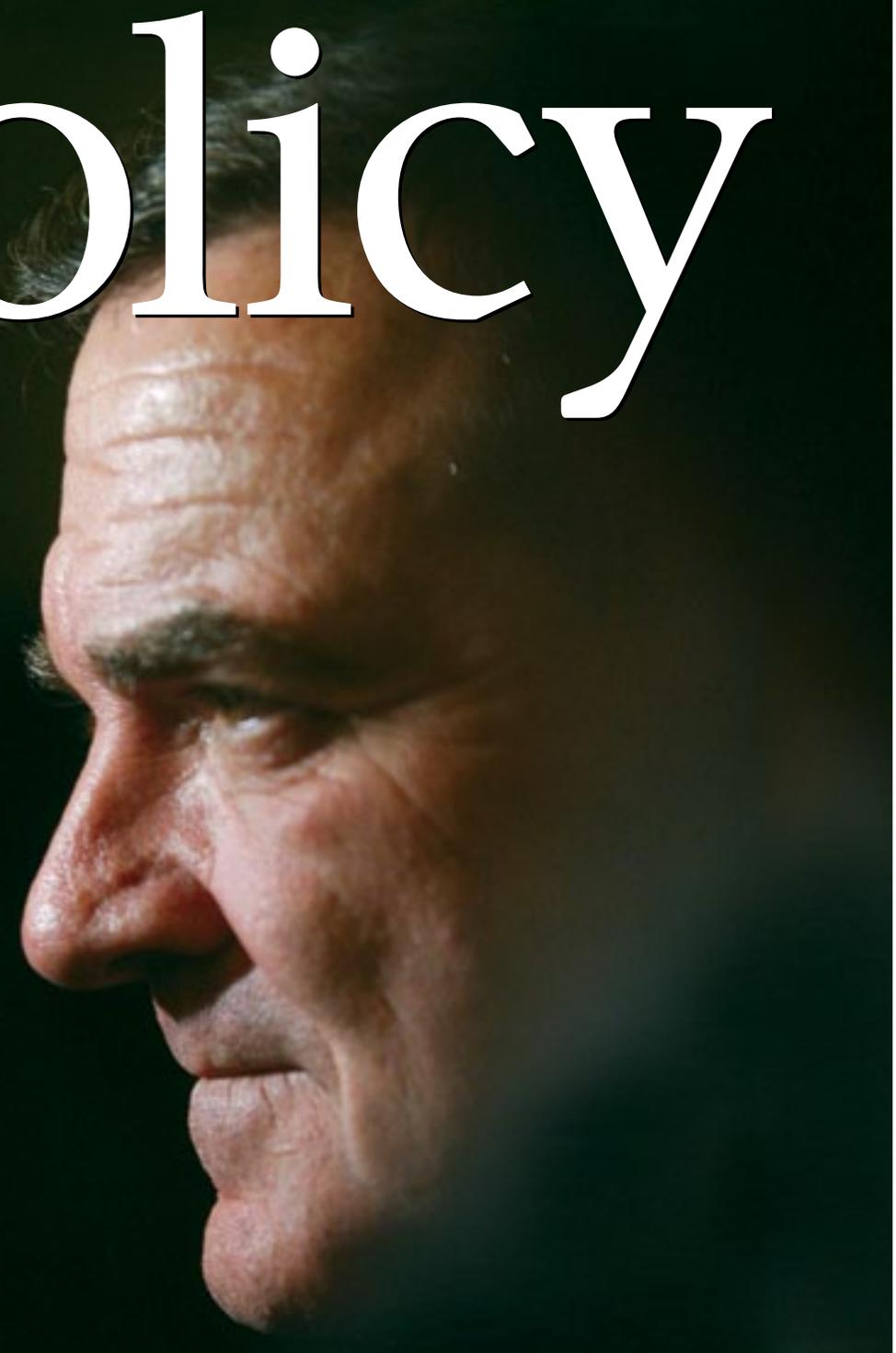


Canadian Politics and Public Policy

Policy



Balancing
Act

Jim Flaherty

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*Canadian Politics and
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Policy

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Finance Minister Jim Flaherty and Prime Minister Stephen Harper on budget day. PMO photo

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From the Editor / L. Ian MacDonald

Balancing Act

Welcome to our cover thematic on the 2014 budget, a balanced one in all but name. If the \$3 billion contingency reserve were set aside, the Conservative government would be in a \$100 million surplus at the end of this fiscal year, and is forecasting a \$6.4 billion surplus, including the reserve, in 2015. Which happens to be an election year.

"I think there will be some difficult decisions next year because different people have different ideas about what should be done with the excess money," Finance Minister Jim Flaherty told *Policy* in an extensive Q&A at his Parliament Hill office. Also asked about his health, an issue over the last year, Flaherty said he was feeling "much better".

Kevin Lynch and Karen Miske of BMO Financial Group examine the budget "through a telescope, not a microscope". In other words, they took a longer view; that budgets matter, even boring budgets, in how they address macro-economic and global financial issues. Douglas Porter, chief economist of BMO Capital Markets, provides a fiscal framework readout on the budget, and a look ahead to budgetary balance and surplus next year.

Critiques are important in any discussion of budgets, and we are delighted to offer two opposition takes from NDP Finance Critic Peggy Nash and Chrystia Freeland, the new Liberal MP from Toronto Centre and one of Justin Trudeau's senior economic advisers.

Nash writes that the Harper govern-

ment is balancing the books on the backs of Canadians. "Jobs, prosperity and long-term growth were all put on hold," she writes "for the sake of one artificial goal—budgetary balance."

Freeland writes: "There's one important takeaway from the 2014 budget—the Conservative government has no big ideas for the Canadian economy, and doesn't believe we need them."

Looking at the Canada Job Grant, the centrepiece of the Harper government's labour market strategy, Jack Hughes sees it as an object lesson in the PM's belief about the division of powers between Ottawa and the provinces. He sees the Job Grant as "the Harper Rosetta Stone".

Robin Sears looks at the breakthrough between Stephen Harper and Assembly of First Nations Chief Shawn Atleo resulting in the First Nations education agreement, funded at \$1.9 billion in the budget just days after it was announced on February 7. It came together under other First Nations chiefs in Ottawa while Atleo was out of town—attending Nelson Mandela's state funeral in Africa as a member of the Canadian delegation that also included four former prime ministers.

Margaret Clarke and her University of Calgary colleagues (Herb Emery, David Nicholas and Carolyn Dudley) consider the budget initiative for vocational training for youth on the Austistic Spectrum Disorder (ASD) That's one Canadian in 88, and their families. While it's not a lot of money, it's an important recognition that there's a place for ASD

youth as productive members of our society and economy.

In a *Policy Dossier* we look at the hot-button issue of Senate reform. Geoff Norquay looks at Justin Trudeau's gambit of expelling Liberal senators from caucus, even though the Liberal Party's constitution explicitly states that senators are automatically members of caucus and ex-officio delegates to conventions like the one in Montreal in February. Norquay finds Trudeau's move bold but high-handed.

And the University of Ottawa's Adam Dodek, a leading constitutional lawyer, examines Stephen Harper's reference of the Senate reform issue to the Supreme Court of Canada. "It is about how, and perhaps if, we can amend our Constitution."

In our *Features* section we offer two articles. In the first one, Tom Axworthy offers a touching and true tribute to Jim Coutts, his close colleague and predecessor as principal secretary to Prime Minister Pierre Trudeau from 1975-81. On any list of outstanding heads of PMO, Coutts is very near the top. A True Grit, in every sense of the term.

And Mike Coates looks at the issue of foreign investment in Canada, and notes it was down significantly in 2013. He attributes the investor chill partly to the government's wariness of state owned enterprises (SOEs), investing in the Canadian energy sector, particularly the oil sands. He also cites national security as a politically useful if nebulous filter for unwanted foreign acquisitions. **P**



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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.

There's little or no growth in Europe so that's a concern and then the emerging economies which are softening from the reduced demand in Europe and less so in the United States. We really need to look to the Americans now to move the economy forward.

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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.

There's little or no growth in Europe so that's a concern and then the emerging economies, which are softening from the reduced demand in Europe and less so in the United States. We really need to look to the Americans now to move the economy forward.

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

Arizona don't like it very much but I don't think it stops them from going.

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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-

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.

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**



Finance Minister Jim Flaherty delivers the 2014 budget, to a standing ovation from his Conservative colleagues on February 11. “We’re almost there,” he said in terms of balancing the budget. But larger macro-economic issues remain for Canada. PMO photo

Budget 2014: Through a Telescope, not a Microscope

Kevin Lynch and Karen Miske

All government budgets matter. And in a federal system, it is the totality of federal and provincial budgets that should matter most to citizens and markets. The more these budgets are aligned, both fiscally and economically, the greater the leverage and impact they have on our economic and social future. As all governments look to a challenging global environment, will this be the season of greater budget cohesion in Canada?

How should we look at budgets—through a microscope, a telescope, or both? The perspective matters greatly because budgets typically have their structural impacts well beyond the short term, whereas media punditry and political calculation around budgets appear to be increasingly focused on the present. Short-termism has come to dominate so much of our lives, including budgets. Yet, the future is hiding in plain sight, shaped by the evident and disruptive trends in the world around us—increasing globalization, a more volatile and uncertain global economy, the demographics of aging, the unrelenting information revolution, the disruption of innovation, and the unbreakable link between productivity growth and rising living standards. We need to view budgets more through the lens of how well they are preparing us for this future, through the tele-

scope, and not just through the microscope of how they are responding to the immediate.

The centrepiece of the 2014 federal budget is its fiscal narrative. The fiscal books will return to balance in 2015-16 after seven consecutive years of deficits and an increase in federal debt of over \$160 billion. The budget projects a debt-to-GDP ratio that peaked at roughly 33 per cent of GDP in 2013 and 2014 (up from a low of 28 per cent in 2008) and then begins a slow decline dictated by the pace of nominal income growth absent major new government initiatives. Compared to other G7 countries, and in the aftermath of the financial crisis, the ensuing recession and the weak global recovery, this is an impressive budgetary achievement.

A strong fiscal balance sheet is both a means and an end. In a volatile and uncertain global environment, having a relatively low debt-to-GDP ratio provides an element of “fiscal insurance”. Clearly, the value of this insurance is higher if a declining debt-to-GDP at the federal level is not partially offset by rising debt ratios at the provincial government level. A healthy balance sheet also provides the fiscal means to deal with longer term economic and social priorities, and in particular, the under-appreciated impacts of a slowing rate of potential growth in Canada and all it implies for our future.

Short-termism has come to dominate so much of our lives, including budgets. Yet, the future is hiding in plain sight, shaped by the evident and disruptive trends in the world around us.

There is much emphasis on “good management” initiatives and “consumer-friendly” actions in the 2014 budget that, while not unimportant, will have limited impact on the longer term challenges of Canada’s poor productivity performance, our weak innovation performance, our under-investment in capital, research and training in a knowledge intensive global economy, and our over-reliance on the US market, particularly in energy, in a world where emerging markets are driving growth and demand.

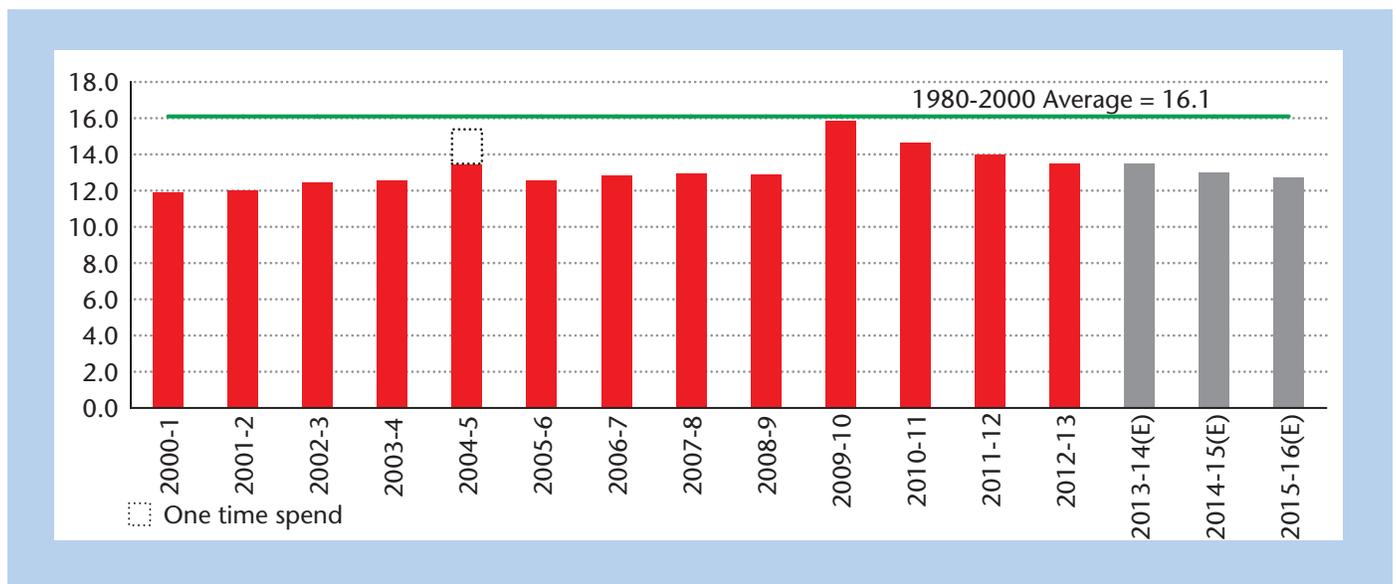
Our focus in this analysis will be more telescopic than microscopic, looking at how the budget is preparing Canada for these inescapable longer term trends we need to deal with. The structural issues we will examine more closely are: the size and tax-take of government, the evolution of federal debt on both a gross and net basis and associated debt servicing costs, the degree of harmony between federal and provincial fiscal frameworks, and the extent to which the budget is tackling Canada’s declining potential growth challenge.

Concerns about the size of government can arise because of quite different pri-

orities and pressures. It may be for fiscal affordability reasons, it may be for productivity and efficiency reasons, or it might be for ideological reasons. What Chart 1a shows rather clearly is that the size of the federal government today, at 13.5 per cent of GDP, is well below its average size of 16.1 per cent over the 1980-2000 period, although it is still above the size of the federal government before the massive stimulus spending introduced in the 2009 budget. We do not have a size of government problem judged by any historical benchmark.

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CHART 1A: Size of Government (program spending, % of GDP)



Sources: 2013 Fiscal Reference Tables, Economic Action Plan 2014

What about on affordability grounds? Clearly, deficits are neither always bad, and the global recession of 2008-09 is a recent case in point, nor are they always good, and Canada's own experience in the 1980s and early 1990s is a stellar example. Deficit sustainability can never be judged independently of the stock of debt, which has unfortunately skyrocketed over the past seven years. Part of the rise in the deficit was government stimulus spending, part was the automatic stabilizers, part was a cyclical decline in tax revenues, and part was a structural decline in tax revenues. Spending reductions were inevitable and needed to rein in the deficit. Given the structural decline in revenues, from cuts in the GST, reductions in corporate tax rates, numerous new tax expenditures and lower potential output, it does raise the longer term issue of the size and sustainability of the federal tax take.

A glance at Chart 1b suggests that the federal tax take in Canada, at 14.1 per cent of GDP today, is substantially below its average of 17.1 per cent over the 1980-2000 period and quite a bit lower than it was before the recession and the structural tax cuts. The trend in the tax take has been downward, not upward, for some time.

Independent of the size of government is the important issue of the

efficiency or productivity of government. Just as Canada has a substantial "productivity deficit" in the business sector, with distressingly little progress in well over a decade, there is no reason to think that the government sector cannot be more productive as well. The state of government productivity is even harder to measure than the private sector, and what is difficult to measure is challenging to manage.

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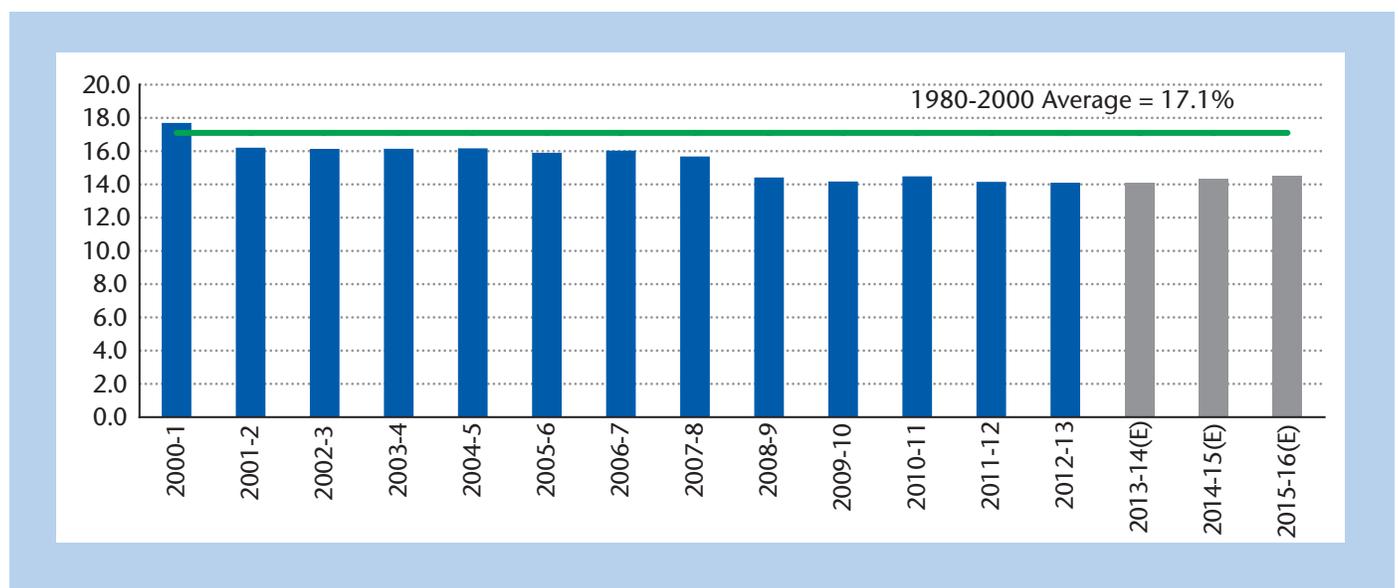
Too often the default option is across-the-board cost cutting that, as numerous examples in the private sector in many countries have amply demonstrated, is likely to reduce long term productivity growth while raising short-term efficiency levels. Despite the many challenges, the government sector, both federal and provincial, seems ripe for a concerted productivity initiative that draws on many of the "big data" and "data analytics" technology revolutions that are transform-

ing how companies like Google serve customers.

While much of the budget commentary has been on when, and with what confidence, the budget will move back into the black, there has been less discussion of the longer term issue of the significant rise we have experienced in federal debt, both gross and net, its implications for debt servicing costs when interest rates return to more normal levels, and whether we should have a longer term target for debt-to-GDP to provide guidance to markets and tax-payers.

Debt levels matter both absolutely and relatively. Relative debt levels affect how rating agencies view countries, and how investors and markets evaluate country risks in a volatile and changing global economy. As Chart 2a indicates, gross federal debt is considerably higher than net debt, and both have risen from their pre-financial crisis lows. Compared to the United States, Canadian federal debt levels compare favourably but much of the credit is due to poor US fiscal and debt policies for the better part of a decade and to the legacy of excellent fiscal and debt policies in Canada reaching back to the late 1990s. While Canada compares well to G7 countries, Canada does not stand out as clearly against a

CHART 1B: Tax-Take of Government (revenue, % of GDP)



Note: Budgetary revenues and program expenses in 2011-12 have been adjusted to reflect the new accounting standard for tax revenues issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants

Sources: 2013 Fiscal Reference Tables, Economic Action Plan 2014

number of like countries such as Australia, Denmark, Norway, Sweden and Finland.

Debt levels matter because they are indicative of the country's ability to absorb shocks when they occur and to make national investments when they are needed. Here, as Chart 2b shows, federal debt servicing costs consume just over 11 per cent of federal revenues today, compared to the 38 per cent in the mid-1990s that helped trigger the extraordinary, and successful, deficit elimination policies introduced in the 1995 budget. But be-

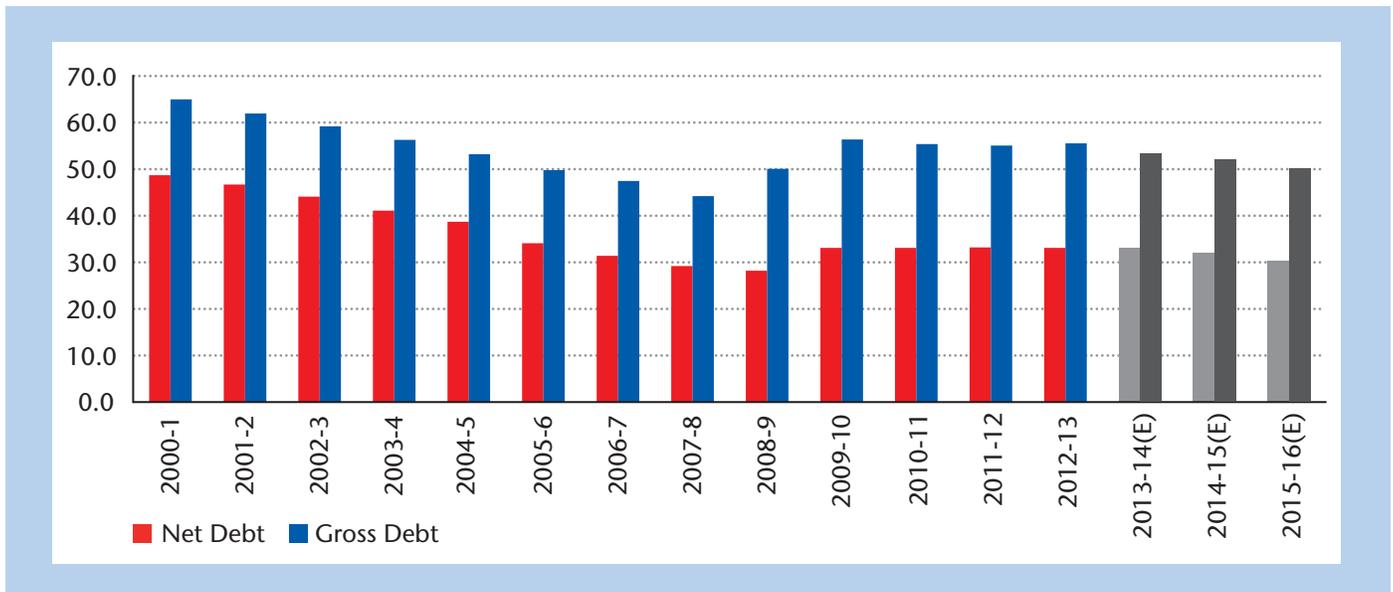
fore we take too much comfort from today's debt servicing ratios, we need to remember that interest rates are at record low levels and they will eventually return to normal levels as global recovery strengthens and quantitative easing (QE) programs in the US, Eu-

At the structural level, governments in Canada have made distressingly little progress in strengthening the economic union at a time when globalization is connecting markets all around us.

rope and Japan unwind. Comparing short term interest rates (90-day T-Bill yield) today, at 0.88 per cent, with the 15-year average (1992-2007) before the onset of the financial crisis, at 4.27 per cent, shows the scope for upward pressure on debt servicing costs.

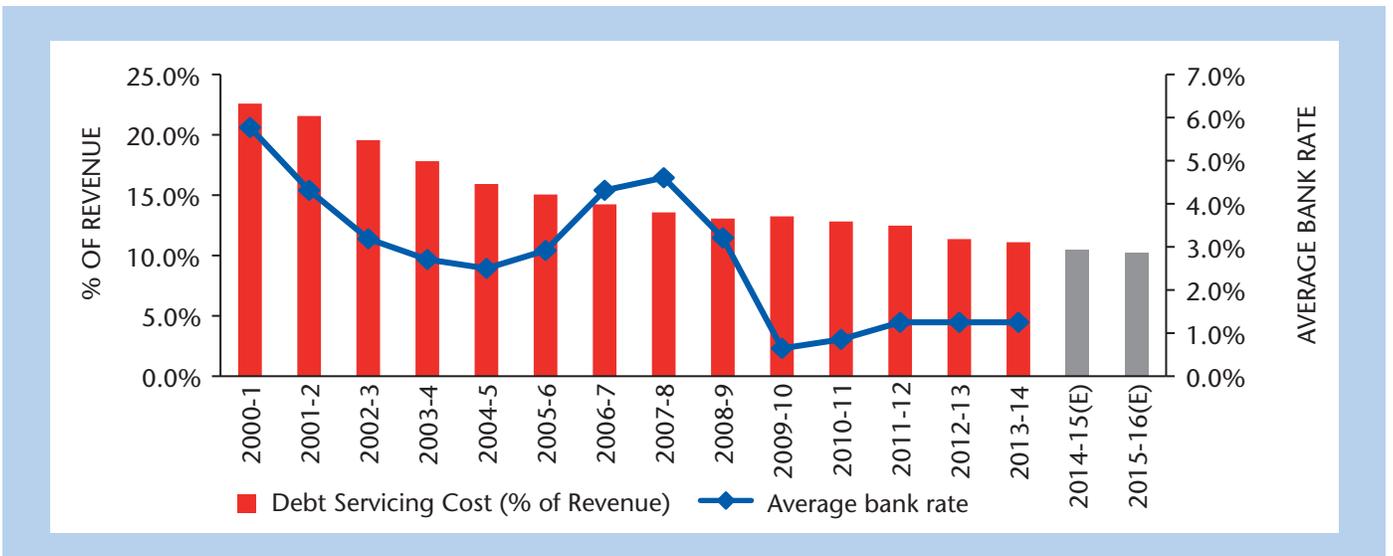
The effectiveness of the federal government's fiscal and economic strategies depends, in part, on the degree of federal-provincial harmonization. At the structural level, governments in Canada have made distressingly little progress in strengthening the economic union at a time when globalization is connecting markets all around us.

CHART 2A: Federal Debt (Gross and Net) (% of GDP)



Sources: Fiscal Reference Tables, 2013, Annual Financial Reports of the Government of Canada 2000-2012, Economic Action Plans 2013-2014, Department of Finance Canada

CHART 2B: Debt Servicing (% of Revenue)



Sources: 2013 Fiscal Reference Tables, Economic Action Plan 2014; Bank of Canada

Attempts stretching back well over a decade to establish a national securities regulator are a case in point of the triumph of parochialism over building a bigger and stronger Canadian securities market to take on global competitors. The need for, but absence of, a national strategy for energy diversification and energy transportation infrastructure if we are to pivot successfully to the growing energy markets in Asia is another example of lack of coordination that risks constraining our future growth and income prospects for decades.

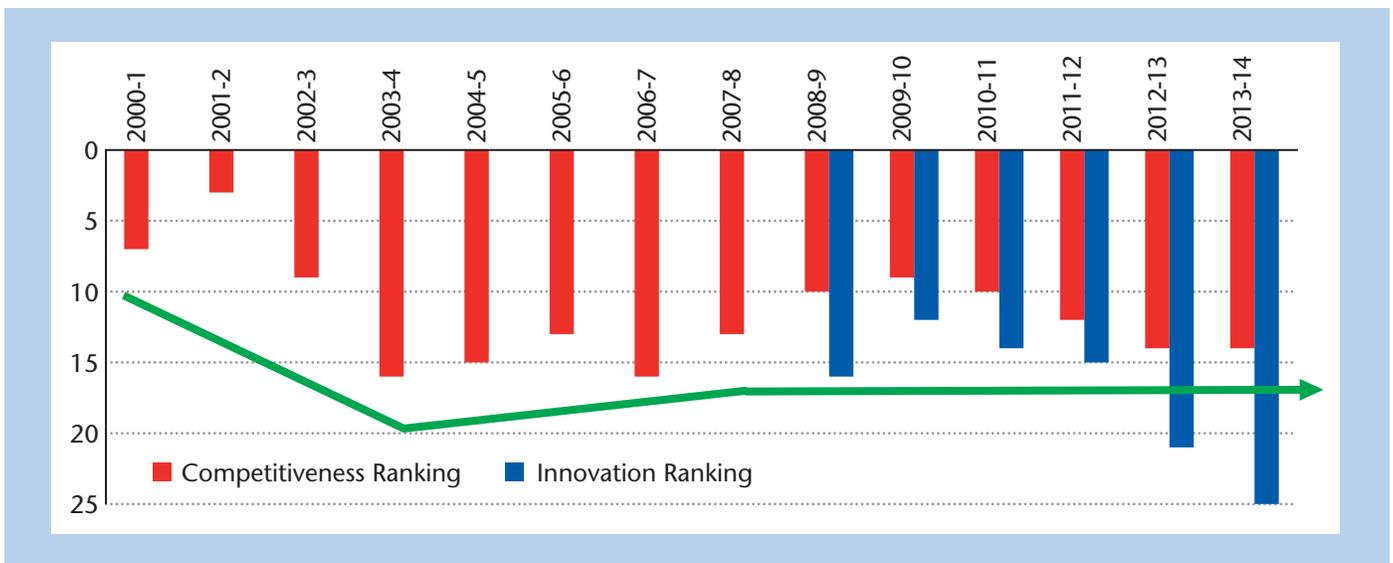
On the provincial fiscal front, the issue is really how aligned will the provin-

cial deficit and debt strategies be with the 2014 federal budget. While time will tell as the remaining provinces roll out their budgets, there is every reason to be concerned. The collective net debt of the provinces and territories in 2012-13 was 28 per cent of GDP, about 85 per cent of the federal net debt. Ontario is currently running a deficit of \$11.7 billion, and the government is only aspiring to balance its books by 2017-18. Quebec has indicated intentions to balance its books by 2015-16 but is still running deficits of \$2.5 billion. The Atlantic provinces have large deficits and vague reduction plans. Alberta, Saskatchewan and

British Columbia are flirting with surpluses this year; though BC is relying heavily on LNG exports for its long-term fiscal health, and these have yet to materialize.

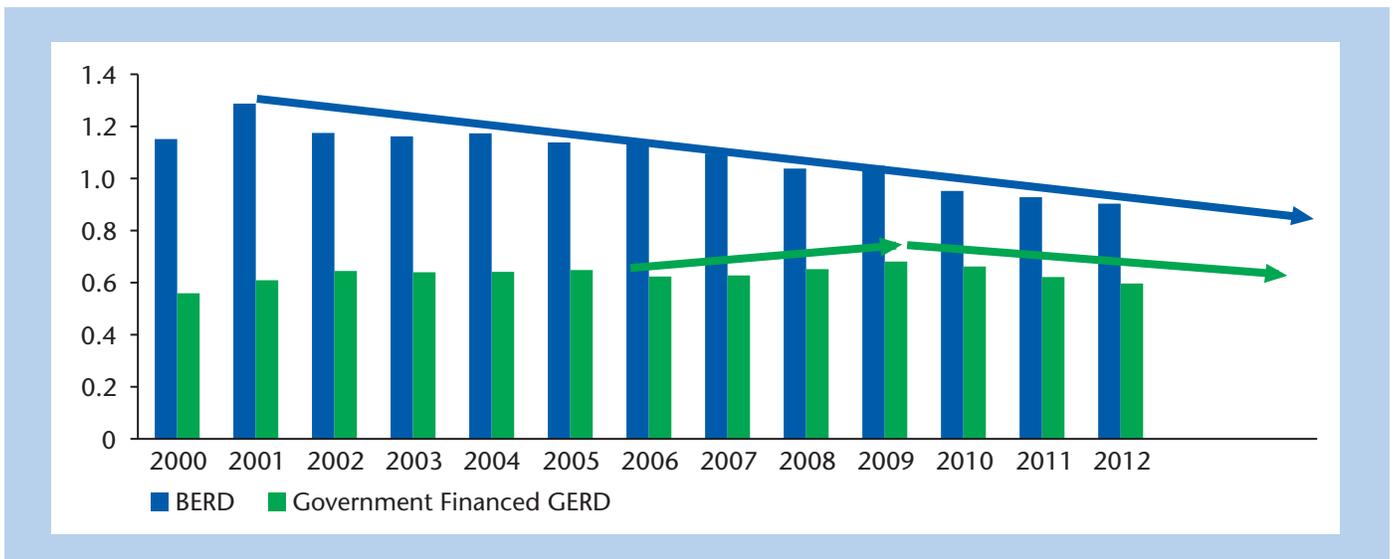
As important as spending policies and tax parameters are to the success of governments' fiscal policies, economic growth matters greatly because it is what drives the income bases that governments tax and the economic conditions that influence social safety net spending. So, looking ahead over the next decade, how is the economic growth potential of Canada shaping up?

CHART 3: World Economic Forum's Global Competitiveness Rankings



Source: World Economic Forum

CHART 4: Spending on Research and Development in Canada (% of GDP)



Source: OECD.stat. Extracted Jan 22, 2014

Managing economic growth is extraordinarily difficult in practice, but it is relatively simple in concept. As the Nobel Prize winner Paul Krugman has famously stated, “productivity is not everything, but in the long run it is almost everything.” Not surprisingly, therefore, longer-term potential growth is dictated by productivity growth and labour force growth (plus terms-of-trade shifts). Neither is good news for Canada looking to the longer term.

In a world where competitiveness in higher cost economies is driven by innovation and productivity, Canada’s innovation ranking today is 25th and on an apparent declining trend.

Why should we worry? Chart 3 presents the World Economic Forum’s Global Competitiveness Index rankings for Canada over the last 15 years. By the early 2000s, Canada had slipped to around 14-15th place and, except for a blip during the global financial crisis where we moved up as others moved down with failing banking systems, there has been little change in a decade. Part of the reason is evident in the WEF’s Innovation Index rankings for Canada — in a world where competitiveness in higher cost economies

What this all adds up to is declining productivity growth. Combine this with the impacts of our aging demographics, which are leading to slowing labour force growth in Canada, and you have the recipe for a slowing rate of potential growth over the next decade, lower than anything we have experienced over the last half century.

is driven by innovation and productivity, Canada’s innovation ranking today is 25th and on an apparent declining trend.

Now you might query the validity of this particular innovation index, but a cross check with the OECD on spending on research and development across all OECD countries in Chart 4 validates the problem. Private sector spending on research and development in Canada has been on a declining trajectory for a decade, and we now rank 22nd among OECD countries for our business research and development effort.

We do see a bright spot with government-financed research and development in universities and government labs, which were prioritized by the public sector in the late 1990s after the restoration of fiscal balance. And this budget introduces an intriguing new research vehicle, the Canada First Research Excellence Fund, with \$1.5 billion over 10 years but still undefined objectives and parameters. Notwithstanding, government research invest-

ments have flat-lined in real dollars in the short term; government spending in research and development as a share of the economy looks ready to decline, and this will have unintended longer term consequences.

What this all adds up to is declining productivity growth. Combine this with the impacts of our aging demographics, which are leading to slowing labour force growth in Canada, and you have the recipe for a slowing rate of potential growth over the next decade, lower than anything we have experienced over the last half century. This will have both an economic and fiscal wallop.

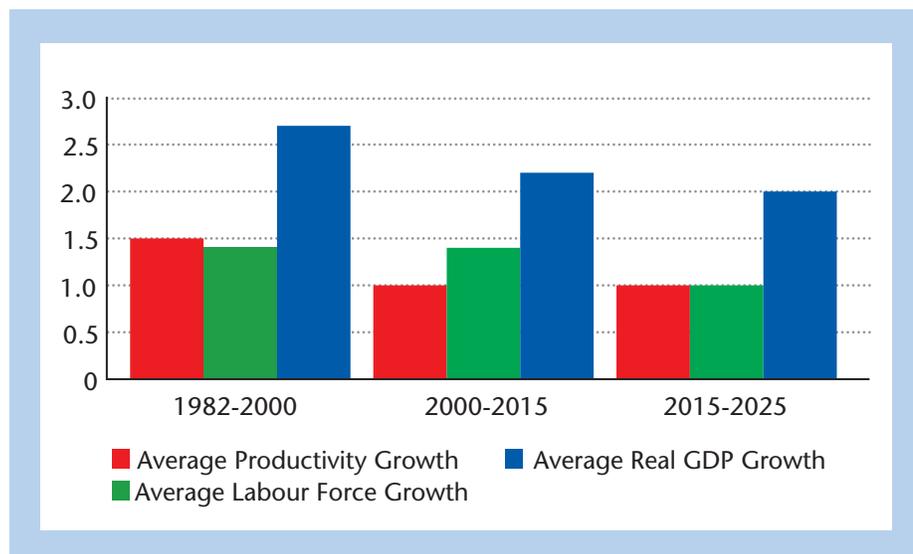
Chart 5 sets out the inescapable algebra. Real GDP growth averaged 2.7 per cent from 1982-to-2000; it has declined to 2.2 per cent over the 2000-to-2015 period, driven by weaker productivity growth; and, over the next 10 years, it will be hard pressed to grow even 2 per cent on average, held down by productivity growth under 1 per cent annually and labour force growth in the same range.

Looking at the budget through a telescope not a microscope reveals a number of longer term risks to our future well-being that deserve more attention by both the public and private sectors in Canada. What this argues for is a greater policy focus on raising Canada’s declining potential growth in both federal and provincial budgets, an orientation commensurate with the long term economic risks inherent in a business-as-usual approach. Budgets have to shift to a greater structural and longer-term orientation if we are to avoid the perils of short termism. **P**

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CHART 5: Potential Growth in Canada (%)



Source: StatsCanada

Note: Productivity growth is for 2000-2012, Real GDP forecast 2013-15, Labour Force forecast 2014-15



Prime Minister Stephen Harper and Finance Minister Jim Flaherty going over a final draft of the 2014 budget, which came very close to being in balance, with a surplus of \$6.4 billion forecast for 2015—an election year. PMO Flickr photo

Ottawa's Deficit: Making a Mogul out of a Mountain

Douglas Porter

The headline from the 2014 budget was really more about 2015: that we are one budget away from balance. Otherwise, the Conservative government tabled what Finance Minister Jim Flaherty happily admitted was a boring budget, but it included a range of measures aimed at labour enhancement, infrastructure and pocketbooks, all as a prelude to next year.

The finish line is clearly within sight for Canada's long quest to return to balanced budgets after a seven-year deficit detour. Ottawa's measured pace of restraint continues with the 2014 fiscal plan, but the emphasis looks set to change in 2015. The budget was a self-proclaimed "stay-the-course" affair—with little in terms of major new measures from a macroeconomic standpoint. Much of the document's 419 page-*heft* was devoted to renewed support for skills training, infrastructure and the consumer.

All told, the deficit trajectory is again running better than expected, with a \$2.9 billion shortfall now forecast for this coming fiscal year before a \$6.4 billion surplus is expected in FY15/16—and that continues to include \$3 billion per year in wiggle room should the economy underperform. In other words, if the economy performs as ex-

pected, we could be looking at a balanced budget this coming fiscal year (*Chart 1*). The FY13/14 shortfall was also trimmed to \$16.6 billion from November's \$17.9 billion projection.

The challenge after hitting the fiscal goals will be ensuring the recovery stays on track and that spending remains largely under control.

The challenge after hitting the fiscal goals will be ensuring the recovery

stays on track and that spending remains largely under control (*Chart 2*). Program spending will dip slightly (0.5 per cent) in the coming fiscal year after an estimated 2 per cent rise in FY13/14. Even with planned restraint measures and next year's drop, program spending still rises at a 2.7 per cent annualized clip over the next five years, or a bit above inflation. As a share of GDP, program spending is expected to drop to pre-recession levels of just below 13 per cent by mid-decade from 13.5 per cent in FY13/14 and the recent peak of 16 per cent. Starting from FY13/14, revenues are

projected to grow at a 4.7 per cent average annual rate over the next five years, a bit faster than nominal GDP growth, which is not out of line with historic norms.

Digging into the details, there were a few noteworthy measures announced in this year's budget, but they are not surprising and come at minimal net fiscal cost. Here is a quick recap of the largest new initiatives:

Consumers-First Agenda—Minding the (Price) Gap:

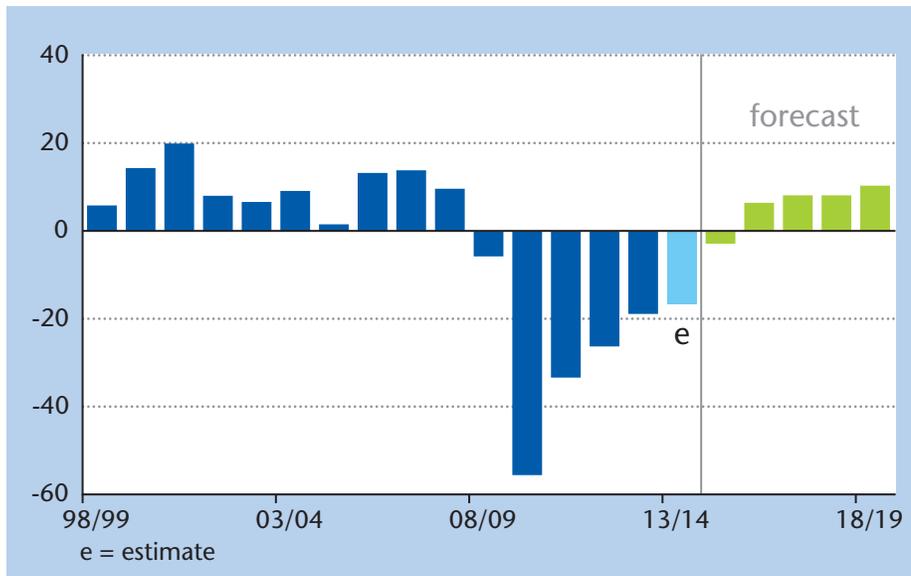
Arguably the most surprising element in this year's budget was the proposed step to address the Canada/US price gap. Instead of broadening last year's tariff cuts, Ottawa has instead chosen to legislate against "unjustified" country price differences, providing the Competition Bureau with powers to address the issue. While we will await the legislation before passing judgement, this is a surprising tack for a variety of reasons. First, with the Canadian dollar sagging 10 per cent in a year, the price gap has already largely vanished as a widespread issue. Second, the price gap is fundamentally an issue between consumers and business, and not primarily a public policy issue. Finally, it is highly questionable how effective legislation could possibly be in helping reduce the price gap.

Beyond that tidbit, Ottawa also unveiled a grab-bag of proposals to help consumers. The government proposes capping wholesale domestic wireless roaming rates. They will also seek to make credit card charges more transparent. Finally, the government will provide \$305 million over five years to enhance broadband access in rural areas (some 280,000 households). A handful of other very small-ticket items net out to a fiscal cost of \$18 million in this coming fiscal year, and \$138 million in FY15/16—everything from tax treatment of charitable contributions, food inspection, adoption expense credits and continued funding for Own the Podium.

Measures to Support Jobs and the Economy:

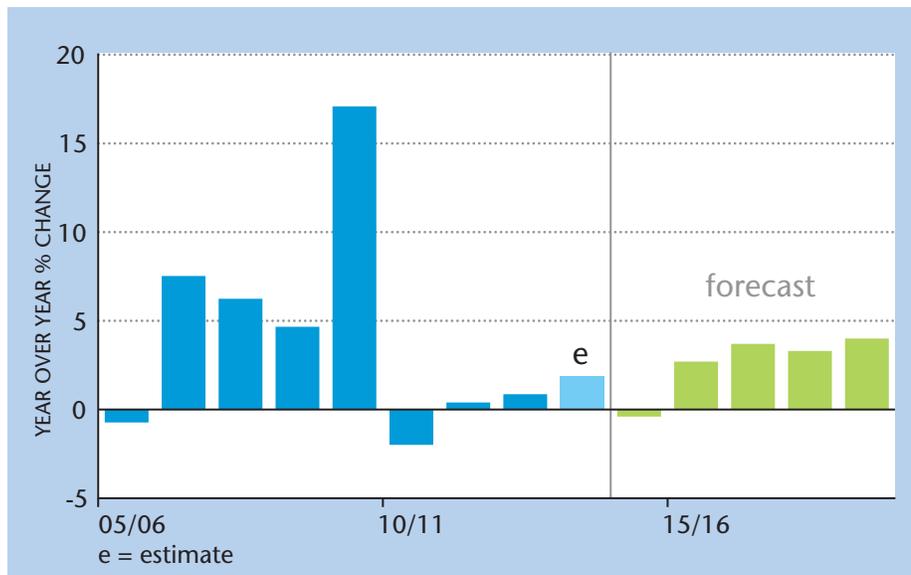
This budget is titled "*The Road to Balance: Creating Jobs and Opportunities*", and contains an array of minor mea-

CHART 1: Surplus in Reach (C\$ blns)



Source: Federal Budget

CHART 2: Spending Restraint



Source: Federal Budget

asures to support the economy. But the measures are very much aimed at the microeconomic level, not the macro side. Net new spending totals \$730 million in FY14/15, rising to just over \$1 billion in FY15/16. Top billing goes to addressing the nation's skills shortage, though the fiscal cost is relatively small. This is done through the roll-out of the Canada Job Grant in 2014, with employers required to contribute, on average, one-third of training costs of up to \$15,000. Note that in jurisdictions where agreements are not secured by April, the program will be run directly through Service Canada. Ottawa is also creating a Canada Apprenticeship Loan (which will build on the student loans program) which will create access to over \$100 million in funding for prospective skilled trades.

Meanwhile, the more meaningful fiscal impact comes from investments in areas like the Windsor-Detroit crossing (\$497 million over the coming two years) and the auto sector (\$500 million). Additional targeted measures include an extension of the Mineral Exploration Tax Credit for junior miners for an additional year; continued support for forestry; and a removal of the duty on equipment used in Canadian offshore drilling.

The days of Ottawa having to borrow from capital markets to finance its deficit, above and beyond refinancing requirements, are over.

Spending Restraint Ongoing:

The cost of the aforementioned measures is more than paid for by two major measures: public-sector compensation costs and an excise duty increase on tobacco. First, the operating budget freeze continues through FY15/16 as previously announced, and goes a few steps further this year with measures to contain long-term compensation costs. The biggest savings will come from changes to the Public Service Health Care Plan—the government will shift from funding 75 per cent of retiree benefit costs to a split-cost formula, as well as increasing the number of years to become eligible for the plan. This will generate savings down the road, but accounting adjustments (i.e., a lower future liability) will reduce the deficit by roughly \$1.5 billion per year over the next two years. Some National Defence funding will be shifted to future years, averaging just over \$700 million per year.

The excise duty on tobacco will be raised by roughly 23 per cent, which will generate a noteworthy \$685 million in FY14/15, making it one of the biggest-ticket items in this budget. For

smokers, this tax increase works out to roughly 2 cents/cigarette.

Debt Management Strategy: All Downhill from Here... For Debt/GDP

The days of Ottawa having to borrow from capital markets to finance its deficit, above and beyond refinancing requirements, are over. Mortgage-backed securities purchased under the Insured Mortgage Purchase Program (IMPP) in 2008 and 2009 began to mature last October, all but eliminating the need for net new borrowings this year and next, and then the emergence of surpluses in the following years will take care of the rest. Net new bond issuance will continue next year, however, as the government takes advantage of historically low interest rates. Gross marketable bond issuance will total \$95 billion, up from \$88 billion in FY13/14. After accounting for maturities, buybacks and other adjustments, the net increase in bonds will be \$23 billion in FY14/15, versus just \$5 billion this year (with the stock of bonds ending next fiscal year at almost \$500 billion). The government is now considering issuing bonds with a maturity of 50 years in the coming year (last year they looked at 40-year bonds). The stock of treasury bills, which will absorb the impact of IMPP flows and net new bond issuance, is projected to drop from \$152 billion to around \$130 billion.

Reflecting the above, Ottawa is projecting net new borrowing requirements of a grand total of \$1 billion in the coming fiscal year. In turn, total federal debt/GDP is projected to begin declining in FY14/15 to 32.0% (or in absolute dollar terms, the year after). The debt ratio is projected to drop consistently further to 25.5% by FY18/19, or below the pre-recession low of 28.2% (Chart 3).

Economic Assumptions Look Reasonable:

Ottawa based the economic assumptions on the latest private sector con-

CHART 3: Federal Debt (% of GDP)



Source: Federal Budget

TABLE 1: Fiscal Outlook (C\$ blns, except where noted)

	Estimate 13/14	14/15	— Forecast — 15/16	16/17
Revenues	264	276.3	293.3	306.8
Expenditures	280.5	279.2	286.9	298.7
Program Spending	251.2	250.2	256.9	266.5
Public Debt Charges	29.3	29	30	32.1
Budget Balance	(16.6)	(2.9)	6.4	8.1
Federal Debt	616	618.9	612.4	604.3
As a percent of GDP:				
Budget Balance	-0.9	-0.1	0.3	0.4
Federal Debt	33	32	30.3	28.6

Source: Federal Budget Note: totals may not add due to rounding () = deficit

TABLE 2: Economic Assumptions (%)

	— Ottawa —			BMO Capital Markets	
	2013	2014	2015	2014	2015
GDP Growth					
Real	1.7	2.3	2.5	2.3	2.5
Nominal	3.2	3.9	4.5	3.9	4.5
Yields					
3-month T-Bill	1	1	1.5	0.9	1.1
10-year GoC	2.3	3	3.5	2.8	3.7

sensus, as has been the convention for more than a decade (*Table 2*). We are right in line with the average on real GDP growth at 2.3 per cent this year and 2.5 per cent in 2015. Given that fiscal restraint will remain in force in many provinces and, to a lesser extent, in Ottawa, the growth assumptions may even be seen as a tad optimistic, but we can't quibble since the budget forecast is effectively our forecast. To factor in additional risks, the government has based its projections on a nominal GDP undershoot of \$20 billion (equal to about 1.1 per cent of GDP), which translates into \$3 billion per year in fiscal wiggle room. Three-month interest rates are expected to average 1.0 per cent this year and 1.5 per cent next year, only slightly above our call of 0.9 per cent and 1.1 per cent.

The bottom line on the fiscal front is that Ottawa can achieve its target—policy is mildly restrictive and achievable, there is a degree of prudence, and the starting point is slightly better than expected. Now we await the real budget show, in 2015. **P**

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Chrystia Freeland discusses the economy with Larry Summers, former US treasury secretary and economic adviser to President Barack Obama, at the Liberal policy convention in Montreal on February 20. LPC photo, Radey Barrack

Not Good Enough: Crisis Aversion as Economic Policy

Chrystia Freeland

Canada became the envy of the world after the 2008 financial catastrophe because we had been smart enough to avoid a banking crisis and therefore were better able to weather the economic meltdown. But deeper, structural problems in our economy are now surfacing, especially in relation to just under half of Canadians who consider themselves middle class. The first step toward serious recovery is to recognize that we face a profound problem—and one that balancing the budget alone won't fix. The lack of that recognition is the most glaring absence in the 2014 budget.

There's one important takeaway from the 2014 budget—the Conservative government has no big ideas for the Canadian economy, and it doesn't believe we need them. This is a budget of tweaks at the margin, spiced with a few treats designed to help in the 2015 election. That's why Andrew Coyne, one of our country's smartest small 'c' conservatives, dismissed the budget as being entirely about small-bore politics and devoid of broader vision.

"A government that was of a mind to do big things, especially big conservative things, could find ample room

within the existing spending and revenue envelopes,” Coyne argues. “If Jim Flaherty has not done these things, it is not because he can’t, but because he won’t.”

Coyne is right. There’s a reason this government feels it is okay to keep Canadian economic policy in neutral. After years of assuring Canadians that we have the best economy in the world, Canada’s leaders seem to have come to believe their own rhetoric. You hear these assertions in the House of Commons every day. Here was the prime minister speaking on February 5: “Canadians and economic experts around the world, including the OECD and the IMF, recognize that Canada has gone through the recession and come out of the recession with among the strongest growth and employment rates and records in the developed world.”

How nice to think that we own the podium not only when it comes to curling, free-style skiing and hockey, but also in economic performance. And the government isn’t above playing to this medal-counting national pride.

This is a flattering story for all Canadians. How nice to think that we own the podium not only when it comes to curling, free-style skiing and hockey, but also in economic performance. And the government isn’t above playing to this medal-counting national pride.

When challenged in question period about Canada’s relative economic performance, Finance Minister Jim Flaherty last month suggested the question itself was unpatriotic: “It is disappointing to hear the opposition cheering against Canada’s economic performance.”

The problem is that the talking point about Canada’s global out-performance doesn’t square with the real lives of middle class Canadians. Median family incomes are stagnating,

rising just 14 per cent, after adjusting for inflation, over the past three decades. Unemployment is 7 per cent, and youth unemployment a daunting 13.9 per cent. Growth is anemic—just 1.7 per cent last year, lower than it was in 2012.

The OECD predicts that by next year, Canada’s economic growth will be below-average, just 16th out of a peer group of 30 countries. Canadians are getting by in this weak economy by borrowing—the average Canadian now owes \$1.64 for every dollar she earns.

The government has already lowered its target for this year from its own fall forecast. The OECD predicts that by next year, Canada’s economic growth will be below-average, just 16th out of a peer group of 30 countries. Canadians are getting by in this weak economy by borrowing—the average Canadian now owes \$1.64 for every dollar she earns, a consumer debt bubble as big as the one that was inflated in the United States before the financial crisis, and hugely contributed to it.

So what’s happening? How can our economy be the best in the world, while our middle class is being squeezed and our growth is beginning to seriously lag the rest of the developed world? The main cause of this cognitive dissonance is the financial crisis. In the 1990s and the beginning of the 21st century, Canadian leaders wisely chose to buck the global trend of banking deregulation. Thanks to those decisions, in 2008 Canada became an international economic superstar—the only G7 country that didn’t need to bail out its financial sector.

Dodging that economic bullet gave Canada a tremendous boost relative to its peers over the past six years. But, as Larry Summers, former economic adviser to the Obama White House, and former secretary of the treasury said at the Liberal Party convention in February, avoiding financial crises, while

a very good thing, is not an adequate economic agenda for a country. And, in our case, our comparative might in the wake of the crisis has masked our deeper, structural economic problems.

We’ve been an example of Erasmus’s great line that in the land of the blind, the one-eyed man is king; we’ve mistaken the fact that we didn’t endure a domestic financial crisis for actual economic strength. Now that the countries that did suffer from the financial crisis are finally healing, our own underlying weaknesses—and our failure to address them—are becoming more starkly apparent.

What we are discovering—as manifest in weak growth and employment and high consumer debt—is that the Canadian economy is suffering from three big structural problems. Two are particularly Canadian, one is confronting all of the developed world—and none of them was an urgent concern of our minimalist 2014 budget.

The big, global problem is stagnant middle class wages and feeble middle class job creation, especially of full-time positions. This is a long-term trend and it is happening, with varying degrees of acuteness, in all of the industrialized world. The combined forces of the technology revolution and globalization are hollowing out middle class jobs, driving down the wages in those that remain and making them less secure.

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For anyone who believes a prosperous middle class is the bedrock not just of our economy but of our democracy, this structural shift is our urgent and essential challenge. No one, anywhere in the world, has come up with the definitive solution. But the first step to shoring up our middle class is to recognize that we face a deep and profound problem—and one that balancing the bud-

get alone won't fix. The lack of that recognition is the most glaring absence in the 2014 budget.

Our two other big economic problems are specific to us. One is weak productivity and export competitiveness. As the IMF pointed out in its February report on the Canadian economy, "Canada's exports have barely recovered from the Great Recession and are well below the levels reached after earlier recessions." The IMF attributes this weakness in part to "low productivity growth".

What's particularly worrying about the IMF's assessment is its observation that over the past few years, even as we have been congratulating ourselves on avoiding the financial crisis, our export capacity has been eroding. As the IMF warns: "On the domestic front, the long period of low productivity growth and strong Canadian dollar may have left a deeper dent in Canada's exports potential (especially in the traditional manufacturing base), limiting the economy's ability to benefit from the projected strengthening in external demand." Again, these are big structural problems, and we need an ambitious economic agenda, not just tweaking at the margins, to address them.

Our energy arrogance has put us at risk of losing our international social license to export our resources. We are even, as I know from campaigning in my own riding of Toronto Centre, losing the support of many Canadians.

Our final major challenge is securing export markets, and the infrastructure to reach them, for our natural resources. This isn't chiefly a job for the budget—it is a matter of foreign and environmental and energy policy. But it is such a bedrock for our economy, and an area in which we are failing, that it is important to note. For too long, our implicit assumption has been that the world needed our resources so much that we needn't bother complying with, or even being fully aware of, international concerns about how they are extracted. That was morally wrong -- protecting the environment is an obligation and a concern for Canadians, not just Californians.

But it was worse than a crime, it was a mistake. Our energy arrogance has put us at risk of losing our international social license to export our resources. We are even, as I know from campaigning in my own riding of Toronto Centre, losing the support

of many Canadians. This is a grave economic danger, and it is one which is entirely self-inflicted. Only a sincere and long-term commitment to becoming the world's most environmentally friendly producer of natural resources can solve this problem and that is a challenge we cannot take up soon enough.

Our two other big economic problems are massive and structural. There are no simple or quick solutions. But here's one thing we know for certain—these are problems we can't fix if we don't try. And today, we aren't even trying. **P**

Chrystia Freeland, the new Liberal MP for Toronto Centre, is a former editor with the Globe and Mail, managing director of consumer news at Thomson-Reuters in New York, and the author of the 2012 New York Times bestselling Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else.
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NDP Finance Critic Peggy Nash in the House of Commons. She writes that “Jobs, prosperity and long-term economic growth were all put on hold for the sake of one artificial goal— budgetary balance in 2015.” House of Commons photo

A Balancing Act on the Backs of Canadians

Peggy Nash

NDP Finance Critic Peggy Nash says Budget 2014 wasn't all bad news. The Conservatives took action on a few issues proposed by the NDP, including closing the funding gap for First Nations schools and expanding access to rural broadband. But these initiatives were too little, too late, Nash claims, in a budget defined by what was left out, and by its status as a pre-election tactical tool.

Conservatives promised it would be a do-nothing budget, and they certainly kept their word. On budget day 2014, Finance Minister Jim Flaherty stuck to his script—driving home the same carefully crafted lines he'd been dutifully repeating for weeks. It was a marvel of consistency that lasted just under 18 hours.

For weeks, for months, indeed for over two years, Conservatives had insisted that they were focused on a singular goal—income splitting. They would balance the budget by 2015 and create the fiscal space necessary to remake Canada's tax code in their own image—an image resembling more “Leave it to Beaver” than “Modern Family”.

Over the last three budget cycles, no effort has been spared to set the stage for this year's budget—and with it, the

next pre-electoral one. Flaherty's last three budgets hit our economy hard with stifling austerity measures and harmful cuts to infrastructure projects. Jobs, prosperity and long-term economic growth were all put on hold all for the sake of one artificial goal—budgetary balance.

Flaherty's last three budgets hit our economy hard with stifling austerity measures and harmful cuts to infrastructure projects. Jobs, prosperity and long-term economic growth were all put on hold all for the sake of one artificial goal—budgetary balance.

Today, there are still nearly 300,000 more Canadians unemployed than before the 2008 recession. The unemployment rate still hovers around 7 per cent, and double that for youth. Our economy continues to underperform.

Statistics Canada reports that our current account trade deficit and household debt are at record highs. The IMF has warned that Conservative policies have done “structural damage” to our economy and downgraded its economic projections for Canada. And even the Conference Board of Canada has identified the growing inequality as a pressing issue facing our economy.

But it hasn't just been our economy that's suffered. Conservatives have cut vital services that Canadians rely on as well. Thirty-six billion dollars removed from health care over the next ten years. The retirement age for Old Age Security raised to 67—despite the Parliamentary Budget Officer confirming that the cut was unnecessary to achieve fiscal sustainability.

Cutting public services to Canadians: undermining food inspection, rail safety, veterans benefits and home mail delivery—just to name a few of this government's austerity measures.

Balancing the budget is a laudable goal, but it is self-defeating when it comes at the expense of prosperity and growth. Yet, through it all, Stephen Harper and Flaherty were clear: this year's budget was about next year's budget. They had made a promise to the Conservative Party base and

Statistics Canada reports that our current account trade deficit and household debt are at record highs. The IMF has warned that Conservative policies have done “structural damage” to our economy and downgraded its economic projections for Canada.

that promise would be kept, no matter the cost.

Yes, the Conservatives' income splitting plan would give literally *no help* to a staggering 86 per cent of Canadian families. Yes, it would increase inequality, rather than reduce it. And, yes, what little benefits it brings to Canadians would be overwhelmingly skewed towards the wealthiest 1 per cent. But this was a promise made by the prime minister. Whatever needed to be done, would be. The PM's plan for income splitting was that important. Right up until it wasn't.

This was a promise made by the prime minister. Whatever needed to be done, would be. The PM's plan for income splitting was that important. Right up until it wasn't.

Yet, the day—the morning—after Flaherty delivered his budget, he suddenly said it was merely an “idea” to be “looked at”.

Surely, the finance minister must have been speaking out of turn. The Conservatives wouldn't spend weeks justifying the need to deny help to struggling Canadian families, only to throw their own justification out the door. But that's exactly what they did.

In the hours that followed, minister after minister—and finally, under questioning by NDP Leader Tom Mulcair, the prime minister himself—made it abundantly clear.

For three years, Canadians had been told to accept cuts, accept austerity, accept stagnation and unemployment and lagging economic growth. They were told that the prime minister would make life more affordable—except, it turns out, that plan would leave the vast majority of Canadians behind. So they hesitated. A priority

so important one day that it justified harsh austerity was gone the next.

We live in an age of unparalleled innovation and technology. With the right choices, we can rise to meet any challenge and seize any opportunity. But to do that, we have to start by taking an honest look at where we stand and at the road ahead.

Last month, the Governor of the Bank of Canada, Stephen Poloz, told Canadians that our economy will very likely continue to struggle for at least another two years.

Governor Poloz suggested that our economy is caught between a rock and hard place. The Harper government has presided over largest expansion of household debt in Canadian history—166 per cent of disposable income. So, even with inflation low, Poloz warned, there may be little the Bank can do to stimulate our economy and create jobs without further stoking household debt.

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With monetary policy in a virtual straightjacket, the role of fiscal policy has become that much more important. There's a common sense role for government to play, making productivity enhancing investments in infrastructure, education and innovation. Government fiscal policy can foster a climate that promotes competi-

tion and encourages investment and growth while at the same time protecting consumers and creating high-quality, middle-class jobs—in every region and in every sector.

Canada is one of the most entrepreneurial countries in the world. Even during the recession, Canadian small businesses thrived and multiplied, but under the Conservatives, the number of medium-sized businesses has actually shrunk. A decade of across-the-board tax breaks for the largest corporations has failed to spur investment, job creation and economic growth.

That's why, in the lead up to this year's budget, New Democrats called for targeted tax cuts that encourage investment in clean technology and help manufacturers retool for the 21st century. That's why we called for Conservatives to restore the \$5.8 billion in local infrastructure funding cancelled in 2013. And that's why we'd called for doubling the \$1,000 hiring credit for small business and adding an additional credit for businesses that hire and train young people.

Yet, rather than focus on helping small businesses expand and manage their growth, the Conservatives' budget will actually eliminate the existing small business hiring credit introduced three years ago. Not only have Conservatives failed to move forward, but they're moving

backwards—and not just where small business is concerned.

While last fall's speech from the throne promised to put consumers first, the Conservatives' new budget falls far short.

Conservatives have promised regulations to create greater homegrown competition and rein in high wireless costs. They've promised to ban unfair pay-pay billing practices. But Canadians have heard these promises before, and we're still waiting for action.

Harper's own throne speech promised to rein in basic banking fees. Yet in February, Conservatives defeated an NDP motion to cap ATM fees at 50 cents—40 per cent higher than the estimate cost of a transaction. Conservatives have rejected other common sense measures to protect consumers like requiring banks offer at least one “no-frills” credit card with an interest rate capped at prime plus 5 per cent and cracking down on the abusive practices of payday lenders. Again, no action.

In the last two years, Conservatives have broken faith not only with their own promises, but with Canadian seniors as well.

Stephen Harper campaigned on a promise to not only protect public pensions like Old Age Security and the Canada Pension Plan, but also to protect “all projected future increases

to these programs.”

In 2012, in Davos, Switzerland, he announced that he would slash Old Age Security, that he would raise the retirement age for OAS to 67. A year later, his finance minister scuttled plans proposed by the provinces to expand CPP. All this, while millions of Canadians are desperate to find a better way to save and invest for their future.

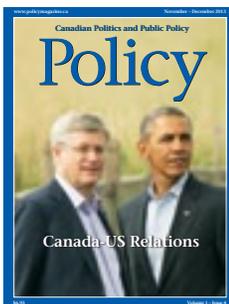
It's true that Budget 2014 wasn't all bad news. Conservatives have taken action on a few issues proposed by the NDP—moving towards closing the funding gap for First Nations schools and expanding access to rural broadband. We're always happy when other parties steal good NDP ideas. But these initiatives are few and far between—too little, too late.

Canadians deserve a government that's on their side—each and every day. They deserve leaders that are focused on them, not on cynical political games. And that's exactly what New Democrats are offering: a government that will build a fairer, greener, more prosperous Canada—not just for some of us, but for each and every one of us. **P**

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Policy

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Prime Minister Stephen Harper and Assembly of First Nations Chief Shawn Atleo at the signing of the First Nations education agreement in Standoff, Alberta on February 7. Four days later, the \$1.9 billion in funding for the accord was in the federal budget. PMO photo

First Nations Education: Anatomy of a Breakthrough

Robin V. Sears

History is often written in moments of unforeseen opportunity, blessed serendipity and politically harmonic convergence. When Stephen Harper and Shawn Atleo jointly announced a new, long-sought deal between the federal government and First Nations on education February 7, it wasn't simply the predictable product of bureaucratic slogging. There was an element of chance involved, best illustrated in an astonishing message Atleo received while attending Nelson Mandela's funeral with the Canadian delegation.

Outsiders often mutter grumpily about politicians' waste of time and money lavished on grand state occasions. Summits, glamfests like Davos, state funerals and weddings are sneered at as self-indulgent extravaganzas merely feeding the vanity of leaders and their entourages. And many are.

Those "in the life" know that they can also be essential venues for breakthrough discussions. Long dinners, with no agendas or staff present and even chance corridor encounters can sometimes offer unique opportunities for discreet intelligence sharing and mood testing.

The funeral of Nelson Mandela was one of those.

The Canadian delegation to the elabo-



Aboriginal Affairs Minister Bernard Valcourt, Grand Chief Charles Weselhead, Prime Minister Harper and AFN Chief Atleo at the announcement of the historic First Nations education accord. PMO photo

rate ceremonies honouring the life of the hero of South African liberation was an unusual group—prime ministers, premiers and governors-general—some who rarely spoke to each other, and others who were barely on speaking terms. But the emotion of the occasion, the shared pride at Canada's role in defeating apartheid, meant the closing dinner for the Canadian delegation was a night of laughter and shared stories.

Brian Mulroney had just finished one of his hilarious tales of being “hand-bagged” by Maggie Thatcher over his support for Mandela, when Assembly of First Nations National Chief Shawn Atleo's BlackBerry buzzed with an astonishing message.

Atleo had taken the bold, but not uncontroversial, decision to miss his own organization's annual assembly in order to attend the funeral. He had long revered Mandela, and saw in the South African liberation story important lessons for Canadian First Nations. Some of his supporters were worried what use his internal opponents might make of his absence.

Those opponents had been raising their rhetoric about the failure of Atleo's government negotiation efforts. None of the dossiers that Prime Minister Harper had promised action on in their January 2013 summit, nearly a year earlier,

had moved much. Indeed, on the education file, the government had issued a provocative and certain-to-be-rejected draft bill only a month earlier. It had been curtly dismissed by Atleo in an open letter to Aboriginal Affairs Minister Bernard Valcourt.

The paralysis—the same players playing their usual roles over and over again—seemed to be impossible to break. Many angry chiefs refused to grant any trust to the government's education plans, their faith having been broken too many times to recall. The department officials used this distrust to defend their inaction. Successive bureaucrats had warned keen new ministers of the risk of moving on education without “First Nations unanimity.”

In their continuing parody of a *Yes, Minister* sketch they would describe any new initiative as, “Courageous, Minister! But do you really want to risk igniting a civil war among First Nations, and huge attacks on your government by all the usual suspects, if you support one faction....” The loss of control over hundreds of millions of dollars in funding, and many hundreds of gatekeepers' jobs, was surprisingly never cited as a more powerful motive for their resistance.

The weeks following the January 2013 summit had looked more positive. The PM's chief of staff, Nigel Wright, was

seized of the file, and was applying his remarkable deal-making skill. His departure in the spring left an enormous hole in the PMO. Neither his replacement as chief of staff, nor Ray Novak's hyper-partisan deputy, Jenni Byrne, had much knowledge of, or interest, in First Nation issues. “Nothing our base cares about,” was the sneer one often heard from hardline Tory staffers, whenever the government's failure to deliver on promises to the First Nations community was raised.

Atleo and his supporters had to fight a constant two-front war on education reform. They attempted to keep their coalition of supportive chiefs united in the face of little or no progress, on the one hand, while keeping up pressure on the bureaucrats on the other. The endless excuses of the officials as to why no deal was possible were at times insulting. A final gambit was the bizarre demand that First Nations signal their public support for the draft legislation without any financial commitment. “The money to implement we can discuss immediately after,” the bureaucrats promised.

A very dim used car dealer would not attempt such an obvious bait-and-switch.

Atleo decided that they had to “remove the excuses” being employed by the department and to force a clear

choice on the government. He would do it by taking forward a clear list of demands reflecting what First Nations leaders were saying across the country and pointing a clear path forward, and an alternative to conflict, encouraging the AFN to stand united for kids and for change.

Then, Nelson Mandela died.

With the backing of his national executive, the decision to attend the funeral and honour Mandela was taken and Atleo left the all-important assembly trusting that dialogue and discussion and leadership among chiefs would prevail. It turned out to be an inspired decision. With Atleo thousands of miles away, both his critics and his friends could have an open discussion about the merits or miscalculation of his strategy on education, without having to resort to oratorical excess.

And they did, for nearly three hours.

It was among the most honest and politics-free discussions on one of the most powerfully emotive subjects in the First Nations world. Veterans of the residential schools battles, aging chiefs who had led the fight for “Indian control and history in Indian education,” 40 years earlier, young chiefs angry at the rising cost in suicide and dropout rates as a result of the 15-year stalemate on funding and curriculum control on their reserves, lined up at the mikes. Out of the cathartic debate emerged a clear resolution.

There was a sense in the room that the moment had to be seized. Atleo and Harper’s terms would be up in 18 months. The government was going into a pre-election period. If no deal could be made in the next year, it would probably be many more years before they arrived at this place again.

The resolution demanded a “child-centered” education solution. It called for a “culturally grounded” curriculum. It demanded statutory guarantees of “sustainable funding” from Ottawa. But it was also deliberately free of the usual desk-pounding rhetoric of convention resolutions. It also committed the AFN chiefs to “working together” and “to press Canada to respond” to both the demonstrated need and Canada’s long unmet obligations to provide First Nations children with decent schools.

But even more improbably, it was adopted unanimously.

This was the message that erupted on Atleo’s BlackBerry, late at night, thousands of miles away. He immediately recognized the importance of the decision and the power of this occasion to help secure a path forward. Atleo reported to the Canadian delegation dinner at Mandela’s memorial in South Africa what had just been agreed to in Canada, and was greeted with smiles and applause. Prime Minister Harper was, as is his wont, more reserved. Later he committed to Atleo his willingness to give the issue one last push.

Atleo reported to the Canadian delegation dinner at Mandela’s memorial in South Africa what had just been agreed to in Canada, and was greeted with smiles and applause. Prime Minister Harper was, as is his wont, more reserved. Later he committed to Atleo his willingness to give the issue one last push.

Each returned home, determined to make a serious push for an early announcement of a way forward. Needless to say, the previously hostile bureaucrats’ political antennae signaled a fateful shift in the political winds. They climbed on board, claiming to have favoured the ultimate deal all along.

Valcourt, in a surprising mid-course correction, responded to Atleo’s open letter with one of his own. This time, more temperate and conciliatory with a hint of further concessions.

The final details were put into the joint announcement by the prime minister and the national chief only hours before they stood before a First Nations reserve audience in Alberta on February 7. There, they declared that they had broken the stalemate on the linked issues of governance and control and the financial paralysis surrounding a guarantee of high-quality, culturally sensitive schools for Canada’s indigenous peoples. It was an emotional scene, made more poignant by an angry demonstrator denouncing Atleo as a sell-out.

Now, the hard work begins. The \$1.9 billion First Nations education initiative was part of the budget, four days

later. The funding is now fully committed. Within weeks, the grinding work of negotiating local level governance structures and funding mechanisms, one by one, will begin. Then negotiations over curriculum and hiring will need to be undertaken. Only then will students be invited to cross the threshold to a new era in First Nations education.

And then, of course, the scrutiny about how well the reserve schools are run, how quickly they can improve graduation rates, will turn an intense spotlight on First Nations educators. The dropout rate of 62 per cent in reserve schools speaks for itself, and all stakeholders can share the blame. Their success is far from guaranteed. The list of those who would like them to fail is not short. The Quebec Assembly of Chiefs has threatened legal action.

However, as a result of the serendipity of timing, an unplanned absence, and the courage of two leaders, a poisonous stalemate may have been broken. Later, those who struggled so hard on all sides, behind the scenes, to make the breakthrough real will have their day in the sun. If the first steps taken in this school-building process do recreate trust, the stage may be set to tackle the even more vexed Gordian knots surrounding treaty implementation and land claims resolution.

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Many fingers are now crossed that this education agreement may begin the healing process and “our restoration to the path of respect and partnership” between Canada’s first peoples and its governments, a journey to which Shawn Atleo, in his own words, has devoted his career. **P**

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Prime Minister Harper announces in PEI in May 2013. The Job Grant reflects his sense of the division of powers between Ottawa and the provinces. PMO photo

The Harper Rosetta Stone

Jack Hughes

When the Canada Job Grant was announced, there were many who believed—and even some who hoped—the federal government was trying to pick a fight with the provinces. Above all, the Canada Job Grant is an object lesson in Stephen Harper’s beliefs about the division of powers between the federal and provincial governments and about the division of responsibilities between the public and private sectors.

The evolution of the Canada Job Grant, from the centrepiece of Economic Action Plan 2013 to a modified version briefly referenced in Economic Action Plan 2014, is a story that offers invaluable insight into Prime Minister Stephen Harper’s philosophy of government.

To that end, the grant can be used as a political Rosetta Stone—a key to understanding the PM’s views on both the division of powers between the federal and provincial governments and the proper division of responsibilities between the public and private sectors. The existence of such a tool is relevant because there are still those who consider Harper to be an enigma. More improbably, despite his having been in office for more than eight years, there is even a small but dedicated band of skeptics who continue to search for his “hidden agenda”. To them, or to anyone who genuinely wants to have a better understanding of Stephen Harper’s brand of conservative ideology, the Canada Job Grant is a telling example of what he is attempting to do and what he hopes to achieve.

In certain respects, the Canada Job Grant remains unchanged from the initiative first outlined in Budget 2013. It

is still a vehicle through which eligible businesses can access up to \$15,000 in skills-training funding for their employees. As originally conceived, however, the funding for the grant was to come from matching contributions of up to \$5,000 from an interested private sector employer, the federal government and the relevant province or territory—in that order.

To access matching funds, an employer had to first “show their commitment” by pledging to make a financial investment. If the business in question qualified, the federal government would then make a matching contribution. The appropriate province or territory would, in turn, provide the “final third”.

In that first iteration, therefore, the grant could be characterized as a public-private partnership in which the federal, provincial and territorial governments would collectively harness their respective resources to “achieve [their] shared objectives of creating jobs and economic growth.” While Finance Minister Jim Flaherty readily acknowledged the final details were still to be negotiated with the provinces and territories, it was immediately apparent those negotiations would be complicated by the fact that

the federal government had not consulted in advance. This was not an accidental oversight. The decision to engage the provinces and territories after the fact was arguably the first indication that the Harper government was prepared to act unilaterally. Just how far it was willing to go down that path would only become clear in the months that followed.

Prime Minister Harper has, at times, described the provinces as “lower forms of government”—by which he does not necessarily mean “lesser forms of government”. For lack of a better description, it might be accurate to say he is a strict constructionist with respect to the constitutional division of powers. At his core, it is clear that Harper believes the federal government should play a leading role when it comes to national issues and priorities. It is also clear that in this, as in all things, he believes that there should only ever be one leader at a time.

In the case of the Canada Job Grant, the fact that the provincial/territorial governments weren’t consulted in advance, and the ease with which the federal government subsequently agreed to cover its share of the funding, suggest that their consent and participation was never viewed as essential.

After the program was announced, there were many who believed—and even some who hoped—the federal government was trying to pick a fight with the provinces. To them, the grant was either an attempt to encroach on an area of provincial jurisdiction or a clever way of diverting transfer payments. Yet, in stark contrast to the attempts by some provincial officials to generate a public backlash against the federal position, the posture adopted by the Harper government belies any sense that they are trying to force a battle over jurisdiction.

Since his new portfolio was created last summer, Employment Minister Jason Kenney has deftly handled the negotiations with the provinces and territories by publicly positioning himself as the reasonable man. He has been quick to make tactical concessions, while not compromising the government’s core strategic objective. He has freely acknowledged that the original plan may not have been perfect, while solidifying the impression that the federal government’s heart (and head) is in the right

place. Moreover, he has established a foundation for the grant on the bedrock of a logical premise: In many vital sectors of the economy there are severe skills gaps that will only be exacerbated by looming demographic trends. The gaps are themselves proof that existing programs just aren’t working.

In both tone and content, therefore, the Harper government has tried to downplay any differences with the provinces and territories. While some of them have launched a series of salvos at their federal counterparts, there has been no return fire. Arguably the most striking example of how little the provincial attacks have changed the federal narrative is the language used to describe the grant in the texts of both the 2013 and 2014 budgets. In both documents, the federal government pledges to work closely with the provinces and territories to implement the grant through the renewal of Labour Market Agreements. None of the language found in the 2014 version even hints at the strong opposition from the provinces, apart perhaps from the somewhat cryptic note that if joint efforts fail the federal government will simply deliver the grant themselves.

What lessons can we infer from all this? First, while Harper has a bias for smaller and less interventionist government, he will act unilaterally and decisively in an area where he believes he has the authority to impose a solution to what he perceives as being a national problem. Second, on important and contentious issues the prime minister and his government will disagree without being disagreeable. Unlike some of his recent predecessors, the PM will prevent policy disputes and political disagreements with the provinces from becoming constitutional crises.

While the Canada Job Grant is the most recent example of this last point, it is not the only example Harper has negotiated agreements with the provinces on a number of issues, from health care funding to agricultural support programs—all without convening first ministers conferences.

In the same way that the Canada Job Grant offers us a perspective on the PM’s views of the respective roles of the federal, provincial and territorial governments, it also provides us with a perspective on how he views the proper roles of the public and private sectors. It is no secret that Harper and his cabinet have long believed that business—writ large—has not done enough on skills

training. Large companies, in particular, are seen as too quick to avail themselves of various stopgap measures which were cheaper, easier and faster.

Consequently, while the grant was initially promoted on the basis of the flexibility it would provide to both employees and their employers, we now know the federal government’s primary goal was to force the private sector to the table.

In this respect, the government’s messaging has been far from subtle. As Kenney candidly confided to journalists “[the] idea behind the grant...is actually to leverage an increase in private sector funding.”

Lest anyone miss his message, Kenney buttressed the point by noting: “[the] Canadian private sector spends less than virtually any other developed country’s private sector on skills development and jobs training.” Translation: It’s time for the private sector to pull its own weight.

In that sense, the Canada Job Grant is perhaps the natural extension of the Harper government’s foundational belief that the public sector should not intervene in or interfere with the private sector unless it is absolutely necessary to do so. Harper, Kenney and Flaherty all seem to share a genuine personal conviction that the private sector is far better and more efficient at identifying skills gaps as well as devising solutions for how to fill them. By that logic, governments should follow or, better still, get out of the way entirely.

Just as the real Rosetta Stone was a key to understanding ancient Egyptian hieroglyphics, the Canada Job Grant can be a key to understanding Stephen Harper’s views about both the public and private sectors. Yet, just like the real Rosetta Stone, the Canada Job Grant is missing key pieces.

At the time of writing, Minister Kenney is continuing to negotiate—having just acceded to two requests made by the provinces and territories. Whatever the outcome, the Grant has already succeeded in one respect: It has shown Canadians, cynics and supporters alike, what our head of government thinks of government. **P**

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Workers with ASD on the job at a bakery and catering co-op in Toronto, where they are shareholders in the business. Photo courtesy of Kelly Brothers Productions and the Sinneave Family Foundation—from the documentary *Autism Grows Up*.

Opportunity and Success

FOR YOUTH AND ADULTS WITH AUTISM SPECTRUM DISORDER

Margaret E. Clarke, David B. Nicholas,
Herb Emery and Carolyn Dudley

Canadians with Autism Spectrum Disorder (ASD) will benefit from the vocational initiatives announced by the Harper government in the 2014 budget. Underemployment, unemployment, family financial burden and poor adult quality of life are a reality for many living with ASD. CommunityWorks Canada is an innovative concept for supporting youth with ASD (12 to 24 years of age) and their communities for increased vocational opportunity. Employment policy initiatives along with quality housing options and caregiver supports could highlight Canada as an international leader addressing solutions for those with neurodevelopmental conditions like ASD.

The February budget speech of Finance Minister Jim Flaherty was remarkable for Canadians affected by Autism Spectrum Disorder for two reasons. First, ASD was specifically identified as a condition that was to be supported by the commitment of \$26.4 million over four years to support increased employment and labour force participation of affected individuals. Second, the announced funding was for adults with ASD, where much of the policy focus on ASD to date in Canada has been on early intervention for children. Prior to this announcement, there has been a “support cliff” for persons with ASD who transitioned from adolescence to adulthood.

It is perhaps not surprising that ASD has been prominently addressed, as it is now the most commonly diagnosed neurodevelopmental condition

in children. Prevalence rates indicate that one in 88 children is now diagnosed on the spectrum.

ASD is one of society's most costly neurodevelopmental conditions. Research shows that families experience added financial burden due to the loss of employment opportunities for the individual living with ASD, the loss of parental employment opportunities due to caregiver time redirected for support, and the added costs associated with having a disability, such as speech therapists, occupational therapists, psychologists and special equipment or other resources. Many individuals living with ASD need lifelong support and incur extensive costs to obtain needed support. The value of caregiver time for a high needs individual are at least \$158,000 per year, amounting to \$5.5 million over a lifetime, above the costs to support a neurotypical individual.

Some of the high economic burden associated with ASD arises from poor labour market opportunities. Canadians with ASD, along with other neurodevelopmental conditions, have extremely low labour force participation rates at around 44 per cent, and employment rates of around 35 per cent. Even when these individuals have employment they are unlikely to work full time. Canadians with physical disabilities fare much better in the Canadian labour market even though they are typically much older.

Preliminary findings from a review of vocational services for persons with ASD suggest that parents often shoulder the burden to create and maintain vocational opportunities for their adult children. Participants identified employment barriers in the form of negative societal attitudes in the workplace, lack of effective supports and difficulty with workplace transitions. Negative workplace experiences can lower confidence in one's employment ability and pose barriers to successful employment in the present and future.

With effective policy interventions, labour market outcomes can be improved. Numerous examples from coast to coast illustrate that when vocational capacity, access and support are in place, employment opportunity and stability can be nurtured. Figure 1 reflects findings emerging from a national study by Canadian researchers

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at the University of Calgary, University of Alberta, University of Toronto, University of British Columbia, and Dalhousie University, as well as leaders in ASD organizations. The figure outlines elements contributing to vocational success for individuals with ASD: (i) individual preparation and support, (ii) pro-employment policy and programming, (iii) engagement and supports for employers, and (iv) community capacity and a commitment to inclusive employment. Based on emerging evidence, these factors nurture positive outcomes for employees with ASD and favourable "bottom line" outcomes for employers. As these elements are increasingly integrated in the Canadian marketplace, we anticipate that increased job stability can be achieved for persons with ASD.

In the 2014 budget the government is committing to support two complementary initiatives—Ready, Willing and Able (\$15 million over three years) and *CommunityWorks* Canada (\$11.4 million over four years). These programs align with the findings and recommendations of the Federal Panel on Labour Market Opportunities for Persons with Disabilities. These initiatives can assist those

who have the skills to obtain viable employment and secure jobs that may elevate them out of a life of poverty and engage the employment sector to realize the vast potential contribution of persons with disability in the Canadian labour market.

CommunityWorks Canada, a partnership between the Sinneave Family Foundation and Autism Speaks Canada, offers a model of community-based employment engagement for youth and young adults with ASD age 12 to 24 years. Participants are exposed to and supported in the workplace at an early age, along with an integrated program of focused training, community engagement and nurturing relationships. Individuals with ASD are paired with neurotypical peer mentors who mutually learn, practice and apply job skills. Within community placements, participants are coached and supported in workplace strategies that ultimately foster employment success. Outcomes from a pilot in the US have shown multiple gains for participants in work related skills such as problem solving, task focus and social interaction.

Two ingredients to successful employment for persons with ASD have emerged. First, early vocational exposure offers opportunity for skill devel-

FIGURE 1: Elements Contributing to Vocational Success in ASD



opment, practice and determination of optimal job “fit” as well as community awareness of the contribution of persons with ASD. The experience of working in the community reflects youth access to various work settings such as food banks, libraries, food services, offices, etc. Beyond structured opportunities for work, training and practice gained by the individual with ASD and peer, additional benefits are anticipated that reflect employer, co-worker and community awareness, ideally promoting a deeper ‘welcoming’ via relationship building and greater realization of strengths and contributions.

Second, vocational success entails the integration of services such as job coaching, life skills development and employer training. This training, support, nurturing and community capacity offered by *CommunityWorks* Canada has demonstrated substantial impact, with anticipated outcomes of heightened labour market inclusion

The opportunity to work will provide meaning, purpose and structure for Canadians affected by ASD through social engagement, meaningful contribution, engagement and acceptance. Initiatives like these offer hope for improved life conditions.

for people with ASD. Participating sites across Canada will be supported in capacity enhancement within their respective community, and extensive evaluation is planned for ongoing program improvement.

Based on projections for scalability and impact, we anticipate that approximately 1,200 youth with ASD will benefit each year once the initiative is scaled to capacity. Key components of

the initiative are outlined in Table 1.

TABLE 1 KEY PROGRAM COMPONENTS
Relationship with an individual with ASD and a peer in a series of job preparation opportunities
Participation in two volunteer placements
Summer co-op placement in varied settings—libraries, food banks, social enterprises, etc.
Curriculum ‘toolkit’ development with technology supports to maximize independence
Regional adaptation for region-sensitive application
Education and development in schools and community organizations
Engagement of participants, peer mentors and university/college student coaches
Facilitator and mentor training
Monitoring of program initiation
Program evaluation
Capacity development within and across regions

CommunityWorks Canada complements the “Ready, Willing and Able” program that is being led by the Canadian Association for Community Living (CACL) and the Canadian Autism Spectrum Disorders Alliance (CASDA). Where *CommunityWorks* Canada prepares youth for employment success in adulthood, Ready, Willing and Able offers preparatory and developmental steps in moving toward employment (see Figure 2).

The opportunity to work will provide meaning, purpose and structure for Canadians affected

by ASD through social engagement, meaningful contribution, engagement and acceptance. Initiatives like these offer hope for improved life conditions. Enhancing vocational supports vicariously also has the potential to lessen financial burden on the Canadian tax base, support families, and importantly promote better quality of life for individuals with ASD and other developmental disabilities.

Vocational supports are a good start, but a comprehensive plan to address the unmet needs of this growing demographic is still needed. Quality housing models, caregiver supports, accessible health and mental health resources, along with vocational opportunities, addressed together, will begin to form a strategy with significant impact. To that end, the 2014 budget is an important step forward, but still lacks a more aggressive approach to addressing the growing needs of aging Canadians and individuals with neurodevelopmental conditions who need a broad range of lifelong support.

Canada could be an international leader in policy that addresses the needs of those with neurodevelopmental conditions, if the vision for vocational opportunity is coupled with other needed initiatives. Addressing the spectrum of challenges and needs makes sense for the Canadian economy and the health and well-being of individuals and families. To that end, the introduction of *CommunityWorks* Canada and Ready, Willing and Able constitute important steps forward. **P**

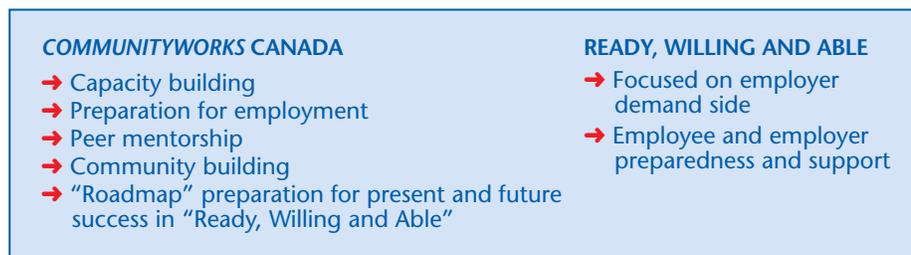
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FIGURE 2: Relationship between *CommunityWorks* Canada and Ready, Willing and Able





Trudeau's Senate Gambit: Shock and Awe in the Name of Less Democracy

Geoff Norquay

Liberal Leader Justin Trudeau works a crowd in Edmonton. Geoff Norquay writes that his Senate gambit, expelling Liberal senators from caucus, was a bold move, if a high-handed one. Photo, Adam Scotti

Justin Trudeau's decision to expel Liberal senators from his caucus was a politically astute coup de theatre popular among Canadians. But as much as it staked out Senate reform ground for Trudeau between Stephen Harper and Tom Mulcair, it was not an act of democratic reform. Trudeau's model for appointing senators will do nothing to make the disgraced upper chamber more democratic.

Early on the morning of January 29, Liberal leader Justin Trudeau dropped a bomb on Ottawa, especially on his Liberal Senate colleagues. By expelling them from the Liberal national caucus and making them sit as independents, Trudeau said he was striking a blow “to end patronage and partisanship in the Senate.”

What Trudeau gained in “shock and awe” value and in showing dynamic leadership was initially diminished by his bewildered senators, who faced the media struggling to explain who they now were, what they would henceforth be called and how they would operate in future in the upper chamber.

The Liberal senators righted their boat quickly and decisively. Within a day, they had formed the “Senate Liberal Caucus,” been recognized by a cooperative Senate Speaker Noel Kinsella, assigned all of the leadership jobs, along with their former pay and perks, and promised to carry on as the Official Opposition in the Senate.

So much for radical change. As the

prime minister put it in question period, “I see the change announced today is that unelected Liberal Senators become unelected Senators who happen to be Liberal!”

Quibbles and jokes aside, Trudeau's gambit was still pretty smart politics. The reason is that before January 29, he was neatly wedged between Opposition Leader Tom Mulcair and Stephen Harper, with very little to say on the Senate.

As leader of the NDP, Mulcair inherited his party's decades-long call to abolish the Senate, and has used it to great success as the endless Senate scandals have virtually destroyed what little public standing the upper house retained in the country. Harper's hands remain tied by his delay in launching his reference to the Supreme Court on Senate reform. No matter how much he would like to lead the national debate on the Senate's future, regardless of what radical reforms he would like to advance, he cannot disrespect the Supreme Court by speaking out before it has provided its advice.

So by going with his Senate shocker, Mr. Trudeau instantly carved out a substantive middle ground on a difficult and complicated subject. It also had the added advantage of appealing to those many voters who long to see *something—anything—*done about the Senate. An early poll by Angus Reid found 53 per cent of Canadians either strongly or somewhat approving of the Trudeau move.

More doubtful is Trudeau's claim that the principal problem with the Senate is excessive partisanship. Actually, the place where partisanship is the most corrosive is the House, not the Senate. On many occasions over the years, Liberal and Conservative Senators have come together to produce some serious, thoughtful, independent and non-partisan studies of challenging topics. One has to think long and hard for similar examples in the House.

By far the weakest link in Trudeau's proposals is his new "non-partisan" method of appointing Senators:

That is why I am also announcing today that if I am elected prime minister, I will put in place an open, transparent and non-partisan appointment process for Senators. This process will be developed working with experts and informed by other non-partisan appointment processes, such as that of the Supreme Court justices and Order of Canada recipients.

All would agree that the current Senate appointment process is far from democratic. About the only positive thing that can be said about it is that at the very least, appointments are made by an individual who actually gets his or her job through the electoral process, namely the prime minister.

When he was first elected, Stephen Harper thought he had a better idea about Senate appointments. He vowed he would not make them until he convinced a sufficient number of provinces to adopt the "Meech model" of province-wide elections for prospective Senators, who he would then appoint when the next vacancy in each province came up. This model had the huge advantage of conferring at least some electoral and democratic blessings on the appointment process, without the dreaded opening of the Constitution.

The place where partisanship is the most corrosive is the House, not the Senate. On many occasions over the years, Liberal and Conservative Senators have come together to produce some serious, thoughtful, independent and non-partisan studies of challenging topics. One has to think long and hard for similar examples in the House.

Unfortunately, Harper was unable to make the sale to the provinces; Alberta remains the only province to use the electoral approach to identifying Senators-in-waiting. So after three years of no appointments, and with the Liberal majority in the Senate threatening his legislative program during his early minority years, the prime minister reluctantly capitulated and began making appointments.

While it is far from perfect, the Alberta province-wide election approach, combined with prime ministerial appointment, is still much more democratic than the current appointment process elsewhere in the country. It's a half-way house between direct election and wholesale electoral reform, which would bring the constitution into play, and which all would agree is to be discouraged. That, plus Senate term limits, is what Prime Minister Harper has been trying to achieve, but it is useful to note that he has been fought at every step of the way on this point by the Liberals in the Senate.

Now that we see the Liberal alternative plan for Senate appointments, or at least Trudeau's plan, it is clearly a serious disappointment. Instead of an appointment process that is one step removed from democracy, the Trudeau vision is that it will be two steps removed. As a result, Trudeau's Senate selection alternative takes the Liberals completely out of the game as far as the democratization discussion is concerned.

Why have senators elected, when we can have them chosen by the Order Of Canada committee of "experts" and "worthy Canadians" who themselves will all magically become candidates for consideration? This is a throwback to the days of Trudeau-père and the "philosopher-king" utopia.

But not to worry, because if the Or

der of Canada selection process is any guide, our future Senate will be populated by totally worthy Canadians: former deputy ministers and generals, art gallery and symphony pooh-bas, social planning gurus and community organizers, distinguished environmental campaigners, former bank executive-vice presidents retired university presidents. Senator David Suzuki, come on down.

Of course, the *pièce de résistance* of Trudeau's appointment process is that these new senators, chosen under his plan by the committee of experts and worthies, will have the right to overturn and/or amend legislation created by the people's representatives—the folks in the Commons—those who were actually elected by the people. The appointed will trump the elected. How in the name of anything that makes sense does this build confidence in the Senate as a democratic institution?

The real issue here is accountability. It's a simple but powerful doctrine. It holds that those who exercise political power on the people's behalf derive their legitimacy at the ballot box; that those who would exercise that judgment should submit themselves occasionally for an accounting to the people who put them there. It's called democracy. **P**

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The Supreme Court of Canada, where the justices have heard arguments in the Harper government's reference on the Senate. Adam Dodek writes of the degree of difficulty in amending the Constitution. *Policy photo*

Amending the Constitution:

THE REAL QUESTION BEFORE THE SUPREME COURT

Adam Dodek

To the extent that Canadians think about the patriation of the Constitution in 1982, they tend to think about the Canadian Charter of Rights and Freedoms. But the Charter was not what made the deal between the provinces (except Quebec) and the federal government. For most of the provinces, the Charter was the cost of the deal; the deal was about the amending formula. The real issue before the Supreme Court in the Senate reference is how rigid those amendment procedures are.

For three days last November, the Supreme Court heard arguments from lawyers for the federal and provincial governments about which constitutional amendment rules apply for reforming the Senate. In the Senate reference, the Supreme Court will determine the relevant amending procedure for potential reforms including: Creating fixed terms for senators; establishing “consultative elections” for senators; repealing the requirements that senators must own \$4,000 in property in the province for which they are appointed; and abolishing the Senate. A decision is not expected for months, perhaps not until next fall.

The Senate reference is about much more than whether Stephen Harper

can proceed with his plans to impose term limits and institute “consultative elections” for the Senate. It is about how, and perhaps if, we can amend our Constitution.

When it comes to amending the Canadian Constitution, there is a paradox: it is remarkably easy to amend some matters and remarkably difficult to amend others.

This is because there are actually five different amendment procedures in the Constitution: (1) the general procedure also known as the “7/50 formula” because it requires the consent of Parliament and two-thirds of the provinces (*i.e.* 7) having at least fifty percent of the population; (2) federal unilateral, *i.e.* Parliament acting alone; (3) provincial unilateral, *i.e.* a province acting alone to amend its own constitution; (4) Parliament plus affected provinces on certain matters; and (5) unanimity of Parliament and the legislatures of all the 10 provinces. The territories are completely shut out from the formal amendment procedures.

Some of these are relatively easy. When the federal government is able to amend the Constitution alone, all that is required is ordinary legislation passed through Parliament. The most amended provision of the Constitution has always been the provision relating to the distribution of seats in the House of Commons: section 51 of the *Constitution Act, 1867*. This provision has been amended six times since Confederation, including twice since 1982. Similarly, provinces can make changes to their own affairs (with the exception of the office of the lieutenant governor). Thus, if any province wanted to create its own Senate, it would be free to do so (Quebec abolished its upper chamber in 1968).

Similarly, provisions that require only bilateral agreement between a province and the federal government, such as education, have not proven difficult to amend. When then-Ontario PC leader John Tory challenged the unfairness of Ontario’s policy of funding Catholic schools but not other religious schools, some responded by claiming that Ontario’s hands were tied because any change would require a “constitutional amendment”. These were meant to be scare quotes but in reality all that would be required to end public funding of Cath-

Since patriation over 30 years ago, it has proven difficult, if not impossible, to amend the Constitution. The failed attempts of Meech Lake and Charlottetown serve as a powerful deterrent to those who would ponder the possibility embarking on constitutional change. Since those efforts failed, no one has dared to try.

olic Schools would be a simple majority vote in the Ontario Legislative Assembly and a request to the federal government to introduce a resolution in the House of Commons to do the same. (And some political courage).

Politically, Canadians don’t really think of the above items as constitutional amendments. We consider constitutional amendment not in strict legal terms but in political terms as changes to the basic structures of our parliamentary democracy: the House of Commons, the Senate, the monarchy, the governor general, the Supreme Court, the Charter and so on.

For many of these big-ticket items, the default procedure is the general amending formula or “7/50”. The Constitution also prescribes specific items that may only be amended by using the general procedure. Importantly for the Senate reference, these include “the powers of the Senate and the method of selecting Senators” and “the number of members by which a province is entitled to be represented in the Senate and the residence qualifications of Senators”.

Additionally, amendments to the Constitution relating to the following require unanimity of the federal government and all the provinces: (a) the office of the Queen, the governor general and the lieutenant governor of a province; (b) the right of a province to a number of members in the House of Commons not less than the number of Senators by which the province is entitled to be represented when the Constitution Act, 1982 came into force; (c) the use of English or French in certain circumstances; (d) the composition of the Supreme Court of Canada; and (e) an amendment to the amending formula.

On this basis, since patriation over 30 years ago, it has proven difficult, if not impossible, to amend the Constitution. The failed attempts of Meech Lake and Charlottetown serve as a powerful de-

terrent to those who would ponder the possibility embarking on constitutional change. Since those efforts failed, no one has dared to try.

It wasn’t supposed to be this way. The enactment of the *Constitution Act, 1982* was simply supposed to be the completion of the first round of constitutional reform. It is now largely forgotten that the 1970s was a decade of almost continuous frenetic constitutional negotiations that culminated in patriation and the enactment of the *Charter of Rights and Freedoms* in 1982. After patriation, it was anticipated that other issues such as Senate reform, aboriginal rights and constitutional entrenchment of the Supreme Court would soon be addressed.

Unusually for a constitution, the *Constitution Act, 1982* itself entrenched a framework for continuing negotiations leading to potential constitutional amendments.

Section 37 required the prime minister to convene a constitutional conference within one year of the new Constitution coming into force. It required that aboriginal rights be on the agenda and that aboriginal leaders be invited to participate in these discussions. It also required the prime minister to include representatives of the territories in discussions that directly affected them. That conference was held in March, 1983 and nothing came of it.

Section 38 then required the PM to convene two additional constitutional conferences, one within three years of April 17, 1982 and the second within five years after that date. Again, aboriginal issues were required to be on the agenda for these conferences and aboriginal leaders and territorial leaders were required to be invited to participate in these discussions. Nothing came of these conferences, either.

Finally, section 49 required that the prime minister convene a constitutional conference within 15 years to

review the constitutional amendment provisions. A first ministers' conference was duly held in June 1996. Again, no progress was made.

In constitutional terms, these provisions are now "spent", an apt term to describe the used up political energy of constitutional amendment. They are now nothing but constitutional fossils.

As Paul Wells has explained in his book *The Longer I'm Prime Minister: Stephen Harper and Canada, 2006-*, Stephen Harper has convened exactly zero first ministers' conferences over the past eight years. The interesting question will be whether he will be able to maintain his perfect record if the Supreme Court does not rule in the federal government's favour in the Senate Reference.

In arguing that it does not need the consent of the provinces to proceed with its proposed reforms to the Senate of term limits and consultative elections, the federal government has argued for a strict textual interpretation of the amendment provisions. Most provinces asserted that the 7/50 formula should apply to such reforms.

If the Supreme Court rules that 7/50 applies, Prime Minister Harper will

In arguing that it does not need the consent of the provinces to proceed with its proposed reforms to the Senate of term limits and consultative elections, the federal government has argued for a strict textual interpretation of the amendment provisions. Most provinces asserted that the 7/50 formula should apply to such reforms.

have to choose between pursuing his asserted goal of Senate reform and maintaining his disdain for negotiating with the first ministers as a group.

Further, if the Supreme Court rules that unanimity is required to abolish the Senate, it will essentially kill any momentum for abolition and shelter the Senate from discussion over its demise for the foreseeable future.

Yet much more is at stake in the Senate reference than just reforming the Senate. The rules that the Supreme Court lays down in the Senate reference will apply to all future constitutional amendments.

To the extent that Canadians think about patriation of the Constitution in 1982, they tend to think about the *Canadian Charter of Rights and Freedoms*. But the *Charter* was not what

made the deal between the provinces (except Quebec) and the federal government. For most of the provinces, the *Charter* was the cost of the deal. To these provinces, the deal was about the amending formula. The real issue before the Supreme Court in the Senate reference is how rigid those amendment procedures are.

Will we ever amend our Constitution again? The federal government didn't ask the Supreme Court that question, but it may get the answer nonetheless. **P**

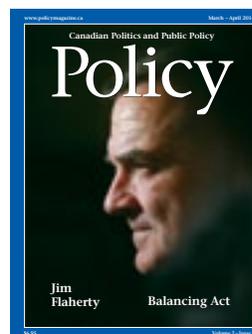
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Jim Coutts with Sen Joyce Fairbairn and Pierre Trudeau at the Senate speaker's dining room, on the former prime minister's 75th birthday in 1994. Back row: Speaker of the Senate Roméo Leblanc, (soon-to-be-named governor general), Tom Axworthy, Sen. Keith Davey and Dominic Leblanc. Photo, Jean-Marc Carisse

Jim Coutts, an Appreciation

FIRST IN CLASS OF POLITICAL ADVISERS

Thomas S. Axworthy

Unlike their American counterparts, political advisers and chiefs of staff to Canadian prime ministers are not widely known, but they are critical to the operation of our political system. Jim Coutts, one of the best of that political class, passed away recently. The lessons from his brilliant career are highlighted by one of his closest colleagues.

In January 1941, Wendell Willkie, the recently defeated Republican presidential candidate, visited the White House to offer his support for President Franklin D. Roosevelt's foreign policy of assistance to Great Britain. In the course of their conversation, Roosevelt advised Willkie to speak to his aide, Harry Hopkins, who was then in secret negotiations with Winston Churchill. Willkie, who was no fan of the controversial presidential assistant, asked, "Why do you keep Hopkins so close to you? You surely realize that people distrust him and resent his influence."

Roosevelt responded succinctly, in what has become a classic description of the reciprocal bond between leaders and staff: "Someday you may

well be sitting here where I am now as president of the United States," Roosevelt replied. "And when you are, you'll be looking at that door over there and knowing that practically everybody who walks through it wants something out of you. You'll learn what a lonely job this is, and you'll discover the need for somebody like Harry Hopkins, who asks for nothing except to serve you."

Great leaders are still human beings. In describing the loneliness of high office, Roosevelt was reflecting on the fact that power attracts a court, and a court has many interests, not all of them aligned with the public good or even the good of the leader. To find someone who will give you the truth, even if it hurts, who has your best

interests at heart, who is reliable and skilled, is a rare gem in the usual political minefields. One such gem was Jim Coutts, a senior adviser to both Lester B. Pearson and Pierre Elliott Trudeau.

Political advisers are generally not well known in Canada. The anecdote about Willkie and Roosevelt, in contrast, comes from a Pulitzer Prize winning biography of Harry Hopkins by Robert Sherwood. President Kennedy's senior adviser, Ted Sorensen, wrote a memoir of his time in the White House, as did Karl Rove, the senior adviser to George W. Bush. Political advisers have long been recognized in the United States as a critical component of a president's success or failure.

Not so in Canada. J.R. Mallory, a distinguished McGill professor, wrote in 1967 that political advisers were "an unreformed part of the public service ... which have hitherto escaped the attention of scholars," and by and large the situation has not changed much in the subsequent half century.

Yet the career of Jim Coutts illustrates the critical importance of that class of men and women who, in the words of Mallory, "are political rather than bureaucratic in their functions, appointed rather than elected, and who operate in an area which strict constitutional theory does not recognize as existing."

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Born in High River, Alberta, and raised in Nanton, 80 kilometers south of Calgary, Coutts remained a proud Albertan his entire life, (it always surprised observers that three of Pierre Trudeau's

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most senior advisers, Coutts, Ivan Head and Joyce Fairbairn were from Alberta, where Liberal Party hopes go to die). Jim loved southwest Alberta—especially the Porcupine Hills: "When you grow up someplace, part of you stays there and part of the place goes with you wherever you are," he said, in describing his restoration of his grandfather's homestead east of Nanton. "Home pain," he wrote, "it is more than home-sickness—it is the profound and lasting longing in the stranger to be home. Fortunately, I have now been able to return home."

Jim attended the University of Alberta, receiving a BA and law degree there (Joe Clark was one of his classmates), and practised law in Calgary. Before his recent death, he gifted his homestead property and a significant portion of his art collection to the University of Lethbridge, which has since launched the Coutts Centre for Western Canadian Heritage.

It was in Nanton, too, that Jim began his lifelong romance with the Liberal Party. He liked to race his bicycle down the streets of his hometown, and one day in 1952, at age 14, as he was riding past a small gathering, he stopped and was invited to get off his bike and meet the leader of the Alberta Liberal Party, J. Harper Prowse. As Coutts told the story, Prowse spoke about the mission of Liberals to stand for the "little guy," and Coutts was enthralled.

This accidental meeting changed Jim's life. He never wavered in his belief that the mission of the Liberal Party was "to help the little guy." In 1984, in his book *A Canada that Works for Everyone*, his thesis continued to be "Canadians must feel our system is fair in ensuring that the new wealth that is created is shared and that it is partly used to help pay for the adjustments that so many citizens will have to make during changing times."

Coutts also discovered that the Liberal Party (at least in Alberta) was open to

talent. He was a campaign manager at age 15 for the local Liberal candidate. He became a Liberal prime minister at the University of Alberta model parliament, and president of the Young Liberal Federation. In 1962, he ran as the federal candidate in MacLeod. Judy Lamarsh, campaigning for Liberals across the county, was optimistic in reporting to Paul Martin, Sr. "If Coutts wins MacLeod," the seasoned pro reasoned, "we're going to win them all." He didn't, but in 1963, Coutts became campaign chair for Alberta in the election that produced Pearson's first minority government. He was on his way.

As president of the Young Liberals, Coutts met Keith Davey, the new national director of the Liberal Party, and the two formed a friendship that would spark the Liberals for the next quarter century. It was Davey who first suggested to Pearson that Coutts would make a superior appointments secretary. At age 25, Jim was in the PMO, the man just outside the prime minister's inner sanctum.

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Coutts loved Lester B. Pearson. His passion for politics originated in the Alberta of the 1950s, but the Pearson-



Jim Coutts and Pierre Trudeau at a private party at the Opposition Leader's South Block office on December 22, 1979. There was more than holiday spirit in the air. Coutts had just the previous week orchestrated the fall of the Conservative minority government on its budget, and persuaded Trudeau to change his mind about retiring and to lead them in the campaign that would result in a Liberal restoration. Photo, Jean-Marc Carisse

led Liberal Party was his model of what modern liberalism should be—progressive, civilized, and fun. In his initial stint in Ottawa, Coutts met everyone, and his talent for friendships grew. Long before the word “networking” took on its current meaning, Coutts’ range of contacts in business, government and the arts was astonishing. If he didn’t have the answer, he knew exactly who to call. Prime Minister Pearson, in turn, reciprocated Coutts’ affection: in 1964, when a film about Pearson’s office had a lot on Coutts, but few favourable frames on the prime minister, the PM let it go with a laugh, saying “it looks as though my grandson is running the country.”

Coutts went to the Harvard Business School after three years with Pearson, then joined the McKinsey Consulting firm in New York, finally returning to Toronto, where he started the Canada Consulting Company with five partners. I rarely heard Jim speak about his training as a lawyer, but his Harvard

One of the secrets of his success with Trudeau was that however bad the news, Coutts also had a strategy to cope. In the late 1970s, even with the economy in the doldrums and polling results plummeting, Liberal Party drums still beat out the message, “Don’t worry, Coutts has a plan.” And he always did.

training and consulting experience became a central facet of his operating style. The Harvard Business School teaches you that the right strategy and tactics can untangle any puzzle. When faced with a problem, Coutts would analyze it, find the central factor, then think through a way to overcome (or go around) the sticking point. One of the secrets of his success with Trudeau was that however bad the news, Coutts also had a strategy to cope. In the late 1970s, even with the economy in the doldrums and

polling results plummeting, Liberal Party drums still beat out the message, “Don’t worry, Coutts has a plan.” And he always did.

Coutts was perfect for the campaign plane – he kept his own spirits high by constantly winning at backgammon, while keeping Trudeau’s spirits high with wit, Liberal Party folklore and local information. After the success of that campaign, it surprised no one when Trudeau asked Coutts to become principal secretary in 1975.

Barely escaping electoral defeat in 1972, Pierre Trudeau brought back Keith Davey as his senior election strategist. As he had done in recommending Coutts to Mike Pearson, Davey recommended Coutts to Trudeau. In the 1974 election, Coutts was the “inside” man on the election plane while Davey ran the campaign on the ground. It was the campaign plane that cemented the Trudeau-Coutts relationship. Outsiders have a hard time understanding the dynamics of the camaraderie (or tension) that builds in the pressure cooker atmosphere of a campaign plane. You move daily from place to place with bad food, no sleep, and worries about luggage. While forgetting the names of the candidates and well-wishers who cling to the entourage, the leader still has to project an animated spirit. Coutts was perfect for the campaign plane—he kept his own spirits high by constantly winning at backgammon, while keeping Trudeau’s spirits high with wit, Liberal Party folklore and local information. After the success of that campaign, it surprised no one when Trudeau asked Coutts to become principal secretary in 1975.

Jim’s qualifications as chief of staff were many: he was unflappable in dealing with a sometimes-irascible prime minister who, in addition to the normal stresses of the office, had to face the agony of a disintegrating marriage. He always told the prime minister the truth about a situation

(the difference between a counselor and a courtier) but his advice always carried with it a conviction that the problem could be solved.

He knew that one of the jobs of an aide was to take the heat from the media and the party rather than having the inevitable anger of disappointed hopes aimed at the leader. He was curious about the world, open to new influences and people, and always fun to be with. With a twinkle in his eye, for example, he once called me into his office and said that he had decided that I should get to know Pierre Trudeau better. "You tell him the bad polls," he said, "and I'll tell him the good."

I saw a lot of Trudeau in the ensuing months. Most of all, he had a deep understanding of the political cycle. If the situation was bad, it would eventually improve. If the situation was rosy, watch out, it would inevitably decline. Roll with the punches and have a plan for every contingency: that was the Coutts *modus operandi*.

If the situation was bad, it would eventually improve. If the situation was rosy, watch out, it would inevitably decline. Roll with the punches and have a plan for every contingency: that was the Coutts *modus operandi*.

All of these talents were on display in the fall of 1979 when Coutts orchestrated both the comeback of the Liberal Party and the restoration of Pierre Trudeau. The 1979 election had been lost in May, and Trudeau had resigned as leader in November. But on December 11, 1979, when Conservative Finance Minister John Crosbie produced an unpopular budget in a minority Parliament, Coutts saw his opportunity. First, he had to persuade the Liberal caucus to vote against the budget, which they did.

On December 13, 1979, the Clark government was defeated, 139 votes to 133. Next, the Liberal caucus and the party's national executive had to be persuaded to ask Trudeau to re-

Coutts had me prepare two speeches for the planned December 17 press conference – a short one on why Trudeau was not running, and a longer one outlining the themes of the campaign. That morning, Coutts saw Trudeau again, and it was not until I saw Trudeau pull out the three pages rather than one, that I knew Coutts had succeeded.

scind his resignation, and take the party into the election the budget defeat had precipitated. With the critical assistance of Allan MacEachen, this, too, was achieved. Then the Davey-Coutts election team had to run a successful campaign. Perhaps hardest of all, Coutts had to persuade Trudeau to stand again. Two months past his 60th birthday, Trudeau was not scheming to return, but had already begun to plan the next phase of his life after his withdrawal from politics.

On December 16, 1979, Trudeau told us he would go for a walk that night to think things over. Coutts had me prepare two speeches for the planned December 17 press conference—a short one on why Trudeau was not running, and a longer one outlining the themes of the campaign. That morning, Coutts saw Trudeau again, and it was not until I saw Trudeau pull out the three pages rather than one, that I knew Coutts had succeeded.

Thanks to Jim Coutts, Allan MacEachen and Keith Davey, Pierre Trudeau had been given the rarest gift in politics—a second chance. He made good on that chance, winning in 1980, then repatriating the constitution and establishing the *Charter of Rights and Freedoms*.

After this virtuoso performance (think what might have happened to the Harper minority government in 2008 if Coutts had been on hand), it is one of life's ironies that Coutts subsequently failed to get elected to the House of Commons in 1981 and 1984. He retired from any formal role with the Liberal Party and devoted his life to establishing a successful business, Canada Investment Capital Ltd., and working philanthropically with Pearson College, the Nature Conservancy, and the University of Lethbridge. After he discovered he was afflicted with prostate cancer, he responded in typical Coutts fashion, reading all he could about the problem, creat-

ing a strategy of diets and treatment, and squeezing out several more good years before he finally succumbed on December 31, 2013.

Leaders get the fame, but our parties only endure because of believers who trust that they can change the direction of the country. Jim Coutts was such a believer and as such, became a legend to all those lucky enough to know him.

A few months before Jim's passing, I was speaking for a former student who was contesting an Ontario Liberal Party nomination for a nearly unwinnable provincial seat—hardly a high profile event. But to my surprise, there in the back row, where he liked to sit, was Jim Coutts, sizing up the crowd and taking the temperature of the Liberal Party. I introduced the prospective candidate to Coutts, who immediately outlined a five-point plan on how best to win the seat. Vintage Coutts! Leaders get the fame, but our parties only endure because of believers who trust that they can change the direction of the country. Jim Coutts was such a believer and as such, became a legend to all those lucky enough to know him. **P**

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Foreign Investment: Another Year of Surprises

Michael Coates

The former Nexen headquarters in Calgary, which once had the company's name on the building. That ended when it was acquired by CNOOC, the Chinese National Overseas Oil Corporation, which has kept all the promises it made to Investment Canada in the takeover, but is also keeping a discreet presence. Shutterstock photo

While Canada finished in second place, after Hong Kong, among the best places in the world to do business, our foreign investment climate isn't simple. Canada's investment policy incorporates a wariness of state owned enterprises and an increasing reliance on the national security test to deter unwanted foreign acquisitions.

It's been just over a year since Prime Minister Stephen Harper revised Canada's foreign investment policy with new rules governing state-owned enterprises (SOEs) and higher review threshold limits. Shortly after those changes were announced, I wrote an article in which I concluded that "each new [foreign] acquisition will likely write a new chapter in [the] unpredictable evolution of Canada's investment policy." Indeed, this continues to be the case.

There have been three major developments over the past year that have driven a further evolution in Canada's investment policy: the decline in Chinese investment since the CNOOC Limited-Nexen transaction; the use of the national security test to screen out or deter unwanted investors; and a further adjustment to Canada's foreign investment review thresholds.

The growth of Chinese foreign investment is raising public policy concerns around the globe. Canada is not the

only democratic country trying to reconcile the need to develop Chinese trade and investment relationships with the politics of working with a regime where the rule of law is secondary to party policy.

Although Canadian officials are loath to admit this publicly, most will privately acknowledge it is investment from China that motivated the creation of new guidelines that restrict SOE investment in the oil sands. According to the Bank of Montreal, Chinese SOEs currently account for ownership of 10 per cent of the total reserves in the oil sands, with other SOEs accounting for an additional two per cent. Some critics of the new SOE guidelines have publicly expressed concern that restricting SOE enterprises has resulted in a cooling off of potential Chinese investment. Former industry minister Jim Prentice, now vice chairman of CIBC, said in a speech last fall that it is "troubling... that investment by Chinese SOEs in Canada's oil and gas sector, which between 2005

and 2012 totaled some \$33 billion, has now essentially stopped.” He added that large SOEs have emerged as a dominant form of international capital, especially in the energy sector, and Canada should not be intimidated by their presence.

Prentice’s views may not be shared unanimously in Canada’s business community. In implementing the new SOE guidelines, the government was responding to vocal domestic concerns raised by industry, academia, NGOs and in the media. It is a little known fact that there was a powerful lobby of Canadian oil interests who encouraged the federal government to let the Nexen-CNOOC deal proceed, but only if restrictions on further SOE investment were implemented. Some in Canadian industry claimed to be very concerned about what they saw as the capital cost advantages SOEs have over the private sector. Others said that keeping SOE investment out makes it easier for Canadian companies to acquire properties.

This debate is being replicated elsewhere. In 2012, US President Barack Obama blocked Chinese interests from acquiring four wind farm projects in northern Oregon near a Navy base where the US military flies unmanned drones and electronic-warfare planes on training missions. In Australia, there has been much public debate over Chinese investment in agricultural properties. Indeed, *The Economist* noted last year that, since the 2008 global financial crisis, all countries seem to be putting up barriers to trade and foreign investment. But it is Canada, the United States, and Australia who seem to have the greatest concerns about China.

One voice of reason in this debate has been that of Kevin Lynch, former Clerk of the Privy Council and current vice chair of BMO Financial Group. Lynch points out that it is not the ownership of capital that the government should be primarily concerned with but the behaviour of capital. For example, to date, CNOOC has kept every promise it made to the Canadian government, including obtaining a listing on the TSX despite being very thinly traded. CNOOC felt strongly that it should operate in the same regulatory environment as other publicly traded companies in Canada. Contrast this with another recent foreign investor, US Steel, which after making explicit em-

Canada is not the only democratic country trying to reconcile the need to develop Chinese trade and investment relationships with the politics of working with a regime where the rule of law is secondary to party policy.

ployment and operational undertakings to the federal government when it acquired Stelco, closed most operations within a year, settled a messy lawsuit with the government, and announced last fall that it was permanently closing its Canadian operations.

Meanwhile, the Chinese government appears to be aware of growing barriers to outbound investment by SOEs and is moving to address them. Reforms adopted in November mean China is countering any perceptions of capital cost advantages by tacking additional taxes onto SOE profits. By 2020, Chinese SOEs will be expected to hand over 30 per cent of their profits as dividends to the central government. Private-sector business will also be given greater opportunity to invest in SOEs and do business in areas dominated by them.

Moreover, the impact of the Canadian government’s SOE guidelines may have been overstated, at least with respect to activity in 2013. The past year was not exactly a buoyant time for M&A activity anyway—although one could argue that the SOE guidelines have compounded this problem. Foreign investment in the oil and gas and mining sectors is down significantly, both in the number of transactions and their value. According to PWC’s Capital Markets Flash published in October 2013, there were \$8 billion in transactions for the first nine months of 2013, versus \$66 billion for the same period in 2012, while the value of transactions across all of Canadian industry was off by six per cent.

In an effort, perhaps, to divert from the public domain some of the discussion about controversial proposed acquisitions, the government started using “national security” in earnest as a screening mechanism for foreign investment in 2013. In a much-discussed case last fall, the government formally rejected the acquisition of the Allstream Division of Manitoba Telecom Services Inc. by the Egyptian investment group Accelero Capital Holdings. From what we can decipher from

Minister James Moore’s statement on the matter, the government was concerned about the national security implications of a foreign buyer operating a national fibre network that provides critical telecommunications services to the Government of Canada.

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Soon after that, the government also made it clear that it was not comfortable with a possible sale of BlackBerry to the Chinese computer-maker Lenovo or any other state-influenced acquirer. In comments issued a day after Lenovo signed a non-disclosure deal to examine BlackBerry’s books, the prime minister invoked the national security test when he said that BlackBerry is “a very important player in the IT sector and the advanced information-technology and communications sector.... So it would be very important that any transactions involving BlackBerry in the future not lead to any concerns about security in that particular area of the economy.” What is noteworthy here is that the government opined on a potential investor before it even had the opportunity to submit an application. The upside for the government and the aspiring investor, however, was that both were able to avoid a potentially embarrassing and protracted public debate.

The continued use of national security as a screen of foreign investment has the added benefit of not requiring the

government to provide any specific reasons for its concerns. In this regard, the Canadian government has clearly taken note of how the Committee on Foreign Investment in the United States (CFIUS) is able to effectively bury potentially controversial acquisitions under the rubric of national security. Expect to see more of this—or, rather to “not see” more of this.

While most commentators were focused on the restrictions on foreign investment, 2013 ended with an important liberalization of the threshold level at which all investments by non-SOEs are reviewed. The federal government restated its openness to foreign investment in the speech from the throne, and it is clear now that it was the effect of looming provisions of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU on other free-trade agreements that underpinned this.

As part of CETA, Canada agreed to increase the foreign ownership threshold limits for all European transactions to C\$1.5 billion over the two years after the agreement comes into effect. Due to grandfathering provisions in all of our major free-trade agreements such as NAFTA, our other favoured trading relationships will automatically be granted the same privileges. Significantly, however, SOE thresholds are not affected and remain fixed at \$344 million.

Based on country of origin, the practical implication of this policy change is that, within a few years, the vast majority of foreign investments will be executed without a review. For example, at the end of the summer, American-owned Louisiana-Pacific completed a billion-dollar transaction with B.C.'s Ainsworth Lumber, yet this relatively small and uncontroversial transaction is already well past a typical review period as the government awaits competition regulatory rulings in Canada and the United States. Two years from now, this sort of laborious Investment Canada review process for a similar-sized transaction could be a thing of the past.

The government appears to have come to the conclusion that it is only interested in reviewing very large transactions that will attract public interest, unless they are proposed by SOEs. Even so, if there is a transaction below the

\$1.5-billion threshold level that even remotely has national security implications, the government can still invoke the national security test to screen out unwanted investors, as there are no threshold limits attached to that.

The recent controversies surrounding foreign investment have proved embarrassing for both the government and prospective investors. It is very difficult for the government to say that it is open to investment if it is creating new rules to thwart it. As Prentice pointed out in his speech last fall, it is awkward for investors to come into a country knowing that they may well encounter “an embarrassing confrontation” with the government and be the source of a major public debate.

The current Investment Canada review process, with its legislated timetables, can turn a foreign investment into a “competition” that media love to cover. Companies and governments now feel compelled to increase the types of undertakings they are making to demonstrate their commitment to the Canadian economy, and indeed to society. In some cases, these commitments go far beyond capital and employment guarantees for the company they wish to acquire. Undertakings now commonly include obtaining a listing on the TSX, establishing regional headquarters or world product mandates, and making philanthropic donations—all in an attempt to pass a public litmus test about the benefits of foreign ownership. The contracted duration of all of these undertakings is also lengthening. None of this is helpful in demonstrating that Canada welcomes foreign investment.

By the end of 2013, the prime minister was continuing to defend the government's foreign investment policies by saying it would be “foolish to provide absolute clarity” when it comes to investment guidelines. Clearer rules may provide less risk to investors, but the government believes it is more politically vulnerable if transactions like the PotashCorp or CNOOC deals capture the attention of the public. Moreover, the prime minister's continued reservations about SOEs were clearly articulated in November when he said “...we would welcome foreign direct investment of all kinds.... but I don't think as Canadians we would want to see entire sectors of the Canadian

economy become predominantly state owned by a foreign country.... I don't think that's good for the Canadian economy. It's not the kind of model we're seeking.”

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Looking at the policy changes overall, it is apparent that any foreign transaction of significant size will continue to carry a high level of political risk if it becomes part of public discourse. This is particularly true if the transaction is by a SOE, and even more so if it is a Chinese SOE. We can also expect the continued use of the national security test to screen out unwelcome investors owing to the lack of justification required by the government.

There is unlikely to be any deviation from this tactical approach to policy making as long as the current government is in power. The prime minister is clear: he wants flexibility in the rules. The question remains, however, as to whether there is enough predictability in the rules to entice foreign investment. **P**

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How Building Alberta will help build Canada's future.

The Government of Alberta's Building Alberta Plan demonstrates our commitment to what Albertans told us matters most. Along with investing in families and communities, and living within our means, we're working to open new markets for Alberta's resources— which will fuel economic opportunities for the entire country.

We're already leading the creation of the Canadian Energy Strategy to develop our resources and move them to market. And we will continue to support the proposed Energy East pipeline to Quebec and New Brunswick, and the proposed Keystone XL pipeline expansion to the United States. We're also putting new rules in place to ensure that resource development is innovative, responsible and sustainable, with a clear vision of what Canada's energy future can - and must - be.

Our Building Alberta Plan sets the stage for a stronger and more prosperous future for all Canadians – a future we can build together.





Doing more with less?

Improving energy efficiency in Canada is the most immediate and economic way to reduce greenhouse gas emissions and enhance energy security. Doing more with less makes the energy sources we have go further, curbs CO₂ emissions and improves competitiveness. www.abb.ca/energyefficiency

Certainly.