



Scaling State Capacity Through Collaborative Governance and Government Modernization

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This study was commissioned by the Centre for Civic Engagement. The CCE is a non-partisan Canadian charity dedicated to conducting original research on public policy issues related to Canadian prosperity, productivity, and national flourishing. The CCE's research informs an active program of policy seminars, events, conferences, and lectures all aimed at providing the policy making community with actionable insights that encourage informed decision making on issues that matter to Canadians.

Introduction

Canada's state capacity has been tested over the past two decades, from the financial crisis of 2008 and its aftermath to COVID-19 pandemic responses and a passport backlog following the easing of pandemic restrictions. The most acute pressures, however, have come from the first and second terms of President Trump. While the first term culminated in the negotiation of CUSMA, the second has been described as "the greatest crisis of our generation", including steeper tariffs, uncertainty surrounding the upcoming CUSMA renegotiation and domestic tension on how best to deal with a hostile US government.¹

In response and to protect against US trade policy, Ottawa has embarked on a nation-building agenda.² The government wants to build more homes, upgrade military capability and equipment, accelerate energy, mining and infrastructure projects, secure supply chains, and compete in a harsher world. At the same time, it plans to shrink the public service and squeeze operating budgets.³ Given lagging public sector productivity, Canada's state capacity must be considered a priority if it is to deliver for Canadians.

A broader conception of nation-building also requires recognizing that the federal government should not try to do everything itself. Some functions, such as defence modernization, federal procurement, regulation-making, and political leadership abroad, sit squarely within Ottawa's remit.

However, other priorities, from home building to infrastructure development, depend on actors outside the federal state, including provinces and municipalities, Indigenous governments, private firms, non-profits, and civil society. At a moment of economic and geopolitical strain, an ambitious agenda that asks Ottawa to lead, fund, regulate, coordinate, and directly deliver across every front risks spreading scarce state capacity too thin and undermining results.

This study argues that Canada can strengthen its state capacity, not by asking more of the federal government in every domain, but by making government more focused, effective, and strategic in the areas only it can lead, while mobilizing outside capacity where others are better placed to act.⁴ To this end, the federal government should pursue reforms that include: strengthening collaboration and coordination with other levels of government, the private sector and other economic actors to build broader capacity; digitizing and modernizing public services; and reforming the defence procurement and project delivery apparatus.

Enhancing Canada's federal state capacity to deliver ambitious agendas, in other words, is not just about the size of government. It is about reforming government to be organized around clear priorities and better able to harness the broader capabilities of the society it governs.

¹ Leyland Cecco, "There's only one thing in Mark Carney's in-tray: Trump," *The Guardian*, March 10, 2025, <https://www.theguardian.com/world/2025/mar/10/canada-mark-carney-trump>.

² Prime Minister of Canada, "Prime Minister Carney Announces Second Tranche of Nation-Building Projects Referred to the Major Projects Office," news release, November 13, 2025, <https://www.pm.gc.ca/en/news/news-releases/2025/11/13/prime-minister-carney-announces-second-tranche-nation-building-projects>.

³ Treasury Board of Canada Secretariat, "2026-27 Estimates: Main Estimates," accessed August 27, 2026, <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2026-27-estimates.html>.

⁴ Catherine Waters and Karl Salgo, "The Challenges of Strategic Direction and Effective Performance in Canadian Governance," Institute on Governance, March 10, 2025, <https://iog.ca/resource/the-challenges-of-strategic-direction-and-effective-performance-in-canadian-governance/>.

What Is State Capacity and Why Is It Critical?

Delivering projects of this agenda's size, scale and complexity depends not only on political ambition but also on institutional and administrative capability. The ability of governments to translate authority into effective action, mobilize resources, coordinate and leverage economy-wide actors, and execute complex initiatives is often described as state capacity.^{5,6,7}

State capacity is synonymous with coordination, credibility, legitimacy, trust-building and competitive responsiveness. It allows for the effective and efficient deployment of limited government funds to areas of greatest impact, such that living standards are raised for the broader population.

For example, COVID-19 benefits such as the Canada Emergency Response Benefit and the Canada Emergency Wage Subsidy “demonstrated policy creativity and nimbleness on the part of the federal government”.⁸ Conversely, the pandemic response also highlighted a state capacity problem in Canada with examples of the ArriveCAN cost overruns and contracting irregularities, as well as significant challenges in procuring vital vaccines. These recent lessons identify why state capacity is integral to the delivery of nation building.

⁵ Francis Fukuyama, “What Is Governance?,” *Governance* 26, no. 3 (2013): 347–368, <https://onlinelibrary.wiley.com/doi/10.1111/gove.12035>.

⁶ Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), <https://www.cambridge.org/core/books/institutions-institutional-change-and-economic-performance/AAE1E27DF8996E24C5DD07EB79BBA7EE>.

⁷ Johannes Lindvall and Jan Teorell, “State Capacity as Power: A Conceptual Framework,” STANCE Working Paper No. 1 (Lund: Lund University, 2016), https://lucris.lub.lu.se/ws/portalfiles/portal/102775891/WP_1_Lindvall_and_Teorell_State_Capacity_as_Power_A_Conceptual_Framework.pdf.

⁸ Sean Speer, “Incapacitated: Why Canada Has a State Capacity Problem—and How to Fix It,” Public Policy Forum, September 18, 2024, <https://ppforum.ca/publications/canada-state-capacity-problem/>.

Canada's Nation Building Agenda

Today's nation building agenda moves past the physical connectivity of the national railway or St. Lawrence Seaway, as current projects focus on economic resilience, technological development, and national security. Infrastructure, industrial policy, and defence spending are now seen as complementary and mutually reinforcing parts of a single national economic strategy, including:

- 1. Infrastructure development** to improve transportation and trade connectedness, housing supply, and energy systems.⁹ The federal government has announced a series of projects that have been referred to the Major Projects Office, for fast-tracking of assessment and consultation, including the Red Chris Mine Expansion, Mackenzie Valley Highway, Grays Bay Port and Road and Darlington New Nuclear Project.
- 2. Defence modernization** to strengthen military capabilities, secure borders and meet international commitments. This includes meeting the current 2 percent NATO target, and eventually moving to 5 percent by 2035, including a \$40 billion announced investment to support Northern and Arctic military capability. These investments make up part of the February 2026 launch of Canada's Defence Industrial Strategy aimed at "providing secure, reliable and timely capabilities to the Canadian Armed Forces and allies and partners; [and] investing in Canada's defence industry."¹⁰
- 3. Industrial policy** focused on strategic sectors such as critical minerals, artificial intelligence, and advanced manufacturing. Several strategies have been launched or announced to support broader industrial policy in Canada, including Canadian Critical Minerals Strategy, the Pan-Canadian AI Strategy, Strategic Innovation Fund investments in aerospace, biotech and clean tech, with additional investments in semi-conductor and quantum computing sectors.
- 4. Supply chain security** designed to reduce vulnerability to domestic, international and transnational interferences. A variety of measures support this strategic priority, including stockpiling essential goods, expanding trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, deepening relationships with India and other Indo-Pacific countries, and utilizing the Investment Canada Act to ensure a review of foreign investments in sensitive and high-value sectors.

Together, these efforts aim to reposition Canada's economy and geopolitical role within a more fragmented and multipolar global order. Achieving this will require both stronger institutional capacity and more effective collaboration across sectors.

⁹ Privy Council Office, "Projects and Transformative Strategies Map," Major Projects Office, accessed August 27, 2026, <https://www.canada.ca/en/privy-council/major-projects-office/projects/map.html>.

¹⁰ Department of National Defence, "Canada's Defence Industrial Strategy," Government of Canada, accessed August 27, 2026, <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/industrial-strategy.html>.

Public Service Retrenchment and Lost Productivity

While the federal government announced plans in its most recent budget to reduce the size of the public service to control administrative costs, it has not been clear on how it expects to leverage other economic and societal stakeholders. Specifically, there may be areas the government does not have constitutional jurisdiction, core competence or in areas other stakeholders are better-suited to act.

The Canadian federal public service expanded considerably during the late 2010s and early 2020s, driven by new policy initiatives, pandemic response programs, and increased regulatory oversight and activity. However, this growth has not consistently translated into improved outcomes.¹¹

Federal Public Service Employment and Population in Canada, 2010–2025

Year	Federal Public Servants	Population (millions)	Share of Population (%)
2019	287,983	37.4	0.77%
2020	300,450	38.0	0.79%
2021	319,601	38.1	0.84%
2022	335,957	38.7	0.87%
2023	357,247	39.7	0.90%
2024	367,772	41.0	0.90%
2025	357,965	41.6	0.86%

Note. Federal public service employment data are drawn from the Treasury Board of Canada Secretariat dataset *Population of the Federal Public Service (2010–2025)*, based on administrative pay system records. Canadian population figures are from Statistics Canada Table 17-10-0009-01 (quarterly population estimates). Values are rounded for presentation.

¹¹ Jake Fuss and Grady Munro, "Federal Government Increased Number of Public Service Employees by More than 40%," Fraser Institute, February 7, 2024, <https://www.fraserinstitute.org/commentary/federal-government-increased-number-of-public-service-employees-by-more-than-40>.

Economist Stephen Tapp estimates that public sector productivity decreased 0.3 percent annually, while private sector productivity improved 0.5 percent each year, over the period 2015 to 2024.¹² Between 2015 and 2024, public sector productivity declined while private sector productivity increased, resulting in a widening gap. Tapp estimates that if public sector productivity had matched private sector output, Canada's GDP would have been \$32 billion higher (1.5 percent increase in real GDP).

The challenge, therefore, lies not simply in reducing the federal workforce footprint but in resetting government institutions to operate more efficiently and strategically and leveraging outside actors to push forward priorities best left to non-governmental organizations.

Addressing these tensions requires more than incremental adjustments; it requires a rethink of how government organizes itself to deliver large-scale national initiatives with limited internal resources – the hyperconnectivity needed to operate across departments, portfolios, and vast geography – and how it can adopt a whole-of-society outlook to support its nation-building agenda.

¹² Stephen Tapp, *The Growing Government Gap: Rising Costs, Shrinking Returns, and the Productivity Crisis in the Public Sector* (Ottawa: Macdonald-Laurier Institute, 2025), https://macdonaldlaurier.ca/wp-content/uploads/2025/10/MLI-The-Growing-Government-Gap_Tapp_FINAL.pdf.

Pathway 1: Partnerships and Collaborative Governance

Nation-building projects often exceed the capacity of any single government. Collaborative governance, particularly partnerships with the private sector and other levels of government, can better align actors across the public policy landscape, as was argued in a Public Policy Forum paper in 2025 around a renewed approach to “Team Canada”.¹³

Collaborative Governance

Collaborative governance – public and private actors jointly designing (or co-creating), deciding and delivering on policy – can be seen as a force multiplier by expanding the broader state’s implementation capacity available to governments pursuing nation-building initiatives. In effect, it creates a state apparatus much larger than the state’s footprint as private, public, intergovernmental and Indigenous actors move in lockstep towards economic and project development.¹⁴

Particularly in strategic sectors, such as critical minerals, AI and defence, this model enhances Canada’s economic growth by aligning the federal spending power with other actors’ expertise and investment. Infrastructure, energy project development, research and development, and defence capability development often produce positive spillover effects across the economy and require coordination and leverage of a variety of partners – what Speer and Tombe call the “case for a dual-lens sectoral strategy” wherein targeted sectoral investments yield both GDP gains as well as strategic, security and/or geopolitical advantage.¹⁵

It also improves information-sharing and builds trust across governments, the private sector, and civil society – key features of high-performing economies – exceedingly important in an era of mis- and dis-information and geopolitical and cyber threats. The model further creates trust development between and across governments, with the private sector, Indigenous communities, and broader civil society – high-trust countries have strong social cohesion and economic success.¹⁶

As the government maintains its focus on federal government priorities and jurisdiction, it allows other actors across the economy to facilitate the broader goals of nation-building and relies on expertise and competence that the government either cannot sustainably afford, maintain or prioritize.

¹³ Riaz Kara and Mark Cameron, “‘Team Canada’ Needs a Rethink,” Public Policy Forum, April 9, 2025, <https://ppforum.ca/ppf-media/the-team-canada-response-didnt-work-its-time-for-a-rethink/>.

¹⁴ Chris Ansell and Alison Gash, “Collaborative Governance in Theory and Practice,” *Journal of Public Administration Research and Theory* 18, no. 4 (2008): 543–571, <https://academic.oup.com/jpart/article-abstract/18/4/543/1090370?redirectedFrom=fulltext>.

¹⁵ Sean Speer and Trevor Tombe, “Canada’s Super Sectors,” Public Policy Forum, January 29, 2026, <https://ppforum.ca/publications/canadas-super-sectors/>.

¹⁶ Rockefeller Institute of Government, “Inclusive Governance: Frameworks, Policies, and Practices That Foster Social Cohesion, Trust, and Belonging,” January 30, 2025, <https://rockinst.org/rig-events/2025-events/inclusive-governance-frameworks-policies-practices-that-foster-social-cohesion-trust-and-belonging/>.

Intergovernmental Cooperation

As infrastructure development frequently falls within provincial jurisdiction, federal initiatives must be coordinated with provincial and municipal governments. Intergovernmental agreements can align funding priorities, streamline regulatory approvals, and reduce duplication, as can be seen in recent housing agreements and “one project, one review” pronouncements for major energy, mining and infrastructure projects.^{17,18}

However, this can give rise to jurisdictional tensions. While coordination and alignment are necessary, there are plenty of examples wherein the blurring of jurisdiction has caused delays in project approval and in effective or uneven delivery of major initiatives, including previously with the Trans Mountain Pipeline Expansion, Muskrat Falls as well as the Lower Churchill Hydroelectric initiative.¹⁹ The federal government should strengthen coordination through forums such as the Council of the Federation to ensure coordinated and harmonized action on key parts of the nation building agenda, while recognizing and acknowledging the critical nature of jurisdiction to avoid governmental overlap, legal battling and uncoordinated action.

Aligning policy objectives and resources across levels of government is essential in areas of healthcare, education and housing. Federal policy initiatives in areas of provincial jurisdiction should prioritize the use of the federal spending power to support local and provincial responses to emerging crises, and to support national minimum standards. This ensures that no province is unduly affected and that inequality amongst provinces and regions is not exacerbated.

Indigenous Participation

Partnerships with Indigenous communities creates more sustainable and efficient development of energy, mining and infrastructure projects. Many major projects are on or near Indigenous lands and the government has both a moral and legal responsibility to consult meaningfully. Collaborative governance frameworks, as described by Ansell and Gash, emphasize shared decision-making and consensus-building, which reduce conflict, regulatory delays, and legal challenges – all critical impediments to nation building. With Indigenous participation in broader collaborative networks and decision-making bodies, projects are more likely to obtain and maintain community social license, proceed more expeditiously, and provide long-term economic and social benefits such as job creation, revenue-sharing, and infrastructure modernization.

Further, meaningful engagement with Indigenous communities further strengthens Canada’s position in national security and sovereignty matters, particularly in the North and Arctic. Indigenous communities are the youngest population in Canada and one of the fastest-growing, with post-secondary attainment rates having improved significantly in recent year.²⁰ Collaborative and trust-building relationships with Indigenous communities is critical for Canada’s economic growth, national security and broader reconciliation efforts.

¹⁷ Housing, Infrastructure and Communities Canada, “Build Canada Homes Accelerates Affordable Housing in Dartmouth,” news release, December 14, 2025, <https://www.canada.ca/en/housing-infrastructure-communities/news/2025/12/build-canada-homes-accelerates-affordable-housing-in-dartmouth.html>.

¹⁸ Prime Minister of Canada, “Canada and Ontario Sign a New Agreement to Accelerate the Construction of Major Projects in Ontario,” news release, December 18, 2025, <https://www.pm.gc.ca/en/news/news-releases/2025/12/18/canada-and-ontario-sign-new-agreement-accelerate-construction-major>.

¹⁹ Herman Bakvis and Grace Skogstad, eds., *Canadian Federalism: Performance, Effectiveness, and Legitimacy*, 4th ed. (Toronto: University of Toronto Press, 2020), <https://utppublishing.com/doi/book/10.3138/9781487570439>.

²⁰ Statistics Canada, “Canada’s Indigenous Population,” June 21, 2023, <https://www.statcan.gc.ca/01/en/plus/3920-canadas-indigenous-population>.

Pathway 2: Digital Transformation and Public Service Modernization

One of the most effective ways to strengthen state capacity is to digitize and modernize public services, through three complementary strategies: a) adopting and implementing a national unique digital identity systems, b) modernizing procurement and IT systems, c) creating interoperability and adopting and deploying Automation and Artificial Intelligence tools to make government more efficient.²¹

Digital transformation of public services has become a key policy enabler and priority for industrialized and industrializing nations. India, for example, has instituted its Aadhaar card system for all residents, giving interoperable access to tax, banking and government services.²² At home, Canadians increasingly expect services that are “simple, seamless, [and] digitally enabled,” accessible anytime and across devices.²³ While Canada has made progress through digital modernization initiatives, often sustain progress is hampered by legacy and mainframe IT systems, bifurcated and convoluted service delivery models, and data and IT governance challenges.

Digitizing and modernizing public services strengthen state capacity in a variety of ways, including improving administrative capacity, efficiency and delivery to Canadians; having access to real-time data to support policy-making that is responsive and just-in-time; and, strengthening the ability of all levels of Canadian government to collaborate and coordinate benefits, tax treatment, healthcare, etc. through interoperability and system-wide integration. Importantly, this upgrade of infrastructure and governance, although costly in the short-term, will lead to longer-term fiscal capacity as governments are not investing in legacy systems with short shelf lives and will likely require less person-power as more efficient IT and AI tools are deployed.

Automation can significantly reduce the time required to process routine administrative tasks like income verification or tax returns – in fact, the Canada Revenue Agency is expanding automatic income tax filing including pre-filled returns for lower-income Canadians.²⁴

AI tools can speed up government analysis of major data reams, identify efficiencies, and support evidence-based decision-making, all towards stronger public policy development and less need for manual processing by government employees. Government can utilize AI in routine tasks such as correspondence and document review, and can prioritize its use in broader nation-building – for example, using AI to support the harmonization of provincial trade laws; internal trade barriers limit domestic economic growth, translating into a loss of as much as \$200 billion or 4.4–7.9 percent of GDP.^{25,26}

²¹ OECD, “Digital Government,” accessed August 27, 2026, <https://www.oecd.org/en/topics/policy-issues/digital-government.html>.

²² Unique Identification Authority of India, “What Is Aadhaar,” accessed August 27, 2026, <https://uidai.gov.in/en/my-aadhaar/about-your-aadhaar.html>.

²³ Treasury Board of Canada Secretariat, “Guideline on Service and Digital,” accessed August 27, 2026, <https://www.canada.ca/en/government/system/digital-government/guideline-service-digital.html>.

²⁴ Canada Revenue Agency, “Automatic Tax Filing,” July 23, 2024, <https://www.canada.ca/en/revenue-agency/campaigns/offering-and-expanding-automatic-tax-filing-services.html>.

²⁵ Intergovernmental Affairs, “Advancing Internal Trade,” Government of Canada, January 28, 2026, <https://www.canada.ca/en/intergovernmental-affairs/services/internal-trade/federal-investments-internal-trade.html>.

²⁶ Trevor Tombe and Ryan Manucha, “Liberalizing Internal Trade through Mutual Recognition: A Legal and Economic Analysis,” Macdonald-Laurier Institute, September 20, 2022, https://www.trevortombe.com/publication/mli_trade/.

Pathway 3: Modernizing Military procurement and Project Delivery

Canada has historically faced challenges in acquiring major military equipment in a timely and cost-effective manner. Procurement processes often involve multiple government departments – including the Department of National Defence, Public Services and Procurement Canada, and Innovation, Science and Economic Development Canada – each with differing risk matrices, roles and responsibilities and oversight requirements.

Bifurcation and fragmentation have continued to contribute to lengthy delays, including in naval shipbuilding programs and military aircraft procurement initiatives. Recent reforms aim to address these issues by streamlining procurement procedures and creating specialized institutions focused on defence investment, including the launch of Canada's Defence Industrial Strategy. The Strategy aims to renew relationships with Industry, prioritize domestic production or, through trusted allies, speed up defence acquisitions, invest in innovation and workforce development by supporting R&D, secure supply chains, and stockpile resources, and work across Team Canada to secure the North and Arctic.^{27,28}

Canada's focus through this strategy, through the Defence Investment Agency and by drawing on lessons from allies, can create agile acquisition approaches that rely equally on government and private sector, enhance digital capabilities, modernize procurement and contract frameworks which are flexible, tailored and delivered just-in-time and bring in new models like "Defence as a Service" which enables continuous innovation, modular upgrades and private sector manufacturing.²⁹

²⁷ Department of National Defence, "Defence Investment Agency," Government of Canada, accessed August 27, 2026, <https://www.canada.ca/en/defence-investment-agency.html>.

²⁸ Department of National Defence, *Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy* (Ottawa: Department of National Defence, 2026), <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/industrial-strategy/security-sovereignty-prosperity.html>.

²⁹ John Jacobs, "DSEI UK 2025 Report (1): Examining New Initiatives for 'Agile Acquisition,'" *Asian Military Review*, October 13, 2025, <https://www.asianmilitaryreview.com/2025/10/dsei-uk-2025-report-1-examining-new-initiatives-for-agile-acquisition/>.

Balancing Fiscal Discipline, Strategic Investment and Impacts on Canadian Prosperity

The simultaneous pursuit of fiscal restraint and large-scale investment reflects a broader economic strategy – a shift towards enhanced investment, improved productivity and diversified trading routes and partners.

With sound institutional reforms and modernization, Canada can deliver large-scale national projects while operating with a more efficient and smaller public service, and better use of external partners, including Indigenous communities and the private sector.

Collaborative governance, digital modernization, and defence procurement reform, together, can significantly enhance the effectiveness of government institutions, create high-trust collaborative relationships across the economy and across jurisdictions to improve living standards, and improve per-worker productivity through the deployment of modern tools and technologies.

The success of Canada's nation-building agenda will depend less on the size of the public service and more on its organizational effectiveness, strategic focus, and ability to coordinate complex national initiatives. If Canada can focus its agenda on the highest-value priorities in its federal mandate and jurisdiction, successfully modernize its governing institutions and systems, and invest in collaborative governance with a broad network of actors, it will be well-positioned to meet the evolving economic and security challenges of this new global order.

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