

**“The Challenges of Governing”**

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When Sal invited me to speak to you this evening he explained what the main topic was but added that I could really use that to say anything I wanted. A pretty “liberal” opening Sal.

I had thought of something like “Trust Your Income Trust” but Jim Flaherty eliminated that as an option on Halloween. (Scary, eh! A government that takes tough decisions.)

Let me turn to the topic – what I would call the “The Challenges of Governing” in today’s environment in the hope that what I say will not diminish your appetite and may instead stimulate some questions and discussion to accompany dinner.

When I served on the Transition team, I was struck most by the peaceful and orderly manner in which political power is transferred in Canada. May well be something we take for granted – doesn’t happen very often after all – and it is certainly an opportunity not all citizens in our global village enjoy. And yet, it is the essence of democracy, a reflection, too, of the ultimate civility of our own brand of political theatre. (Not what you might say if you watched the House of Commons on a daily basis which is why I say “ultimate.”)

I believe that a periodic change in political power is refreshing in itself, and not for partisan reasons (really!), but because it allows healthy change both in the direction and the implementation of public policy.

The fact that we may disagree over the changes as they evolve is also what democracy is all about.

Leadership in government flows first from clear political direction. Focus, a sense of purpose, a short list of priorities and the stamina to stay the course. There will always be – as Harold MacMillan once observed – “events, dear boy” that interrupt and divert attention and compel a prudent change of direction or emphasis; (Does anything come to mind?) but, if leaders operate from a platform of defined goals and conviction, they will have a rudder of sorts to navigate even the unexpected shoals of governance and remain more or less on course.

Mr. Harper probably would have preferred to ignore action on Income Trusts but “events” gave him little choice.

I remember that, when Prime Minister Mulroney invited me to become his Chief of Staff, I balked, initially, saying that I was, after all, a bureaucrat, not a political strategist. “Derek”, he explained “I am the political strategist. I want you to organize my office...” As I subsequently learned, there is a big difference between the two jobs.

Having a clear agenda and a sense of priorities in government can be as powerful as a good idea. And when elected politicians operate from a consistent set of principles, they will earn respect, even from some who disagree with the decisions they take. Ronald Reagan epitomized that example. Many Americans disagreed with some of the things he did but they were never in doubt about his conviction (and optimism) and they respected him for both. It helps, too, when leaders reflect confidence and clarity in articulating their positions.

Attempting to be all things to all people – saying what your audience may like to hear rather than what they need to know - is not the way to gain credibility or respect. Because, if everything is a priority, nothing really is.

A new Prime Minister begins with a reservoir of political capital and a limited amount of time. The manner in which he spends both will ultimately determine the success or fate of his leadership. With a minority government, the amount of available capital is circumscribed and the time available for action is even more uncertain.

Not only is there the need for collegiality in cabinet, and for consistent support from caucus (the Prime Minister's "first constituents"), but also for reasonable compromise with opponents, where appropriate, provided, of course, that there is a mutual appetite for compromise and assuming, as well, that the government's objective is survival, not re-election.

Majority governments provide not only more capital but also more time for tough prescriptions. (The decision on Income Trusts was certainly tough and it remains to be seen how much political capital it consumed.)

The degree to which the Tories are able to demonstrate competence in implementing their agenda, and establish credibility as a government, will determine whether their fundamental political challenge is met, namely re-election, preferably with a majority – one that would enhance both their capital and their time for policy implementation.

The policy challenges for any Canadian government tend to centre around three basic issues: unity, where the pressures are essentially internal; prosperity and security, both of which have external as well as internal dimensions.

As very much a country of regions in search of a binding identity, Canada can, on occasion, be obsessed with the issue of national unity. Quebecers debate persistently whether they will remain in Canada. Their governments push the limits on provincial jurisdiction often obliging other provinces into a 'me too' routine of demands. This issue is relatively quiet these days but, if Mr. Iqantieff wins the Liberal leadership, or we see a change of government in Quebec, the constitutional debate is likely to be reignited in some fashion.

There is much talk about a "fiscal imbalance" but that is actually more than a Canada/Quebec issue. Increasingly, there is concern about the burgeoning imbalance between Alberta and all the others. Think of this. One-third of all the new jobs created in Canada last year were in one province, Alberta. That is a real imbalance, with profound consequences that are just beginning.

In any case, talk about "fiscal imbalance" tends essentially to be a debate about money because we have a situation in which the federal government taxes more than it spends while the provinces spend more than they tax. Any solution will likely involve a decision on how much more the federal government will pay and for what.

What would be better is some clarification or realignment of roles between levels of government. There is too much overlap today and, as a result, a chronic avoidance of direct responsibility. Genuine accountability will only come from clearer lines of responsibility. Here I am explaining accountability to accountants. But take health care as an example. (Someone, take it please!)

Part of the problem with debates on things like the fiscal imbalance or health care, is that we have difficulty at times distinguishing between myths and reality. The myths tend to frustrate national debate and objective decision-making. As you know better than most, the blurred lines of accountability are the worst defect of today's shared cost programs. They simply add fuel to the prevailing myths.

In Australia, GST revenues go exclusively to the States while income taxes go to the Federal government. That would be too radical, I am sure, for Canada but it has the advantage of simplicity and clarity for the payees, the taxpayers.

Beyond the perennial concerns about Quebec's future, and the somewhat dubious debate about a fiscal "imbalance", I suspect that the underlying national unity issue which cannot be ignored too much longer is the plight of our aboriginal people. Here again, the talk (and many of the half-baked solutions) is mainly about money. And yet, as with health care, the more we spend, the worse the situation seems to get. More money is not an effective answer to either challenge. Expediency over principle.

The solution to the aboriginal question involves harder issues of jurisdiction, and contemporary, versus traditional approaches to administration and accountability. The major obstacles are an unwillingness to exert political capital at one level of government and a reluctance to relinquish any at another. Regrettably, there is not much evidence of change coming soon on either front.

But, if anyone thinks we can engage in another debate on constitutional reform without addressing the aboriginal dimension, I have some land for sale in Northern Ontario.

I am not sure whether our somewhat complacent approach to federalism will provide real answers to this issue or to the broader issue of role realignment. Some suggest a Royal Commission to provide wisdom and spine for the changes needed – to shatter some of the myths in the debate. But studies or commissions are not ends in themselves and, in the absence of follow through, they simply provide more process without purpose. The only answer is leadership. Using political capital selectively but firmly.

Governments do have a responsibility to lead and shape public opinion – to move beyond the whim or myth of the moment and exercise political will in a deliberate fashion that will inspire more efficiency and more accountability at all levels of government. But, in a federation such as ours, this requires commitments on which several political leaders, not just one, are prepared to take a stand and make common cause. I am encouraged that Ottawa seems more ready to respect provincial powers while focusing primarily on its own areas of jurisdiction. The quid pro quo, however, would be long overdue undertakings by the provinces to enhance our economic union.

Canada's fiscal situation is sound and the short term economic prospects are positive so the prosperity dimension of the policy trinity appears to be in good shape, at least for now. The global economy is humming along at a level of 4% growth for 11 consecutive quarters – the strongest upturn in 30 years. Inflation is at an historic low, despite unprecedented prices for oil and oil products.

As always with the dismal science, the underlying question is how long will it last? The U.S. fiscal situation is anything but sound and there are already signs that the economy on our southern border is slowing down. We all know what that will eventually mean for Canada.

There may well be more to Canada's prosperity agenda than the U.S. market but getting things right with our neighbour is a critical starting point. On that, I think the government has earned good marks. Now that softwood lumber has been settled, however, we need to inspire a more positive focus on, and adherence to, NAFTA, using the strength and the substantially integrated nature of our North American economies to bolster market access elsewhere. Regrettably, the elections last week are not likely to help on this or on trade more generally.

With the collapse of the Doha multilateral round of trade negotiations now almost certain, Canada needs a clearer, more concentrated and results-oriented trade agenda, specifically targeting the emerging giants in Asia that are rapidly becoming the new economic centre of gravity in the world.

Think about this. In the past six years, the United States has concluded Free Trade Agreements with more than a dozen countries. Canada's score is zero in the same time frame. Drift is not a practical option for a country highly dependent on trade.

Australia does not have the luxury of immediate proximity to its major market and so works diligently at maintaining a pragmatic relationship with the United States while, at the same time, cultivating closer economic ties with China, Japan, India and Korea. A coherent, focused effort linking all levels of government with the private sector, generating real dividends for Australia's economy. It is a model Canada should consider.

Beyond trade, our government should be preparing the ground for an increasingly competitive global economy when natural resources will not be sufficient and when times will not be as good.

The exceptional strength of our fiscal situation should enable some sensible adjustments to corporate and income tax policies designed to spur investment and innovation. Decisions with objectives that go beyond short term, political expedience.

We would benefit, too, from more tax harmonization and from tangible reductions of both internal barriers to trade and impediments to mobility of labour between provinces. What Alberta and B.C. have done together should be extended on a truly national basis. Imagine that. Free Trade within Canada!

We require actions across the board that will make us more competitive in an increasingly competitive global society. Many also suggest that Canadian business leaders need to be less cautious, less risk averse and more entrepreneurial. Roger Martin of the University of Toronto has observed that our executives and Canadian capital markets "overestimate the risk of going global and underestimate the risk of staying local." (Now I am talking to accountants about more risk-taking! Dangerous ground.)

In short however, if we continue to rest exclusively on our admittedly abundant natural resources, don't be surprised if sclerosis sets in!

Our productivity challenge is exacerbated by demographic changes. With one-third of our population expected to retire by 2020, there will be much greater pressure on our tax system to support already stretched budgets for health-care and age-related benefits. Something will have to give when we have more and more retirees paying less and less income tax. (Younger members in the audience should take note.)

Some see increased immigration as an answer and yet, if we simply expand the volume of immigrants, using the current system, we will, I suspect, increase the social burden without improving the productive capacity of our economy.

The security (and stability) of our nation is any government's over-riding responsibility and is actually where the policy trinity comes together. Unity or stability bolsters prosperity and a more prosperous Canada is likely to be a more united Canada. But, security, in its most fundamental sense, faces entirely new challenges in this young century, both internal (as we have recently learned) and external.

We are vulnerable to a new kind of war. Irrational terrorist acts which strike without warning, are aimed at innocent bystanders and cannot be contained by traditional military or security defences.

The enduring myth of Canada as a peace-keeper is somewhat at odds with tasks in places like Afghanistan that go well-beyond the blue beret model. That image and the comfort or softness of our affluence seems to be engendering an aversion to war-fighting as well as a false sense of immunity among Canadians about the global terrorist threat. We need to ensure that our strength as an open democracy, and the justifiable pride we have for tolerance and diversity in this country do not become sources of weakness, easily exploited by those with the intent and the means to undermine the stability, the unity and the potential that Canada enjoys.

Central to any leader's challenge of governing and to all three basic policy pillars is the manner in which we choose to manage relations with the United States. It is never easy, even in relatively good times. After all, the Americans are #1 and they know it. And there is no longer a real #2 in the world, one reason why, I believe, anti-Americanism is flourishing almost everywhere. The Americans can play hardball and not just in baseball. Their system of government is different and can be difficult to fathom – even for Americans. And, after last week's elections, governance in Washington is likely to be even more difficult all around.

“All politics” as they say “is local” and Canadians, as I was often reminded, do not vote in the United States. The attention span in Washington on issues of concern to Canada is spasmodic at best. Difficult to gain, even more difficult to sustain. Besides, any “dividends” on the home front derived from a constructive approach can be elusive. Ask Brian Mulroney. Ask Tony Blair.

As a former diplomat, I am often asked whether leaders can really make a difference in managing this all pervasive relationship. The diplomatic answer is that countries have interests that transcend the personal influence – good or bad – of individuals. The more candid answer, based on direct experience, is that leaders can make a decisive difference ... when they choose to. I can tell you one thing for certain. We would not have secured a Free Trade Agreement without the firm, mutual commitment of Prime Minister Mulroney and President Reagan. But the importance of the relationship extends beyond personalities of the moment and should not be measured by simplistic standards of who is liked or disliked at any given time.

The real challenge for any Canadian leader is to try to reconcile the practical need for persistent engagement with Washington in order to articulate, promote and defend our substantial security, commercial and environmental interests while also responding to legitimate aspirations in Canada that we act, and be seen to act, as a distinct entity in North America. The first part of this equation requires vigilance and perseverance; the second calls for creativity, finding ways in which Canada can make a difference or a significant contribution. It is what some see as the “Canadian conundrum” in foreign policy even though it is a conundrum that many countries envy.

I also believe that, if we can establish a mature, constructive partnership on this continent with the United States and manage it in a coherent, manner (with minimal emotion), we will also be better able to address and influence other global objectives.

Canada’s security on this continent is guaranteed by the United States, as we are wont to say, “whether we like it or not.” But, consider this and I quote: “Canadians want to benefit from the United States nuclear umbrella but they do not want to hold onto the handle.” Do you know who said that? Pierre Trudeau in 1983 when he explained to the public his decision to allow Cruise Missile testing in Canada. We could use some of that candour in today’s North American security debate.

As the Nuclear non-Proliferation regime becomes less certain, with the antics of North Korea, among others, are we too smug to reconsider the merits of missile defence? Does anyone seriously think that a missile fired from North Korea or Iran will distinguish between Seattle and Vancouver or between Toronto and Buffalo?

And yet, with all three Opposition parties firmly opposed to reconsider the issue of missile defence, the myth will prevail. Does that make any of you feel more secure? When you live next door to someone ten times your size who has unprecedented military fire power, you have a tendency to niggle or whinge about their behaviour almost as a birthright. But, the luxury of our “virtual dependence” should not prevent us from adopting a realistic outlook about our own security nor should it relieve us of the responsibility for contributing at home and globally as an ally, as well as a neighbour.

The best way to move beyond mythology, whether on security, or health care, or fiscal imbalance, or similar challenges is leadership, unfettered leadership based on conviction and a determination to make good use of the political capital and the time available. That is what I see as the essential challenge for any Canadian government.