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## ►► A new government and the knotty business of governing

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September 3, 2025

### ►► Introduction

The 2025 federal election delivered a new government with a clear mandate. Canadians want their government to deal resolutely with President Trump's trade aggression and his attacks on our sovereignty. And they want it to address the urgent need to build a more dynamic and resilient Canadian economy. Public expectations are high.

A recurring election theme was the need for fundamental change. While policy and leadership change were central to Mr. Carney's campaign, what was missing was any discussion about how a Carney government would govern differently from the Trudeau administration. The success of any government depends not only on what you plan to do but also how you organize and operate to achieve your objectives.

Tellingly, how a government works - the way it governs - is often the key differentiator between success and failure.

The key to efficient and effective governing is *balance*: balance between the elected Government and Parliament, between PMO and cabinet, between the public service and the government's

political staff, and between authority and accountability. Balance also extends to the number of policy priorities a government is pursuing, the weight it places on program delivery, and the tone of its public messaging.

It is widely recognized that the governing model of the Trudeau Administration lacked such balance. There was an extraordinary concentration of power and authority in the Prime Minister's Office. As several former Ministers have recounted, Cabinet ministers were disempowered, reduced to taking orders from staffers in the PMO. The public service was also disempowered, with PMO controlling policy advice and shaping operational decisions. Burdened with an overloaded, PMO-directed policy agenda, the governing mode of the Trudeau administration suffered from a lack of operational focus, inconsistent delivery, and a loss of confidence in the government's ability to get things done.

In our forthcoming book, *"A New Blueprint for Government: Reshaping Power, the PMO and the Public Service"* (to be published on November 4, 2025 by University of Regina Press), we examine these systemic shortcomings in governance and offer clear solutions. What is required is not endless study or complex legislation but rather political leadership and public support.

If Canada is to succeed in today's uncertain and threatening world, change in how government operates is essential. Business-as-usual is not a viable strategy in a world of immense upheaval and Donald Trump.

Here are seven aspects of restoring balance to governing that deserve urgent attention by the Carney Government:

## 1. Reversing the centralization of power in PMO

Countering the creeping "presidentialization" of our Westminster system of governance around the Prime Minister and his Office is the key step in moving toward more effective government. Rebalancing the relationships between PMO and ministers, and between PMO and the public service, enables improved policy development, more effective implementation of policy decisions, and clearer accountability for results.

Fundamentally, this starts by restoring Cabinet government – letting ministers be Ministers – and returning Cabinet to its role as the ultimate decision-making body. The key to this is clear delegation to Ministers so that they can do their jobs and be held accountable for what is done by the government. In swearing in his new Cabinet, Prime Minister Carney promised to restore Cabinet government – and Canadians will soon see whether or not power remains concentrated in the PMO.

Beyond Cabinet government, a key element of reversing centralization is re-balancing the roles and responsibilities between public servants and political staff. The goal here is to return to two streams of advice to ministers —one from the professional, non-partisan public service, and the other from the political staff of the minister. This approach, which has long been central to our Westminster system of government, puts the minister in the best position to make decisions in the interests of the Government and the country.

The relationship between the political executive and Parliament also needs rebalancing. One way to do so is by re-empowering parliamentary committees with greater independence, more resources, and broader mandates combined with fewer committees. But most importantly, all parties must treat the committees as a serious part of governing, and not just forums for cheap politicking and grand-standing.

## 2. Focussing on a limited number of priorities

By contrast with the Trudeau Government, where ministers were inundated with so many overlapping commitments that they simply could not deliver, Prime Minister Carney promised a different approach. In his single 'mandate letter to all Ministers', he committed to a focussed policy agenda, setting out seven priorities. While these priorities varied greatly in their degree of specificity and measurability, they certainly do not lack for ambition.

It is always a challenge to stick to a limited, highly prioritized agenda given the endless demands on any government (the over 300 commitments in the Liberal election platform being a case in point), and the unpredictability of external events. Former Prime Ministers Chrétien and Harper were masters at managing it well. Time and circumstances will tell whether Mr. Carney is also to keep a focus on focus.

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## 3. Right-sizing government and delivering on core services

The federal government has grown too large over the last decade, with program spending expanding by over 90%, the public service skyrocketing by 43% or roughly 110,000 employees, and the number of special purpose agencies proliferating. All this has brought not only a huge increase in costs, but also more complexity, less efficiency, cloudy accountability and endless process.

Simply capping the public service at today's levels and program spending growth at the inflation target of 2%, as the Carney Government initially pledged to do, will not balance the operating budget in the foreseeable future, and that was before the Government's expansive new spending plans on defence. The recent announcement that Ministers were instructed to identify cuts of 15% over the next three years, albeit on a narrow base, suggests fiscal reality is beginning to bite. But now the Carney Cabinet has to deliver on meaningful program and operational reductions sufficient to meet the fiscal realities.

What is needed is a targeted program review to reduce or eliminate lower priority programs, eliminate overlap and duplication across programs and departments, and chop spending on consultants. Consistent with this, the government needs to shrink the size of the public service by more than 15% over the next three years to unwind the excessive expansion of the last decade, targeting large departments where the growth was concentrated.

Beyond the size of government is the issue of its capacity to deliver. Too often the Trudeau Government operated as if the policy announcement itself, rather than its implementation, was what mattered most.

Governing by press release puts little priority on actually delivering core services, as Canadians know too well: bottlenecks everywhere, tax backlogs, interminable passport processing, the ongoing Phoenix pay system fiasco, an overwhelmed immigration system, and botched procurements – who can forget the ArriveCan app saga?

The lessons for the Carney Government are clear: pay careful attention to the effective and efficient delivery of core government programs and services because they touch all Canadians, all the time.

#### 4. Modernizing core government Institutions

The Public Service of Canada is a core national institution which is due for a significant refresh. What Canadians need today is a public service that is lean and productive, with employees who have the skills for the modern digital world. Reform also means eliminating excessive layers of management, drastically cutting red tape and removing ineffective oversight mechanisms. A refreshed public service has to be prepared for the wicked problems of tomorrow, building first class policy and crisis management capacity.

To manage this reform agenda, a re-invigorated “management board” is needed. By statute, this is the Treasury Board (TB), but, in recent years, it has provided little management leadership and even less oversight within government. TB has to be re-grounded in its original management board mission.

One area for focus should be government productivity. To manage for productivity, you first must measure it, and we do neither. Canada lags behind many other economies in both measuring and managing government productivity. We recommend starting with an Expert Panel on Public-Sector Productivity to put forward a framework for measuring and managing productivity in the Government of Canada including the emerging role of Artificial Intelligence.

An iconic Canadian institution with a glaring structural problem is the RCMP: the majority of the RCMP’s resources are allocated to contract policing for provinces, municipalities and First Nations, not national policing. We must shift the RCMP out of these traditional roles, dating back a century or more, and transform it into a highly capable national police force to deal with today’s evolving threats to public safety – terrorism, transnational organized crime, cyber-crime, money laundering, drug smuggling and border security.

Also on the renewal list: the Public Service Commission. It needs to return to its original purpose - to ensure that entry to the public service is through a merit-based “front door” and not indirectly through the current “back door” of converting temporary positions into permanent ones without competition.

Modernizing core government institutions may sound opaque, and it seldom rates highly in public awareness, but these reforms

are essential enablers of any government’s agenda. Reform will only happen with leadership by Prime Minister Carney himself.

#### 5. Sovereignty and security go hand-in-hand

For any government, there is no higher duty than ensuring the sovereignty of the nation – to enable the country to govern itself without foreign interference, to defend itself against hostile acts and to control its borders. This fundamental responsibility requires a capable military, equally capable intelligence services and effective border control capacity. We have been underinvesting in all three for too long.

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On defence, Canada has been a long-time laggard in meeting its NATO commitments, spending only 1.37% of GDP on defence in 2024 – well shy of the NATO target of 2%. The Carney Government boldly announced it would meet the 2% target this year – a welcome change in this dangerous world. At the same time, it increases the fiscal challenges facing the government while delivering on it will depend on a radical overhaul of military procurement.

But President Trump has demanded more of the allies he regularly disparages. Under duress, NATO members agreed at their June Summit to a costly new defence and defence-related spending target of 5% of GDP by 2035. For Canada this means more than tripling defence spending and portends many difficult budgets and trade-offs in the future.

Security in a global context requires alliances, especially for a mid-sized country like Canada, and we desperately need new friends and allies as Trump has yanked the postwar security blanket away from us and other Western nations. One possibility: the June EU-Canada Co-operation Statement signalled a new willingness to partner on defence, security and trade. This offers an excellent opportunity for diversification, provided Canada and the EU can turn this goodwill into actions such as shared defence industrial strategies, binding security commitments and trade diversification actions for each side.



## 6. A strong economy needs effective economic policy

Michael Ignatieff, writing recently in *The Economist*, succinctly summed up the case for building a strong and resilient economy: “Across the world, Donald Trump has forced friend and foe alike to realize that they won’t be able to meet the challenges he presents unless they also address the structural vulnerabilities of their economies. Nowhere is this more dramatically the case than in Canada.”

He is not wrong. Canada is clearly struggling: our growth has been anemic for years, our standard of living has been stagnant for a decade, our productivity is abysmal, and our national debt has more than doubled in only ten years.

What can be done? Making economic growth a priority is the first step, and one the Carney Government has embraced with Bill C-5. Eliminating internal trade barriers has been hyped by the Carney Government, but most of the barriers are provincial not federal and provincial rhetoric has not been matched by actions. Trade corridors need to be rebuilt to facilitate trade diversification, but they face burdensome regulatory systems which the Carney Government’s Bill C-5 is intended to overcome. Energy pipelines face the same impediments plus provincial disagreements. Canada is a storehouse of rare earth minerals, but they are still in the ground, untapped, because we have great difficulty in building new mines. And Canadian business, which greatly lags our competitors in spending on capital investments and innovative technologies, needs to begin investing again if we are to grow.

On Trump’s tariffs and threats, notwithstanding Prime Minister Carney’s confident claim in June of a 30-day negotiation on a trade and security partnership, a deal has been elusive. To entice the Trump team to engage, the Carney Government cancelled the Digital Sales Tax, instituted new border security measures and then dropped Canada’s retaliatory tariffs. Yet, Trump imposed a 35% tariff (excluding CUSMA-compliant exports) on August 1st in addition to specific tariffs on copper, aluminum, steel and softwood lumber, while forging one-sided agreements with the UK, EU and Japan. As unsettling as this current negotiating process is, it points to even more troubling American demands in the 2026 CUSMA re-negotiations.

The unfortunate reality is, after 36 years of mutually beneficial free trade, we are heading towards a “managed trade” regime with the United States, which includes US tariffs and quotas, and likely threats to the auto sector in the 2026 renegotiation of CUSMA. This only increases the pressure on the Carney Government to deliver quickly on meaningful trade diversification.

U.S. tariffs exacerbate what the Bank of Canada declared in 2024 as a Canadian “productivity crisis”. While Prime Minister Carney has shone a spotlight on tackling productivity, details have been sparse, and Canadians will likely have to wait until the Carney Government’s first budget this Fall to learn more.

Beyond whatever new productivity-enhancing budget measures are proposed, we believe that to achieve sustained progress in reinvigorating productivity, Canada needs a permanent “productivity watch dog” – an independent Canadian Productivity Commission, similar to Australia. Such a Commission would provide the public with regular report cards on our productivity performance, bench-marked to our competitors. It would also identify international best practices to drive productivity, by both companies and governments, and highlight what they should avoid.

## 7. Setting a credible fiscal anchor

Since the late 1990s onwards, one of Canada’s strengths has been a strong national balance sheet and credible fiscal framework. But, in recent years, the federal government has lost the fiscal plot – deficit forecasts have been routinely missed, fiscal anchors have been routinely abandoned, spending has routinely outpaced the economy, and the national debt has more than doubled in a decade. Further diluting our national balance sheet, recent budgets have included large gaps between the budget balance (which gives rise to net debt) and financial requirements (which is the gross debt the government actually borrows in capital markets). To give a sense of the size of this gap in debt issuance, the increase in gross debt was more than twice that of net debt in 2024.

Our fiscal puzzle is compounded by the lack of clarity on the Government’s proposal to split the budget into operating and capital components – whether or not you slice the budget into various components, debt is debt and taxpayers are on the hook for it. Today, lacking even a limited economic and fiscal update, it is difficult for Canadians to assess the state of the nation’s finances at a time of peak uncertainty.

The Fall 2025 Budget - the first in roughly 18 months – will be very challenging given the rise in spending, large deficits, uncertainty about the economy and changes to deficit accounting. What the government must do is re-establish credible fiscal anchors and restore discipline to the budget process in order to re-assure capital markets. With the U.S. in an unsustainable fiscal situation, credibility in global capital markets is a potential advantage but the lack of it is a clear risk.



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## ►► The bottom line

Prime Minister Carney has set out an ambitious agenda and a clarion call to get big things done quickly because we are in a crisis. The country certainly needs to be jolted out of its complacency.

Yet, having raised expectations of big changes coming quickly, the Carney Government will soon face public questions about whether it is actually delivering on its ambitious agenda. Is it dealing resolutely and effectively with an unpredictable Donald Trump and his tariffs and threats? When will it get shovels in the ground on the promised big national projects in collaboration with Premiers and Indigenous leaders? Will it table a credible budget in the face of huge deficits and a weakening economy? And, can it deliver on a new economic growth plan this Fall that tackles stagnant productivity and trade diversification? A tall order to be sure, but Prime Minister Carney's election campaign promised to deal quickly and decisively with the problems besetting Canada – elbows up is now a test as well as a mantra.

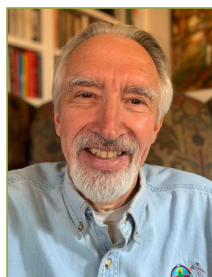
Success in delivering on the government's agenda will also depend on something much more in the government's control – how it governs, how it organizes itself, and how it retools government institutions to be more efficient and effective. That is the focus of our book – a blueprint for how to reshape power, policy, PMO and the Public Service to better serve the national interest and meet the expectations of Canadians.

Doing things differently is key to getting big things done in the national interest. Prime Minister Carney seems intent on shaking things up – and done well, that's a good thing.



**Kevin Lynch** has been a leader in both the Canadian public and private sectors, and is a strong public advocate for sound economic and fiscal policies that enhance Canada's productivity and competitiveness. Dr. Lynch was the 20th Clerk of the Privy Council, Secretary to the Cabinet and Head of the Public Service of Canada. His government career also included serving as the Deputy Minister of Finance, the Deputy Minister of Industry and the Executive Director for Canada at the International Monetary Fund. Following his government service, Lynch served as Vice Chairman of BMO Financial Group from 2010–2020. At the same time, he was active in a number of influential international

organizations including the World Economic Forum, the Organization for Economic Cooperation and Development (OECD), the Institute of International Finance, and the Bretton Woods Committee, among others. He has served on several public and private sector boards, including the Bank of Canada, CN Rail and CNOOC Ltd. and authored and co-authored over 250 policy Op Eds and opinion articles. Dr. Lynch earned a BA from Mount Allison University, a Masters in Economics from the University of Manchester and a doctorate in Economics from McMaster University.



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