smaller and much changed have gone through similar transformation. They adapted and survived.

The giants of American media, such as News Corp., Time Warner and Walt Disney, continue to dominate entertainment export markets and lead joint ventures that have created new media businesses around the world. Although some of the world's largest book and newspaper publishers are based elsewhere, America is home to most of the world's largest audio-visual companies.

The conventional wisdom around the impact of American popular culture is that people like it and that they differentiate it from their admiration for President Obama and equal dislike of President Bush and his foreign policy. However, a Pew report (June 2007), suggests that there is "great dissent" with regard to pop culture in most Muslim countries and, to a lesser extent, in China and India and disquiet amongst other nations with "American ideas and customs".

Other countries are now big producers of entertainment: India, for instance, makes more films in Bollywood each year than Hollywood, the Mexican Televisa network has launched digital television in South America and Qatar's Al-Jazeera network now has more locations than CNN and a bigger market share in Africa and parts of Asia.

Is the American century over?

Like Rome, the United States faces overstretch overseas. In addition to fighting two wars – in Iraq and Afghanistan - implicitly or explicitly, America's collective-security commitment includes all NATO countries, including Canada, Japan, Israel, Australia, New Zealand, South Korea, Iraq, Afghanistan, Saudi Arabia, and Taiwan. These commitments absorb approximately 20% of the American budget. The threat of a nuclear Iran and North Korea, the ongoing turmoil in the Middle East, the resurgence of Russian belligerence through force of arms in South Georgia, through cyber-warfare in Romania and by turning off the gas pipeline to the Ukraine, coupled with the economic rise of China and India, have led many observers to predict the end of the American century.

Within the U.S., the financial meltdown and the deep recession exposed massive policy, regulatory, and enforcement failures of the American model. American capitalism during the 1980s and 1990s – a new gilded age brilliantly portrayed in Tom Wolfe's 'Bonfire of the Vanities' - redefined the 'golden rule' whereby the rich and powerful, who hold the gold, sway the drafting of the rules and

regulations through the influence of campaign contributions, lobbyists and lawyers. During the first six months of 2004, for example, lobbyists spent \$6.5 million a day, or more than \$540,000 an hour in a twelve-hour day.

The new capitalism was reflected in its new norms: consume before investing; worry about the short term, not the long term. To many, the U.S. tax code - 70,000 pages in length by 2009 – appeared to be designed primarily for the rich and powerful. Welfare for corporations flourished as corporate interests privatized their profits but socialized their losses through public funding.

The Ponzi schemes that Bernard Madoff and some unscrupulous hedge fund managers practiced from Wall Street wrecked the reputation of ‘free-market capitalism’ and the so-called ‘Washington consensus’ on fiscal discipline and open markets that had prevailed during the 1990s and early years of the 21st century.

The stage seemed set for the demise of what has been called “market fundamentalism” by George Soros (paradoxically one of its biggest beneficiaries), meaning the belief in the self-regulating nature of what has turned out not to be self-regulating at all. British prime minister Gordon Brown, hosting the March 2009 G-20 meeting in London, pronounced that the Washington consensus is over. To the London *Guardian* it was “A Shattering Moment in America’s Fall From Power.” The news magazine *Der Spiegel* called it “The End of Hubris.” “One thing seems probable to me”, declared Peer Steinbrück, German Finance Minister, “The United States will lose its status as the superpower of the global financial system.”

Confirmation of the sea-change came also from within the United States. In the fall of 2008, the National Intelligence Council (NIC) completed a report on 2025, foretelling an era that where the "United States will remain the single most powerful country but will be less dominant. Shrinking economic and military capabilities may force the U.S. into a difficult set of tradeoffs" amid "the decay of international institutions, climate change, and the geopolitics of energy." It noted, "rather than emulating Western models of political and economic development, more countries may be attracted to China's alternative development model."

And yet, “commentators should hesitate before prophesying the decline and fall of the United States,” writes the historian Niall Ferguson author of *Colossus: The Price of America’s Empire*. It has come through disastrous financial crises before—not just the Great Depression, but also the Great Stagflation of the 1970s—and emerged with its geopolitical position enhanced.

Shortly after launching the devastating attack on Pearl Harbour, Japanese Admiral Yamamoto reportedly warned, “I fear all we have done is to awaken a sleeping giant and fill him with a terrible resolve.” In 1985, Paul Kennedy’s *The Rise and Fall of the Great Powers* predicted the ebb-tide of American power.

Four years later the Soviet Union fell and the United States became the world's sole super power.

It rebounds from even the worst financial crises observed Niall Ferguson because “these crises, bad as they seem at home, always have worse effects on America’s rivals.” The American credit crunch is already having much worse economic effects abroad than at home. Both the Eurozone and Japan are deeper in recession than the United States. Almost unique, Canada for now is doing better than other developed nations. Emerging markets, too, have been hammered harder by the crisis than the “decoupling” thesis promised. The financial crisis is especially bad news for energy exporters – Russia, Iran and Venezuela. The futures of Russia, Japan, Europe, and China are also clouded by demography - below-replacement fertility, in many cases low or near-zero immigration, and a rapidly aging citizenry.

Today, Americans account for five percent of the world's population, occupy about 6% of the world's land mass yet, yet account for a quarter of the world's gross domestic product and just under a third of global wealth. U.S. military capacity is unmatched. What distinguishes the American military from the rest of the world is the amount of resources put into it. Nothing compares to the American military budget; together NATO allies spend a bit more than half of what the USA does. The Defense Department research budget (\$80B) is bigger than Russia's total defence budget (\$50B).

Sovereign-wealth funds, the BRICs and Chinerica

The American dollar has served as the world's reserve currency for most of the 20th century and especially since the Bretton Woods conference in 1946. Foreign investors, especially the Arab states, have long recycled their petrodollars into US treasuries. The Chinese adopted the practise with vigour and by 2008 were purchasing over half of all Treasury-issued debt.

But reserve currencies do not last forever. In the case of the British pound, the effective predecessor to the American dollar, it succumbed to a combination of the huge debts that Britain had run up to fight the world wars and lower growth – the ‘British disease’ that afflicted Britain's economy in the postwar decades and into the early 1980s. US government borrowing is forecast at \$1.8 trillion this year (13% of GDP). According to the Congressional Budget Office, a further \$10 trillion will be borrowed in the next decade (100% of GDP by 2017). Will this test the solvency of the government? Today there are calls for a new ‘Bretton Woods’ that will reinvigorate the IMF and adapt to differing forms of capitalism and levels of financial development and thereby avoiding the dangers of market segmentation and new investment barriers.

The 2004 Goldman Sachs report about the prospects for Brazil, Russia, India and China, introduced the term ‘BRICs’. In a 2006 report prepared by the Boston

Consulting Group, 84 of the top one hundred non-OECD new global corporate leaders were headquartered in the BRICs. The BRICs are expected to collectively match the original G-7 share of global GDP by 2040. China alone is projected to overtake the United States in terms of GDP as early as 2027.

Wealth is moving not just from West to East but is concentrating more under state control and in sovereign wealth funds. Sovereign wealth funds (SWF) have already put more capital into emerging markets than the IMF and World Bank combined. China is beginning to couple state investment with direct aid and foreign assistance, sometimes in competition with the World Bank. With the U.S. government investments to assist in the recovery of insurance, banking and the auto industry, 'sovereign wealth funding' is taking on further meaning.

The evolving economic relationship between China and America is one of the notable developments of the past decade. To describe this development, the historians Moritz Schularick and Niall Ferguson coined the phrase 'Chimerica'. It became a symbiotic relationship: in the early years of the new century, one half (China) did the saving, the other half (America) the spending. As American savings declined from above 5 percent in the mid 1990s to virtually zero by 2005, Chinese savings surged from below 30 percent to nearly 45 percent. Remarking on their over \$1 trillion in U.S. treasuries at the closing of the 2009 National People's Congress in Beijing, Chinese premier Wen Jiabao warned America to take measures to guarantee its 'good credit'. The premier later reflected on the need for the creation of a new reserve instrument.

But how long can this 'stable disequilibrium' endure? What lies ahead in terms of inflationary pressures stemming from the quantities of dollars being printed and what does all of that mean to the global economy in general and ours in particular? Acting conventionally, the Chinese are likely to become more wary of increasing their exposure to the US. Who will lend these huge amounts that will be required? And, at what rates of interest? One answer is the Federal Reserve through Ben Bernanke's policy of "quantitative easing". It has already doubled its balance sheet this year (for the greater good: avoiding "a pandemic of bank failures") but ultimately with inflationary consequences.

While there will always be fears that the relationship could go wrong, sparked by Taiwan, Nepal or some other incident, it is just as likely that the US and China could reach a grand accord with both nations committed to increasing domestic demand, greater currency flexibility and increasing China's role in international institutions. In short, giving China recognition and responsibility in a fashion similar to what the Bush Administration did with India in reaching an accommodation on civil nuclear cooperation.

India should increasingly be factored into the equation; within a decade it is predicted to surpass China in population. Two centuries ago, China and India produced approximately 30 percent and 15 percent of the world's wealth. For the

first time since the 18th century, they are set to be the greatest contributors to worldwide economic growth. Within a decade they are set to surpass the GDP of all other economies except the U.S. and Japan. 'Chinerica' – China, India and America - accounts for around 17 percent of the world's land surface, a third of its population, over a third of its gross domestic product, and over half of the global economic growth of the past six years.

In keeping with this rapidly evolving global situation, Canada's relationship with Chinerica is particularly important. We need an Asian policy with an activist credible, nuanced approach to India and China that allows us to derive the maximum benefit from the links with both of them.

'but she goes not abroad, in search of monsters to destroy'

The United States has never been isolated from the global flow of ideas, trade and migration. The Founders aimed for a durable non-entanglement, especially in the political affairs of the 'Old World'. George Washington famously warned against permanent alliances in his farewell address while John Quincy Adams cautioned against going abroad in "in search of monsters to destroy." During its first century this policy suited the American temperament. 'Manifest destiny' found ample opportunity for expansion westward as canals then railroads pushed settlement and its frontiers to the Pacific. The 1823 Monroe Doctrine and its subsequent amendments eventually became the basis for American hegemony in the Americas. Neutrality, never timid, at the outset of the First and Second World Wars became involvement and then engagement with a commitment in blood and treasure.

After the war, American leadership created a post-war architecture based on multilateralism and collective security in the west. But America's definition of security gradually expanded from defending the western hemisphere bases to guard against the Soviets in Europe and in Asia – notably Japan in post-World War II occupation, and then around the world. In the eyes of many, after having saved the world from the menace of militarism and dictatorships in two world wars, the military reach was an enabler to what many viewed as a necessary ideological crusade to hold back the newest threat - communism.

Containment and deterrence succeeded. After nearly a half century of Cold War, the Soviet Union imploded, leaving the U.S. as the sole 'hyperpower'. Francis Fukuyama pronounced humanity, under American leadership, had 'reached the end of history': "that is the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."

The 'end' proved more a 'holiday' and history returned on September 11, 2001. George W. Bush took America into war against the Taliban in Afghanistan and then into Iraq, despite his initial concern about "over committing our military

around the world and his belief that “this idea of nation-building” was “grandiose”. While the Afghan campaign was done with multilateral support, Iraq was mostly an exercise in unilateralism supported by a diminishing ‘coalition of the willing’.

The Bush ‘democracy’ agenda, especially as applied in the Middle East produced neither quick nor satisfactory results nor much willingness by others to share the burden. In Iraq the American military had its limitations exposed but, more importantly, it has also illustrated through effective ‘counter-insurgency’ its capacity to adapt to change. As Colin Powell often observed, the point to having the most powerful military machine is less in its application than in its effect as a deterrent.

Iraq has forced a significant rethink on the role of promoting democracy in US foreign policy. As Frank Fukuyama observed in *America at the Crossroads*: “Promoting democracy and modernisation in the Middle East is not a solution to the problem of jihadist terrorism”, rather, “the overarching lesson ... is that the US does not get to decide when and where democracy comes about. By definition, outsiders can't 'impose' democracy on a country that doesn't want it; demand for democracy and reform must be domestic.”

The legacy of Iraq is a growing disillusionment with the assumption that the rest of the world are simply Jeffersonians ‘yearning to be set free’. The problem with the Bush doctrine was that it assumed a foreign policy could subsume the divide between the application of American values at home and the advancement of American interests abroad. There was a presumption that the two were mutually reinforcing, if not identical.

The WWII and post-war generation who have set the framework for American foreign policy were, for the most part, default internationalists because of those experiences. They came of age with television, Walter Cronkite and the Cold War, Sputnik, the Cuban Missile Crisis and Vietnam. This is ancient history for a generation that is growing up with Youtube, Jon Stewart, climate change, AIDs and 9-11. Despite the public enchantment with Iraq and the economic crisis, isolationist sentiment remains at bay. The May, 2009 Pew Reports says that the overwhelming proportion (90%) of Americans believe “it’s best for our country to be active in world affairs,” an attitude unchanged over the past two decades.

Owen Harries, the astute Australian former editor of the *National Interest* now at the Lowy Institute, has remarked on the continuing resiliency of American foreign policy:

“America has great powers of self-correction, a historically proven capacity to rebound from adversity and error. Indeed, I believe that the first great test of the Bush Doctrine in Iraq is also likely to be its last. Failure there will restore balance and prudence to American foreign policy. With reasonable luck, it will lead to the conclusion that the smartest way of being hegemonic is to be content with appearing to be primus inter pares in a concert of powers. The greater disaster in America's Iraq venture would have been something plausibly resembling a quick and decisive success. What dangerous excesses would that have led us to by now? “

Still the lesson that both Democrats and Republicans have taken is that 9-11 happened because the U.S. failed to defend itself and that the best way to prevent a recurrence of 9-11 is to maintain robust and effective defences and to put in place fundamental and essential security measures. This, of course, has profound implications for the border and Canadian efforts to regain easy market access. It underlines the argument that when it comes to security and trade, we will have to make visible adaptations - harmonizing our visa policy, for example, - and other confidence-building measures to meet American expectations, even if they do seem somewhat paranoid. Eventually, these may be relaxed but probably later than sooner. We should act accordingly, not because we share the paranoia, but because we need to serve Canadian interests.

American exceptionalism will continue to be informed by ideological pretensions to remake the world in the image of America. In this sense, the Bush doctrine and the neoconservative impulse is not dead but simply in abeyance. The neo-cons saw themselves as representing something novel and distinctive but as Andrew Bacevich observes in *The Limits to Power: The End of American Exceptionalism* (2008) they represent only the most recent manifestation of that part of the American DNA that believes they are called upon to transform and save the world. It is discredited from time to time – Vietnam and now Iraq – but the notion will return in some form or another, with significant appeal to significant number of Americans, because the idea of America as the crusader state and Americans as the new chosen people is hard-wired into the American consciousness. There is a strong pragmatic theme in much of what Barack Obama says. But there is also the Obama who talks of 'bending the trajectory of history', 'changing the way Washington works', and 'guaranteeing the rights of women in Afghanistan' and in this sense he also reflects that crusading instinct.

The American political system has consistently found leadership that rises to the challenge of the times, both domestically and internationally. Both Franklin Roosevelt and Ronald Reagan came to power focused on solving America's economic problems. By the end of their presidencies, they dominated the world stage, FDR as the architect of victory in World War II, Reagan performing a similar role in the Cold War. President Obama has a similar aspiration with a promise to 'reengage with the world', including Islamic nations.

Pax Americana has provided global stability through its military capacity. Less acknowledged or appreciated has been its development assistance. Between 1946 and 2000, the United States gave about \$1.5 trillion in foreign aid, likely more than all other nations combined. It helped to spur the march of freedom. Between 1976 and 2006, the number of "free" nations more than doubled, from 42 to 90, while nations "not free" fell from 68 to 45, according to Freedom House. There are 123 democratic countries today, compared to 22 in 1950. One Australian government report found that between 1972 and 2006, 67 dictatorships had fallen. Half the world's population was in poverty in 1950, today

the figure is less than one-fifth. Wars, genocides and human rights abuses have also declined according to Simon Fraser's Human Security Report Project.

The key governmental institution in America's dealings with the world is not the State Department but the Pentagon and when America is at war this influence is even more pronounced. The American armed forces are highly proficient, narrowly recruited and small by historical standards. Nonetheless uniform service is still significant; 41 million Americans have worn a uniform. Americans are proud of their military – it is the institution with the highest public approval (by contrast Congress is the least regarded) - and for over two decades a majority of Americans agree that “the best way to ensure peace is through military strength.” All 50 states have either a military base or a defence contract and these create payroll and jobs. The committees responsible for the armed services are the largest in each respective chamber of Congress, something Canadians need to recognize and appreciate.

For the allies, America guarantees their security. In Asia it has kept latent the simmering rivalries among Japan, North Korea, South Korea, Taiwan, and China. For India and Russia, America provides a hedge against Chinese power.

Defense Secretary Robert Gates is committed to ‘remaking’ the armed forces and while the ‘new’ reconfiguration is still unclear, there is pressure on the allies to take on a commensurate responsibility. As Vice President Joe Biden told the Munich conference on Security in February 2009, “We’ll engage. We’ll listen. We’ll consult. America needs the world, just as I believe the world needs America...America will do more; that’s the good news...the bad news is America will ask more of our partners as well.”

For Canada, the protection of the American security umbrella has given us a huge financial break on what, in other circumstances, would be a significant budget outlay to guard our long borders and surrounding waters. The U.S. has also said that on the North West Passage, if we want to assert sovereignty we need to defend it with a visible presence. Canadians can also expect to be asked to keep a military presence in Afghanistan.

In Conclusion: Canada and America

Canadians look at Americans with an almost unhealthy fixation – Margaret Atwood compared it to a one-way mirror. Americans, on the other hand, rarely think about Canada except as a place of hockey, cleaner cities and people they view as very much like themselves. With a smugness born of watching Rick Mercer's 'Talking to America', we smile at Americans' limited knowledge of Canada. Yet what is important, especially in an asymmetrical relationship, is that we know more about them, always.

Canadian prime ministers, observed Lester B. Pearson, have two constant preoccupations: national unity and the United States. In bilateral matters the relationship with the United States has been characterized by a spirited nationalism, especially around issues, real or perceived, of sovereignty.

The Canada-U.S. relationship is not equal but it has served Canada very well. John F. Kennedy captured the essence of the relationship when in 1962 he told Canadian parliamentarians that geography had made us neighbours, history had made us friends, the necessities of security had made us allies, while economics had created a partnership that has worked especially to Canadian advantage.

Most American actions that upset Canadians are the result of collateral damage, particularly on trade issues, or for reasons of national security, especially since 9-11. It is incumbent on Canadians to put it right, preferably quietly, but sometimes, because of domestic considerations, through spirited intervention. The key is to do it in civil terms, reminding the White House that their actions hurt American interests as well as Canadian, and in a fashion that Congress can appreciate and understand.

Integration succeeds best when it is practical and presented as a partnership. To protect the shared waterways we created the International Joint Commission in 1909. We achieved collective security with the Ogdensburg Agreement and Permanent Joint Board of Defence in 1940, then the North American Aerospace Defence Command in 1958. We addressed the economics of the auto industry with the creation of the Autopact in 1965, followed by the Free Trade Agreement (FTA) in 1988 and its enlargement to include Mexico with the North American Free Trade Agreement in 1994.

America will remain the principal world power with the inevitable pressures imposed by the burden of global primacy.

Keeping the U.S. engaged, especially in the reconstruction of the international architecture for peace, security and well-being that is now taking place has to be a priority for Canada. 'Place, standing and perspective,' coupled with Canadian sensitivity and sensibility, mean that when we're on game, we have the privilege,

observed John Holmes, that most astute practitioner and observer of Canadian foreign policy - "to tell our best friends when their breath is bad".

Within the Americas, the orientation of American policymakers will continue to be southward, first to Mexico, the source of its new citizens, and then eastward to China and India and westward to the EU, Russia and, always, the Middle East. This does not leave a lot of time for Canada and Canadian interests except where they strategically intersect with key American national security considerations including critical infrastructure - the electronic banking system, power plants, pipelines and energy transmission - securing the perimeter at ports, airports and the border, and vital resources – energy today and, sooner than later, water.

After having served longer than any other Canadian ambassador to the United States, Allan Gotlieb concluded that American 'benign neglect' had served Canadian interests. This was especially true during the decade plus after the negotiation of the FTA when the economic relationship, with a couple of notable exceptions (ie. lumber) created greater integration and accelerated the development of supply chains to mutual benefit. Governments de-regulated and were content to let natural market forces further accelerate integration. But the events of 9-11 inserted a security blanket that has thickened the border. Further chilling the bilateral economic furnace has been the shock of the 'Great Recession' and a resurgence of protectionism.

The changed equation has also re-asserted Government as a force to discipline, control and regulate in security and financial affairs as well as in the new nexus between environment, energy, and the economy. The challenge will be to find the 'sweet spot', between interference and over-regulation and the restoration of responsibility to the market.

Canadian foreign policy has usually meant a solidarity with the United States in global affairs because of shared interests as well as to ensure that the U.S. stays actively involved and does not retreat into isolationism. Despite fears of American unilateralism, what is more remarkable is how rarely, in comparison to great powers of the past, that the U.S. exercises the trap door and 'goes it alone'. The international system is currently stressed by the transition to a new order that is characterized emerging new powers, failed and failing states, and new considerations including climate change, cyber threats, terrorism and pandemics.

The latter considerations underline the increase in the relative power of non-state actors – business, tribes, religious organizations and criminal networks – and thus the diffusion in power, authority and legitimacy. To sustain Canadian interests, and to pull our weight effectively, will require us to reinvest and re-imagine our global diplomatic network, to ambitiously involve ourselves in the creation of new institutions, and to put a premium on innovation, resiliency and entrepreneurial spirit.

It remains an open question whether the emerging multiplicity of actors on the international scene will add strength or further fragment the international system. What is not in doubt is Canada's dependence and reliance on a stable, functioning international system with strong institutions and rule-making capacities.

We need to further develop our relationships, especially with China and India, and take full advantage of the migration that is giving us membership and presence in the greater Chinese and Indian diasporas. These are both ends in themselves but also a means to influence with the United States.

It will also require us to rethink how we make foreign policy within Canada – recognizing the role of provinces, business, labour and other interested parties, so as to achieve maximum impact of our resources. Like it or not, we live in a world where change takes place quickly, unpredictably and in a sequence of rapid disruptive events that obliges agility and resiliency; and, most important of all – bold and inspired leadership.

Observations and Recommendations for Canada

To safeguard Canadian interests will require active Canadian ideas, initiative and active leadership. In this regard some observations to help guide Canadian policy:

1. Security is America's abiding preoccupation. We must be "the safest partner in the world" and, as we have already achieved with the Vehicle and Cargo Inspection System (VACIS) inspection of all rail cargo destined for the U.S. (in contrast to cargo entering through American ports), our standards must exceed those that Americans view as acceptable. To raise American confidence, especially in Congress, we should institute regular informal briefings in Washington with legislators and think tanks by the heads of our security (RCMP, CSIS) and immigration and refugee (C&I, IRB) agencies.

We need to reframe the 'border' debate. Notwithstanding the mythology about the 9-11 terrorists coming from Canada, 9-11 only validated the doubt created by Ahmed Ressam that Canada's security and immigration policies create a vulnerability on its northern frontier. As a result, Canada's geography, which since WWII had been a nuclear security blanket of sorts has become a 5000 mile broken back door to America with a requirement for action for the enforcement minded.

The ultimate solution lies in taking a perimeter approach and drawing the line around the natural geography of the upper half of North America rather than the 49th parallel and the border between Alaska, Yukon and British Columbia. Inevitably, it will require a common approach on visa policy and this will present domestic political challenges in Canada but, set against the costs of the thickening border and with the understanding that it will enhance North American security, it is a case that has to be made. In truth, Canada has no other option.

2. 'Smart Partnerships': We need to expand our 'smart partnerships' particularly on environment and the energy, broaden continental defence to include sea and land as well as air, deepen trade and investment, and improve labour mobility. The benefits derived from the FTA and NAFTA have reached the limitations of the agreements. Half steps – like the moribund security and prosperity initiative - are insufficient to raise business enthusiasm or seize the imagination of the political class.

Creeping along, incrementally building on the FTA and NAFTA won't get us where we want. Lester Thurow observed the greatest challenge in public policy is dealing with incremental decline. There is a price to muddling along and 9-11 has reasserted the primacy of 'border'. We can't take our well-being in the North American space for granted.

According to the Canadian Federation of Independent Business, Canadians spend almost 2.6 percent of their total gross domestic product complying with numerous federal and provincial regulations – of which more than 4,500 are new or amended each year. We need a comprehensive effort to align regulatory standards to open trade opportunities and remove barriers to competition. Too many of these reflect the ‘narcissism of small differences’ that do nothing for sovereignty.

It is time to begin discussions aiming at a Canada-US ‘smart economic partnership’ that moves us towards inter-locking and harmonized regulatory standards, a common customs platform and, labour mobility. A ‘smart partnership’ with the United States will also strengthen our position with other trading partners, including the EU and both the greater Chinese and Indian diasporas.

3. ‘Being There’: In the smorgasbord of American politics, you can always identify like-minded groups or individuals and develop allies, regardless of party. On almost any issue there will be more Americans who think like Canadians than there are Canadians. But you have to be there.

All politics is local so we should expand our presence to include every state of the union. Start by hiring expatriates working out of their homes with the mandate to market and promote Canada and, by targeting legislators, to create a strong positive image of Canada as friend, ally and partner. It’s diplomacy but done differently - using the Internet and drawing on local chambers of commerce.

4. Knowledge of America and Americans gives us our leverage, both with Americans, and with the rest of the world. That we understand America, even if we don’t always like their administrations, is a Canadian conceit, grounded on our geographic propinquity and the sense that those many things we share, including commerce and popular culture, give us an advantage over everyone else.

We weaken ourselves by playing the anti-American card, especially when our politicians use harsh language with the hope of short-term political gain. As a nation made up of peoples from many lands, our universities have created institutes for the study of Asia, Africa, Europe, Latin America with focus on China, India, Russia and the Middle East. Surprisingly, given its importance to Canada, there are few institutes devoted to the United States. Self-interest alone dictates that we should do better. Acquisition of this knowledge should start at school and continue at university and beyond. We should encourage our think tanks and develop centers for the study of the United States and align them to our schools of commerce and business.

Properly developed, it gives us a competitive edge not just with the United States but globally. The rest of the world looks to us to interpret the ‘New Rome’,

especially when it acts unilaterally or as an Empire. For its part, America is often baffled by the rest of the world. Canadian pluralism and a global diplomatic network has given us a sensibility, sensitivity and understanding of the wider world. When strategically advanced as advice rather than admonition, the Canadian perspective is welcomed by Washington.

While immigrants see an opportunity in Canada, entrepreneurial Canadians look to the U.S. for opportunity, those whom Jeff Simpson called 'Star Spangled Canadians'. The Canadian diaspora living in America is not nearly as numerous or visible as those from Mexico, they probably number in the 5-10 million range reflecting migration at the turn of the last century into the north-east and continuing throughout America. We have begun to appeal to their latent patriotism and use their potential to open doors for trade and investment – through the Digital Moose Lounge in Silicon Valley and through the Canadian Talent Guide in Los Angeles and now through connect2canada.com These networks have already proven their worth and need to be further cultivated.

5. Permanent Campaign: To advance and safeguard our interests requires a permanent campaign of outreach and advocacy in the United States with a clear plan of engagement and initiative.

Create a virtual, daily war room that links our Embassy and Consulates with the PMO, government departments, the provinces, business and labour. The American media market operates 24/7 and as we have learned with the ongoing mythology about terrorists entering from Canada on 9/11 you need to respond in the same media cycle.

There should be a series of regional sessions feeding into an annual 'State of the U.S. Relationship' First Ministers conference in partnership with business and labour to develop consensus on goals and objectives.

Our approach requires constant reinforcement through activist, visible, outreach that plays up our national interests and the many values we share. Understand the American 'burden of primacy'. Disagreement is fine and be clear about our 'ask'. Americans have no respect for those who bleat piously behind closed doors and then beat their chests and roar when the microphone appears.

The flip side of the permanent campaign directed at the U.S. is the need to constantly educate Canadians of the importance of the American relationship. Eight of Canada's top ten trading partners are American states and three-quarters of our exports are destined to U.S. markets. Getting Canadians to buy into this approach is critical to our success in dealing with Washington.

6. Use the Hidden Wiring: The strength of the Canada-US relations lies in our 'hidden wiring,' that kilt of connections below the headlines – governors and

premiers, mayors, legislators, business and labor associations, sports teams and the web of family.

Premiers and provincial legislators, in particular, play a critical role in developing relationships with their counterparts given the natural progression from city and county to state and then to Congress or the executive branch. Unlike Canadians, Americans seem to expect their leadership to do their apprenticeship at the local/state level. Four of the last six presidents were governors. President Obama served in the Illinois state legislature before his election as a U.S. senator. His cabinet includes former governors (Napolitano, Vilsack, Sibellius, Locke) as well as fellow members from Capitol Hill (Emmanuel, LaHood, Panetta, Solis, Salazar).

We also need to redouble our efforts at the local level, with border communities, chambers of commerce and their mayors. In the later Clinton years, the 'Canada-US Partnership' began a grass-roots oriented process that would later pay dividends in the wake of 9-11 when its work provided the content for the 'Smart Border Accord'.

Business has an important role. It is estimated that 40% of cross-border transactions are intra-company. In times of economic contraction and a 'thickening' border, these are vulnerable. Chambers of commerce and associations, the Business Roundtable and Canadian Council of Chief Executives play a constructive role. The Canadian American Business Council is particularly effective and we should encourage the creation of state counterparts like the Canada Arizona Business Council. We could also look to the European Trans-Atlantic Policy Network as an inspiration as a model that moves the agenda forward.

7. Investment Promotion: Our infrastructure is being modernized and upgraded. Our fiscal situation will allow us more room to compete on taxation, our financial system - as President Obama observed - has become the envy of the world. These factors, combined with our traditional strengths (resources, labour, culture, etc) allow Canada to rise from a middle ranking investment destination, to someplace much higher, if we concentrate on this goal. Canada is well positioned to take advantage of a recovery in business investment, if we seize the opportunity to market the country aggressively based on our ever more competitive credentials.

We also need to re-examine the policy tools that promote productivity and create an attractive investment climate – research and development, tax rates, innovation funding and the availability of capital. This will help to reduce the friction of cross border arbitrage. We need an aggressive media marketing campaign on investment, that links to tourism, to create higher brand awareness.

While the national governments set the bilateral policy framework for engagement and reconciliation of disputes, it is up to the provinces and states to make it work in practical terms. The premiers and provincial ministers are skilled at pitching, promoting and brokering deals. There is particular opportunity for British Columbia because of its track record and connections into Silicon Valley into nano-technology and life sciences.

8. Joint Research & Development: American resilience depends on its ingenuity and the practical application of research and development. Far-sighted investments through the Canada Research chairs and Canadian Foundation for Innovation have given us expertise in various fields and networks have already developed. National leadership – a ‘Team Canada Knowledge Mission’ to California’s Silicon Valley and America’s magnets for hi-tech research (Seattle-Bellvue, Cambridge-Newton, Washington-Arlington, Los Angeles-Long Beach) for example, would provide the framework for the necessary, ongoing and practical followup, by premiers, provincial ministers, and university presidents.

9. ‘Good government’: The most frustrating aspect of the current economic situation is that it was largely self-inflicted by poor governance but we would be drawing the wrong lesson if we decided that Government now must lead and micro-manage everything. The flip side, of course, is that both business and labour have responsibilities as well. But the bigger challenge will be for Government(s) to resist the temptation to over-regulate, and thus retard, the return to the natural play of the market economy. Similarly, it will also be incumbent on the political leadership to resist and to be vigilant to the natural bureaucratic instinct for control and, in a security conscious environment, to label one another ‘foreigner’ and thus sacrifice Canada-US comity for a false illusion of national control. As the recent passport requirement illustrates, the result is the discomfort and impoverishment of our citizens.

10. ‘Energy Superpower’: The current economic turmoil does not change the fundamental fact that global demand for energy, especially carbon-based, will increase, especially after China and India recalibrate their own economic strategies. Canada has an abundance of energy that will require further investment, especially around, for example, the development of the oil sands, the northern pipelines, offshore Newfoundland, hydro-electric projects in British Columbia, Manitoba, Quebec and Labrador and renovation of nuclear power in Ontario and New Brunswick. To repeat the recommendation in *From Correct to Inspired: A Blueprint for Canada-US Engagment*.

Greater US energy security cannot happen without Canada. On no two files is there greater need and scope for constructive collaboration. To start, the two federal governments need to craft a joint approach to carbon control in place of proliferating local and regional plans. Next, they should recognize that oil and gas will be part of the energy equation for years to come, and that sensible management of their exploitation and distribution is critical to both energy security and environmental sustainability. Third, support for new technologies needs to be pursued prudently and realistically. Finally, Canadians should accept that the energy cards they hold are not a

weapon to use against the United States but an incentive to work together and find common solutions. They are key to mutual solutions – just as the FTA led to success on acid rain.

Nuclear power is expected to be a critical part of the American long-term energy solution. Three Mile Island and the ‘China Syndrome’ traumatized a generation but, as the French have shown, nuclear power can be safe and secure. Mines in northern Saskatchewan provide nearly a third of world production of uranium. Care of spent fuel rods – because of their use in the production of nuclear weapons and because of irrational fears of Chernobyl-type radiation fallout makes their disposal an international problem. A Canadian initiative for stewardship of the fuel from ‘cradle to grave’ would make a major contribution to international security and as nuclear proliferation is also President Obama’s top foreign policy concern it would certainly seize American attention.

The ‘oil sands’ have had a rocky history – first striving to achieve ‘official’ recognition and now pilloried as ‘dirty oil’. In fact, they are a strategic asset and as a recent report (May 2009) by the Cambridge Energy Research Associates concluded, “The oil sands have moved from the fringe to the center of energy supply” for the U.S. with a potential to supply up to a third of American oil imports by 2035. And the negative environmental impact is overstated, concluded another recent report (May 2009) prepared for the Council on Foreign Relations. Nonetheless, efforts to ‘price discount’ will continue. As a major infrastructure project, perhaps with Chinese and Indian investment, Canada should build a pipeline to Prince Rupert to diversify our market dependence on the U.S.

Hydro electricity is an important Canadian card. It’s clean, it’s there and it’s what the smart grid needs. Canada should embrace this initiative and use it as one of the major pillars of our energy strategy and make sure that this leverage gets used to mitigate some of the problems that will arise elsewhere.

Opportunities and Recommendations for British Columbia

For British Columbia, as with every other province, the United States is the preponderant neighbour – its principal trading partner, source of investment and tourism. British Columbia sells more to Texas than China and California is a bigger market for British Columbia than Japan. Geography has provided ports and gateways, natural beauty, and resources including energy, water, minerals and forests. Demography has produced a literate and multicultural society, strengthened annually by immigrants from around the world but predominately Asia, especially India, China and the Chinese diaspora.

1. Regional and National Collaboration: While national leadership is essential to create the conditions for the comprehensive gains that will be result of deeper economic integration, history has illustrated the advantages of actively initiating practical collaboration with neighbouring American states, both bilaterally and through the Pacific Northwest Economic Region (PNWER).

It was the leadership of Premier Campbell and Washington Governor Christiane Gregoire, for example, which permitted first the creation of the 'smart drivers license' and then its acceptance as a valid travel document for border passage. The habit of collaboration and comfort with trans-border institutional cooperation has also been demonstrated when addressing SARs and subsequent potential pandemics. British Columbia and Alberta have taken the lead in creating 'freer trade' within Canada.

The 2007 Trade, Investment, and Labour Mobility Agreement (TILMA) has acted as a catalyst for further interprovincial economic integration. The BC-Washington Environmental Cooperation Agreement has already proved effective in dealing with issues around flooding on the Nooksack, air quality in the Fraser Valley and the waters of George Basin and Puget Sound.

The environmental and energy partnership through the Western Climate Initiative involving American states, principally California, as well as Manitoba, Ontario and Quebec has already served to galvanize activity at the national level.

2. Council of the Federation: Premiers are consistently ahead of the curve in encouraging engagement with the United States and then developing practical solutions to problems with governors.

The Council of the Federation is playing an increasingly positive role as an incubator for smart policy development within Canada. The massive emphasis on reinvestment in infrastructure in the U.S. will continue into the next decade. Given the integration of the two economies, the reinvestment will be most effective and enhance our mutual competitiveness if linked from the outset.

Much good work has been done by the premiers meeting individually and in regional associations like the Western Governors' annual conferences but it would make even more sense to put this before all the governors.

The Council of the Federation should meet annually with the National Governors' Association with a goal of enhancing our competitive advantages and to address practical issues like procurement. Underlining the 'best customer' relationships at the state-province level should temper or, at a minimum, create reciprocal relationships on trade and investment. canada

3. 'Clean Energy': Pioneering the practical implementation of a carbon tax within British Columbia provides expertise and experience that is influencing both national and continental policies. Through the hydrogen highway and partnership in the Western Climate Initiative, British Columbia is keeping pace with California, the trendsetter in American climate change innovation. This is an example of a 'smart partnership' and it should provide a platform for commercial development in North America but, in the longer term, into Asia, drawing on the advantages of the networks built through migration.

4. Water: Environmental issues between Canada and the United States will only increase in the coming decade, particularly around the supply and quality of water and with headwaters flowing north and south, the International Joint Commission will have a full agenda. Even more severe international shortages will only spotlight the challenges around water. A national water policy has been created but there is considerable scope for creative work at the provincial level. This has particular application for British Columbia, including the simmering dispute around the Flathead River with Montana. In 2024, the Columbia River Treaty comes up for renegotiation with advance notice required by 2014.

5. Lumber: Softwood lumber has entered the lexicon of Canadian-American relations as a symbol of all that is wrong with the FTA & NAFTA. It is a convenient 'whipping boy' for editorialists and those wishing to stir the coals of anti-Americanism. Lumber is especially important to British Columbia because of the importance of the forest industries. Lumber represents less than 3% of our trade with the U.S. The first dispute on lumber dates to the first administration of George Washington when Massachusetts timber merchants persuaded the Congress to put a 5 per cent tariff on imports of New Brunswick lumber. Ever since then lumber has become a constant in Canadian-American relations with at least thirty different episodes of tension. As with energy, our dependence on the U.S. market requires a rethink of our marketing strategy – we need to aggressively market to Asia – especially China, to provide greater market stability stabilize prices and an alternate buyer.

6. Fish: Like lumber, fisheries disputes with the United States have a long history. In 1870, short years after the Civil War and Confederation, anger over fishing made President Ulysses S. Grant was so upset that he threatened "to take

Canada and wipe out her commerce". Off the West Coast, salmon migrate from Washington state north to the waters of British Columbia and Alaska. In 1997, in protest against what they perceived as Alaskan over-fishing, British Columbia fishermen blocked an Alaska state ferry in the harbor at Prince Rupert. Acrimony will always exist yet since the settlement of the Pacific Salmon Treaty in 1985 and the creation of the Pacific Salmon Commission, both sides have found common cause in efforts to prevent over-fishing of Pacific Salmon, to determine how the harvests should be divided and to restore the fishing stocks and, to settle grievances. In 2008, the treaty was extended, quietly, for another ten years. Next year the Commission will renegotiate fishing agreements for the Fraser River system. The Commission is yet another example of the effectiveness of bi-national institutions – a formula that celebrates its centenary this year with Boundary Waters Agreement and the creation of the International Joint Commission.

7. Crime: The American war on drugs is deeply embedded in American consciousness through a daily digest of media stories that lead their news programs. Like concern about security, there is a fixation about 'foreign' crime that is now being fed through the ongoing war with the drug cartels in Mexico. Gary Hufbauer, who held office in the Carter Administration and is one of America's preeminent trade policy experts has warned me that if the Mexican war is successful (to be determined over the coming years) then it is possible that drug interests would look to Canada, especially the existing routes utilized for marijuana i.e., 'BC Bud'. Such a development would have significant implications for efforts to 'thin' the border. Vancouver's Downtown eastside experiment with safe injection sites and skewed media coverage risks leaving the impression that British Columbia is a permissive environment for drug trafficking and criminal activity.

8. 'Promoting creativity': Centered out of Vancouver, film and television production averages about a billion dollars a year. The 'earned' publicity for tourism through the use of British Columbia locations multiplies this figure. Richard Florida describes Vancouver as a 'hotbed' amongst creative communities. Investments in supportive infrastructure – roads, rail (linking to the proposed high-speed Los Angeles to Seattle rail corridor), the port and airport, universities and knowledge industries, are essential to sustaining a creative community and in encouraging the development of new industries, such as electronic games. As importantly, a 'creative community' contributes to the attractiveness of British Columbia a place to live, work and raise families.

9. 'Smart Immigration': Migration has given Canada place and standing in both the Greater Chinese and Indian diasporas and even if national policy has been inconsistent in sustaining and expanding these opportunities, the provinces have maintained contacts through a steady stream of trade missions that have capitalized on the people-to-people relationships. British Columbia was one of the first provinces to take advantage of the 'provincial nominee' program.

In the coming decades, especially given global demographic trends, the search for 'talent' is going to become increasingly competitive. Australia, for example, has already passed Canada in attracting foreign students from Asia, especially China. British Columbia should enthusiastically step up its recruitment effort in the United States and plan on expanding existing capacity.

Knowledge companies, in particular, increasingly base their operations near available human capital. Canadian institutions already enjoy a price advantage for a quality education and this will only increase as U.S. state education institutions raise their fees in response to the economic situation.

In our marketing efforts, we should put more emphasis on targeting the growing Latino American population especially students, as a bridge into South and Latin America as well as America's growing Latino population. They will assume greater political and economic weight in the U.S. and abroad, bringing long-term benefits.

10. 2010 Olympics as Trampoline: Sport is one of the best platforms for 'The Chinese used the 2008 Olympics to 'rebrand' themselves, especially in terms of technological sophistication and efficiency. Australia and Sydney got a huge boost from the 2000 Olympics and a country that was off most people's radar screen saw the city and country brand "advance by 10 years".

The 2010 Olympics offers Canada, British Columbia and Vancouver a similar opportunity. At the most basic level, the Olympics will appeal to Americans who are looking for a holiday destination that is safe, economical and close enough to home. Marketing Canada as a 'clean' and 'green' destination should be part of this effort. Time and again, congressmen would tell me about their adventures in Canada – fishing and hunting. I would hear the same refrain in Hollywood and Silicon Valley where they would rhapsodize about our great outdoors – skiing in the winter and golf in the summer. New Zealand has turned the publicity from 'Lord of the Rings' into a major vehicle for their tourism.