



Policy Editor L. Ian MacDonald with Finance Minister Jim Flaherty in his Parliament Hill office. Flaherty said his 10th budget in eight years was very close to achieving balance. Policy photo, Kathleen Perchaluk

## Q&A: A Conversation With Jim Flaherty

*On February 13, two days after the budget, Finance Minister Jim Flaherty sat for a Q&A in his Centre Block office with Policy Editor L. Ian MacDonald. Flaherty talked about the economic benefits of a lower dollar, the federal-provincial puzzle of the Canada Job Grant and what keeps him up at night. "This year we had very few people knocking on our doors looking for money," he said of the budget process. "I think we did a good job in downplaying expectations."*

**Policy:** You said on budget day that if this was a boring budget, you took that as a compliment and you quoted Bill Davis who had four terms and 14 boring years in office, that "boring is good." To paraphrase Michael Douglas from *Wall Street*, perhaps boring is good, boring works.

**Finance Minister Jim Flaherty:** This is a budget that gets us very close to the goal of balancing the books.

**Policy:** You said, almost there. "We're almost there." Is it possible you're actually there? If you take out the contingency reserve you'd have a surplus of \$100 million if all goes according to plan.

**Jim Flaherty:** That's true but \$100 million in a budget of \$270 or \$280 billion is miniscule. You never know what's going to happen. The past year we've had the flooding in Alberta and

Lac-Mégantic in Quebec. You never know when we will need extra millions of dollars to help out.

**Policy:** The current deficit, then and including the contingency reserve is 0.1 per cent of GDP. That's a rounding number isn't it, in Ottawa terms? So can you make the argument that we are at balance and that you're sort of saving the good news for next year?

**Jim Flaherty:** You can make the argument. On paper we're not quite there.

**Policy:** How do you see that surplus being allocated next year? It's an election year. You're looking at a \$6.4 billion surplus, again including the contingency reserve.

**Jim Flaherty:** I think there'll be some difficult discussions next year because different people have different priorities about what ought to be done with the excess money. It will have been a long time since there has been excess money, surplus money and so everyone has pet projects that they'd like to see done. My natural inclination is to reduce the public debt but I'm only one voice on that.

**Policy:** It's not only a discussion to be had in cabinet and caucus about what to put in the window for an election, but there are interest groups lined up down to Wellington Street from your office who'll be knocking at your door, not to mention the provinces. When you get into a surplus it's a different conversation, isn't it, about how you allocate the excess money?

**Jim Flaherty:** That's a good point. This year we had very few people knocking on our doors looking for money. I think we did a good job in downplaying expectations.

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**Policy:** You're looking at projected growth of 2.3 per cent in this current year as opposed to 1.8 per cent last year; 2.7 per cent US growth as compared to 1.9 per cent. You've also often said: "We are not an island." So what still keeps you up at night?

**Jim Flaherty:** Europe. The European banking system has still not been cleansed. They still have not in Europe created a single banking regulator although it's something to which they agreed, it must be four years ago now.

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**Policy:** What about the dollar? I know you said on budget day that you're not supposed to talk about the dollar and every time you talk about it you get into trouble but you did say in that CTV interview at the beginning of the year, I'm paraphrasing you now, that we could still travel to the US with the dollar somewhere in the 90's.

The Governor of the Bank, Mr. Poloz, in a remarkable statement, said that growth in the US economy was "the cake" and that a lower dollar was "the icing on the cake." Here you have the Governor of the Bank essentially talking down the dollar. How do you see a lower value dollar driving our exports and other manufacturing activity, particularly in Ontario?

**Jim Flaherty:** It obviously makes our exports cheaper to Americans and most of our exports go to the United States, about 75 per cent. Business people like it. I know in the business community it's viewed as an advantage. Canadian tourists going to Florida and

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**Policy:** You could still go to Fort Lauderdale.

**Jim Flaherty:** (Laughs) I think so.

**Policy:** Speaking of central bankers, you have been quite outspoken that the US Federal Reserve, the Fed, that their tapering of quantitative easing, third round, QE III, is overdue. It's unusual for a finance minister of one country to comment on the central bank of another. What were your thoughts on the previous chair of the Fed, Ben Bernanke, pumping cheap liquidity into the economy that way, the \$85 billion a month buy back of bonds?

**Jim Flaherty:** I think it's legitimate for those of us who are G7 and G20 finance ministers to comment when a country like the US acts in such a way that it affects all of us and all our people and all our economies, which that spending did.

**Policy:** Did you have that conversation with Tim Geithner when he was head of the US Treasury?





Asked how the predicted surplus will be allocated in the 2015 election year budget, Flaherty said there would be "difficult" discussions in cabinet and the Conservative caucus. Policy photo, Kathleen Perchaluk

governmental services. In fact it's mentioned in the budget that these negotiations have a deadline.

**Policy:** To walk through some of the particular initiatives in the budget, the First Nations Control of First Nations Education Act, which is an awkwardly but aptly named title of this bill--\$1.9 billion over a seven-year period but most of it front-end loaded over the first three years. How do you see the imperatives and the importance of First Nations education, because on reserve schools there's a dropout rate of 62 per cent. There's blame enough in that to go around isn't there?

**If you look at Canada going down the road ahead, we are going to be short of people and we're going to be short of workers and the largest group of young people we have who are underemployed are Aboriginal young people.**

**Jim Flaherty:** Oh, yes.

**Policy:** To come to the jobs and opportunities part of the budget. There's a lot in the title and in your speech which reads as if you wrote part of it yourself, you're quoting Thomas D'Arcy McGee, your favourite Father of Confederation, that "we are in the rapids and must go on," as well as quoting Sir John A. Macdonald, your "other favourite Father of Confederation" and even the first finance minister John Rose, from the first budget speech in 1868. This looks to me as if it comes from your own reading, not from officials and staff.

**Jim Flaherty:** Some of it, yes.

**Policy:** Do you see jobs as part of the road to balance, creating jobs and opportunities as a work in progress and what about the conversation with the provinces? At your news conference on budget day you spoke about billions of dollars being sent to the provinces with a lack of accountability. Is that how

you see the jobs, the job opportunities rolling out, the Canada Job Grant?

**Jim Flaherty:** I'm afraid it's going to be somewhat uneven because from what I'm hearing from the ministers who are directly engaged in this, they're having significant progress with some provinces and very little progress with others.

**Policy:** So how does that roll out? You're talking about going ahead on the first of April provided Employment Minister Kenney can reach some kind of agreement with some provinces. How would you provide these Job Grant opportunities for provinces that opt out, say Quebec?

**Jim Flaherty:** Then we would work directly with employers and not with the provincial government and match employers directly with the people who want training and jobs.

**Policy:** The service window would be Services Canada?

**Jim Flaherty:** We'd use our own

**Jim Flaherty:** If you look at Canada going down the road ahead, we are going to be short of people and we're going to be short of workers and the largest group of young people we have who are underemployed are Aboriginal young people. You're right. They drop out of school, the majority of them. They do not have school boards. They do not have uniform standards. In that sense they don't have the organizational skill that is in the non-Aboriginal schools, so the idea for a long time has been to have three or four school boards for Aboriginal persons in Canada with standards. Basically, import the provincial standards of the particular province to the schools and have qualified teachers, of course, and make sure that testing is done and young people learn. So, we hope this is going in the right direction.

**Policy:** The Canada Excellence initiative, the \$1.5 billion for university research, Canada is a world leader in publicly funded R&D but we still have a private sector research deficit don't we?

**Jim Flaherty:** Yes, that's true.

**Policy:** What can we do about that in terms of moral suasion?

**Jim Flaherty:** I think moral suasion is something we can do. It needs to be in industry's best interest to invest in research. I think the universities and the colleges are key to that. We're seeing more small and medium-sized businesses now invest in research in community colleges because it's less expensive and it's closer to home. This new proposal that was in the budget was something that some of the research-based universities, the strongest universities in Canada, came forward with and raised with me. Initially, it was an idea that they would have a special pool of money that they would share in order to promote excellence in specific fields. Obviously that would not be acceptable to all universities in Canada. So now the funds will be shared.

**Policy:** Talk about the Canada Apprentice loan a little bit, because you can spend five years in a technical college. It's like getting a degree, isn't it, nowadays? If you want to work on the GM assembly line just next door to your riding you need a diploma from Humber College in your riding to work there, don't you?

**Jim Flaherty:** Well, you need computer skills, that's for sure. About 50 per cent of apprentices do not complete their Red Seal apprenticeships.

**Policy:** Red Seal being the high end apprenticeships, right, the accredited ones?

**Jim Flaherty:** The ones we would normally think of like carpentry, electrician, and so forth. Not completing their apprenticeships limits their transferability around Canada, which isn't good for a country that is changing a lot. So we want to encourage them to finish their apprenticeship. It means they have to take some time away from work and most of them are working as apprentices and making decent money and don't really want to leave work in order to do some more school work.

**Policy:** This is why you've probably taken the value of their cars out of the process of evaluating their appli-

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cations for the Canada Students Loan Program, right?

**Jim Flaherty:** We made apprentices eligible for interest free loans. We've taken out the automobile from all of the loans for all students.

**It's a waste of human potential because we had our special panel last year that looked at this, more broadly at persons with disabilities including persons with autism came back and said there are hundreds of thousands of Canadians who can't work who are labeled with some sort of disability. We need them.**

**Policy:** There's this \$888 million initiative over four years for persons with disabilities which you say that the provinces are going to match. Is that a done deal with them in terms of extending the Labour Market Agreement?

**Jim Flaherty:** I didn't negotiate the Labour Market Agreement myself but I understand from the ministers that yes that was a relatively easy negotiation compared to the other one on the Job Grant.

**Policy:** If we could talk a little bit about the initiative on autism and the \$11.4 million for the Sinneave Foundation for vocational training for autistic children. If you read the budget papers, it's not a lot of money but there are two pages and nine mentions in those two pages on autistic spectrum disorder (ASD). And full disclosure, as you know I have a four-year-old daughter who has Asperger's Syndrome and in the ASD community this is regarded as a huge breakthrough.

**Jim Flaherty:** It's an increasing problem in numbers. It's a waste of human potential because we had our special panel last year that looked at this, more broadly at persons with disabilities including persons with autism came back and said there are hundreds of thousands of Canadians who can't work who are labeled with some sort of disability. We need them.

**Policy:** I know you're tired of being asked how you're feeling, but how are you feeling?

**Jim Flaherty:** I'm tired after the budget, but I'm much better than I was.

**Policy:** That raises a question of, if I can put it this way, where's the balance between a patient's right to privacy and the public's right to know, because you are the minister of finance and your words move markets. Your health, what are your reflections on that? Is there a balance there?

**Jim Flaherty:** I think one gives up a certain amount of privacy being in public life but it's a question of degree. I could give you examples where I think the line has been crossed, particularly in Ottawa. **P**