



# INSIDE POLICY

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

DECEMBER, 2013

## John Baird Policy Maker of the Year

*Robin Sears on what makes Canada's  
Foreign Affairs Minister tick*

*Colin Robertson on how the PM's cabinet  
MVP embraced the challenges of diplomacy*



*Also in this issue: Stanley Hartt on privatizing the CMHC • Dan Ciuriak on the economic year in review • Brian Lee Crowley offers a detailed plan for senate reform • Paul Corrigan explains how Tony Blair turned to private providers to improve Britain's national health service • Alex Wilner and Brian Lee Crowley ask whether it is finally time for Canada to embrace ballistic missile defence*



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THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

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# Editor's message



Greetings.

The final issue of *Inside Policy* for 2013 includes several special year-end features as well as our usual provocative selection of policy pieces.

The Macdonald-Laurier Institute has selected Foreign Affairs Minister John Baird as Policy Maker of the Year for 2013. In an insightful look at Stephen Harper's most valuable cabinet minister, Robin Sears examines the background, the record and the character of the dynamic leader of Canada's foreign service. Sears notes how Baird has evolved and matured as a politician and asks the Minister about the legacy he hopes to leave behind when he moves on from Foreign Affairs.

In a companion piece, former diplomat Colin Robertson examines John Baird's approach to the job, his management of some of the most challenging files and his leadership on several personal priorities. Robertson also offers some recommendations on what it will take for Baird to have a lasting impact on Canadian foreign policy.

Recalling Finance Minister Jim Flaherty's October 2012 musings on the issue, Stanley Hartt examines the issues surrounding a possible privatization of the Canada Mortgage and Housing Corporation. While emphasizing the need for a robust set of rules and regulations and arguing that certain of the policy functions carried out by CMHC would need to be retained by the government, Hartt suggests that the approach used by the Australians to accomplish the federal government's exit from housing risk provides a worthy model.

In a comprehensive, compelling and timely analysis, MLI Managing Director Brian Lee Crowley explains why Canada needs a Senate and lays out a detailed road map to achieve effective renewal of the upper chamber.

Believe it or not, Tony Blair's New Labour government actually turned to the private sector to see if patient access could be improved. Paul Corrigan explains how Britain's National Health Service achieved shortened wait times and improved productivity. Is there a lesson in here for Canada?

Brian Lee Crowley and MLI senior fellow Alex Wilner suggest that 10 years after Canada rejected a US offer to co-operate on North American Ballistic Missile Defence, "much has changed regarding the politics, the threats and the technology, such that BMD is today a far more compelling choice for Canada."

In "Credit where it's due," the authors of a recent MLI paper — Ian Lee, Geoffrey A. Manne, Julian Morris and Todd J. Zywicki — conclude that proposed regulations on payment cards in the Canadian market will hurt lower-income consumers and small merchants.

Meanwhile, MLI senior fellow Linda Nazareth looked at the numbers on where Canada's job growth is coming from and found the strongest growth in the bottom quartile of earners.

I wish you all peace, joy and good health over the holidays.

*James Anderson*

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Pictured: CMHC Headquarters Building

# How to privatize the Canada Mortgage and Housing Corporation

*Recalling Finance Minister Jim Flaherty's October 2012 musings on the issue, Stanley Hartt examines the issues surrounding a possible privatization of the Canada Mortgage and Housing Corporation. While emphasizing the need for a robust set of rules and regulations and arguing that certain of the policy functions carried out by CMHC would need to be retained by the government, Hartt suggests that the methodology used by the Australians to accomplish the federal government's exit from housing risk provides a worthy model.*

## **Stanley H. Hartt**

When Minister of Finance Jim Flaherty mused, in a *Globe and Mail* interview published on October 22, 2012, that he might like to see CMHC privatized over the next five to ten years, the Opposition was all agog! After all, wasn't CMHC a success story which, for the last 60 years, had assisted Canadians to achieve the dream of home ownership, while avoiding the instability that had led to the disastrous crash in housing prices and triggered the US recession?

The reason to consider a private alternative to the present mortgage insurance structure in Canada is simple fiscal prudence. What began after the end of World War II as a government program to assist

veterans in their reintegration to peacetime society and to play a part in the consumer-oriented reconstruction of our economy, has morphed into a gigantic engine (with a cap of \$600 billion on its government guarantees of residential loans).

The global financial crisis has left Canada with historically low interest rates. The recovery from the 2008 events has been slow and all of the indicators foretell a tepid growth pattern for the next few years at least. The central bank gets to establish one benchmark rate for the entire economy, without any ability to differentiate among regions and industries. This means that, doing the math of affordability, Canadians find that they can stretch their monthly budget for shelter and aspire to more pricey digs than they could if rates rose two or three percentage points.

As a result, the headline number of the accumulated personal household debt gets bigger as the aggregate face amount of mortgages climbs. And all of this is backed by the full faith and credit of the sovereign debt of Canada, because CMHC backstops the banks and other lending institutions with a 100% guarantee of their claims against borrowers secured by residential real estate. Conveniently, this also assists the banks with the capital that must be reserved against mortgage loans under Basel Accord rules, because the amount of capital that needs to be set aside for an obligation of the government is zero.

The first Canadian private mortgage insurer, Mortgage Insurance Company of Canada, entered the market in 1963. It was acquired by GE Capital Mortgage Insurance Company (now Genworth Financial Mortgage Insurance Company Canada) in 1995. A second industry participant, Canada Guaranty Mortgage Insurance Company, entered the market by acquiring the Canadian mortgage insurance assets of AIG United Guaranty in 2010. Other private-sector entities which attempted to provide competition to CMHC have fallen by the wayside and have been liquidated or absorbed into predecessors of the other two.

These mortgage insurers, in exchange for fees paid to the government, benefit from a 90% federal sovereign guarantee of the mortgage loans they insure. They also contribute additional amounts to a reserve fund managed by the government. The 10% of insured loans that are not guaranteed by the government, however, attract a capital charge of 5% under Basel rules, making it more expensive for a lender to use the private companies on any given loan than to direct the insurance to CMHC. This showed up during the Global Financial Crisis (GFC) in the form of greater market share for the state-owned insurer and diminished shares for the private competitors.

Although CMHC has been directed, since 1996, to operate on a commercial, market-oriented basis and has earned huge surpluses which benefit the fiscal balance, their pricing and fee structure are not the source of the Minister's concern. Indeed, even with the constraint resulting from the reduced government guarantee, competition from the private sector insurers has introduced consumer-friendly results into the market and kept fees at a reasonable level. The issue is the aggregate amount at risk for the federal treasury when times get tough. The success of CMHC in building its book close to the legislated maximum (to the point where selectivity in assuming specific insured loans has been practised by the Corporation) is offset by concern about the demands which would be made on the fisc if a burst housing bubble caused house prices to fall to the level of unsustainability for many borrowers.

In Australia, the government-owned Housing Loans Insurance Corporation was privatized in 1997. At the time, there were a number of private sector competitors which operated without any government guarantee of their obligations at all. Although there is no government requirement in Australia for high loan-to-value mortgages to be insured, prudent lenders have insisted that loans exceeding 80% of the value of residences be insured. As Jane Londerville pointed out in her excellent study in 2010 for the Macdonald-Laurier

Institute entitled "Mortgage Insurance In Canada," the Australian decision to privatize appears to have been based on nothing more than the fact that "the mortgage market was operating efficiently and private sector mortgage insurance was well established, competitive, and available at reasonable cost."

The methodology used by the Australians to accomplish the federal government's exit from housing risk is worth examining as Canada looks at alternatives for how to accomplish a privatization of CMHC if that should be the government's ultimate decision.

To begin with, it is clear that certain of the policy functions carried out by CMHC would need to be retained by the government: affordable housing and housing on First Nations reserves are not programs that should be managed by the private sector. In addition, the mortgage bond securitization activities of CMHC, which work extremely well, should be retained if for no other reason than that market participants should not also be invited to become market makers.

*...the Australian decision to privatize appears to have been based on nothing more than the fact that "the mortgage market was operating efficiently and private sector mortgage insurance was well established, competitive, and available at reasonable cost."*

But the portfolio of insured home loans, which would be the focus of any privatization plan, is vastly too large to be conveyed to any one entity. If, in order to ensure that the associated financial risk was appropriate to the size and capital bases of the purchasers, as well as to stimulate the emergence of more private sector players, the existing footings were divided into, say, six sub-portfolios equalized as to geographic location of insured properties, size of loan, loan-to-value, creditworthiness of the borrower and other factors, the problem would become that there were not enough potential purchasers who were not also mortgage lenders to create a viable auction.

This is where the Australian example would be helpful: Australia did not, in fact, sell what are called "pre-transfer contracts" to the buyer of HLIC Ltd., GE Capital Australia. What the purchaser, now known as Genworth Financial Mortgage Insurance Pty. Ltd., got was the origination capacity for new contracts. The pre-existing book remained the responsibility of the Commonwealth government. A management contract was entered into to provide for the management of claims against these contracts on behalf of the Commonwealth. (Canada could use multiple contracts given the size of the portfolio). In 2006, further legislation to sell off the remaining portfolio of pre-transfer contracts to one or more buyers was introduced in the Australian House of Representatives.

It would be foolhardy to expect that the Canadian practice of a 90% government guarantee for the mortgage insurance issued by private sector insurers could be abruptly converted to the Australian model and, in effect, reduced to zero. Because of the developing global rules



Pictured: Finance Minister Jim Flaherty mused in October 2012 about privatizing the CMHC

for the capitalization of deposit-taking institutions, Canada's banks would be sideswiped in a particularly unhelpful way if deprived of the 90% back-stop they now enjoy for privately-insured mortgages. But once the standard was no longer 100% versus whatever the private sector mortgage insurers enjoyed, it would be possible to wean them from 90% to some substantially lesser number over a multi-year period, thus massively reducing the exposure of the federal government to housing market values.

Criticism of the call for privatization has centered around the loss of an important government tool for stabilizing finances and markets. But the first rule of privatization is that the government clearly sets out the regulatory regime under which the privatized entity would operate.

Nothing would prevent the government from adopting the most robust, yet flexible, set of rules and regulations to enable it to continue, as it has so well during and after the financial crisis, to monitor and influence the direction of market forces as regards sustainable residential mortgage borrowing and lending practices.

Some have argued that the few candidates as potential buyers in a privatization, or for the management of the run-off book, would have market power which, being profit-oriented, they would use to make housing unaffordable. The reverse appears to have occurred, as Jane Londerville has pointed out, when the private insurers first were enabled to compete with CMHC. The licensing of new entrants would as a matter of course remain with the government and OSFI supervision would continue to oversee the claims-paying ability with respect to the mortgage insurance risks taken on.

Alternatives which have been studied include turning CMHC into a re-insurer or transforming its mortgage insurance activities into a

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public entity at arm's length from the Crown, and, therefore, entitled to only the 90% guarantee available to private sector entities. The Australian example appears to offer the best way for going the whole hog in a moderate series of prudent steps to extricate the federal government from this now quite adult and mature program which it instituted long ago with the best of intentions and superb results. Air Canada and CN were examples of government involvement in businesses which needed state support to launch and which grew to where public sector ownership was no longer required. Given the recent success of the Royal Mail IPO in the UK, can Canada Post, similarly restructured, be far behind? ❁

*Stanley Herbert Hart, OC, QC is a lawyer, lecturer, businessman, and civil servant. He currently serves as counsel at Norton Rose Canada. Previously Mr. Hart was chairman of Macquarie Capital Markets Canada Ltd. Before this he practised law as a partner for 20 years at a leading Canadian business law firm and was chairman of Citigroup Global Markets Canada and its predecessor Salomon Smith Barney Canada. Mr. Hart also served as chairman, president and CEO of Campeau Corporation, deputy minister at the Department of Finance and, in the late 1980s, as chief of staff in the Office of the Prime Minister.*

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# Ballistic missile defence: An idea whose time has come

*In FrontLine Defence magazine, MLI managing director Brian Lee Crowley and senior fellow Alex Wilner recently wrote that 10 years after Canada rejected a US offer to co-operate on North American Ballistic Missile Defence, “we are about to discover whether emotion will finally yield to reason on the issue.” They argue that “in the intervening decade, much has changed regarding the politics, the threats and the technology such that BMD is today a far more compelling choice for Canada.”*

## ***Brian Lee Crowley and Alex S. Wilner***

Nearly 10 years ago, Canada formally rejected a US offer to jointly develop the technology and procedures to defend North America from attacks by long-range missiles — a so-called Ballistic Missile Defence or BMD. In February 2005, then Foreign Minister Pierre

Pettigrew called Canada’s decision not to participate “final” and “based on policy principles ... not sheer emotion.”

This was a classic example of the official announcement optimistically attempting to rewrite history as, contrary to Mr. Pettigrew’s assertion, Canada’s BMD decision had a rich emotional content.



Fast-forward to 2013 and we are about to discover whether emotion will finally yield to reason on the issue. According to recent reports, the US has renewed its request.

Perhaps Canada's original response will prove to have been not only more emotional but less final than asserted at the time. Indeed, in the intervening decade, much has changed regarding the politics, the threats and the technology such that BMD is today a far more compelling choice for Canada.

In 2005, emotions in Canada were running high against President George W. Bush and his unpopular Iraq war. No Canadian government wanted to appear to be cosy up to the toxic Texan despite the fact that, objectively, Canada's refusal to participate in BMD weakened rather than strengthened our sovereignty. Our non-participation didn't derail BMD, but merely ensured that decisions about its use in our shared continent would be taken by America alone, with no involvement by Canada.

Today, President Bush is a distant memory while the damage done to Canada-US relations by Ottawa's refusal remains. Many Canadians admire the current occupant of the White House and taking a seat at the BMD table might go a long way towards mending political fences at a time when Ottawa is seeking political capital to use on other issues such as the Keystone XL pipeline. Now may be an opportune time for the Canadian government to reopen the file and join the ranks of virtually every other important US ally, from Britain to Japan, and support the development of BMD.

An improved political climate is no use, however, if there were no credible threats to which Canada might have to respond. In fact, since Canada shut the door on BMD, both ballistic missile and nuclear weapon technology have proliferated.

The predominant threat is volatile North Korea. Last December it test-fired a long-range rocket that could eventually serve as an intercontinental ballistic missile. NORAD confirmed the missile "deployed an object [into] orbit."

That would suggest North Korea's sociopathic regime could soon have the technological know-how to launch missile strikes capable of reaching the US and Canada. Pyongyang has already conducted several nuclear explosions and claims important technical advances in making its nukes fit its missiles.

Although some query North Korea's scientific proficiency, the regime's unrelenting drive suggests it will not easily abandon its goal of ballistic missile power. Iran is likewise well known for its disturbing race to acquire the enriched uranium necessary to build nuclear bombs.

Less well known is the Islamic Republic's ambitious missile program. In 2009 and 2011, for instance, it put satellites into orbit. In January it claimed it had launched a monkey into space. Responsible Western governments should treat these developments as the credible future threats they could become. The technology of defensive systems has changed too.

Ten years ago, missile defence barely worked. Today, by contrast, it is a proven reality, not a dream.

Live tests, where dummy missiles are destroyed in-flight during their ascent, midcourse, and re-entry phases, have been repeatedly conducted. Dalhousie University professor Frank Harvey calculates that US BMD tests have scored a 76% success rate since they began.

There is more progress to come. This March, President Barack Obama announced a \$1-billion plan to place another 14 ground-based missile interceptors in Alaska by 2017. In 2010, Canada's NATO allies — all 27 of them — agreed to invest more than \$250 million over the coming decade on missile defence for all of "NATO European territory and populations."

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Encouraged by the success of its Iron Dome defence against short-range rockets, Israel is expected to deploy its David's Sling system against medium-range cruise missiles next year.

Bottom line? Missile defence works.

A lot has changed since Canadians last debated missile defence. Obama attracts the Canadians George Bush repelled. Quebec, where opposition weighed particularly heavily on the querulous regime of Prime Minister Paul Martin, has seen its anti-Bush sentiment yield to pro-Obama enthusiasm and in any case the province swings a lot less political weight than it once did.

The current Canadian government has placed renewed emphasis on defence capability and securing Canada's national interests. Technological advances have led to the continued proliferation of missiles and WMD material, but have likewise made it increasingly feasible to shoot such rockets down. Hitting a bullet with a bullet is no longer a pious hope but a daily occurrence.

Thus a Canada aspiring to reach a decision based on policy principles rather than transient emotion might well conclude that the time has come to join with the US in building an anti-ballistic missile shield. Cutting Canada's vulnerability to the worst a dangerous world can throw at us is the right thing to do. 🌟

*Brian Lee Crowley is Managing Director of the Macdonald-Laurier Institute. MLI Senior Fellow Alex Wilner lectures at the Munk School of Global Affairs, University of Toronto.*



Pictured: The UK's national health service was featured as one of Britain's proudest achievements at the opening ceremony of the London Olympics.

# How the Brits (Tony Blair!) used private sector providers to improve their cherished national health service

*Former British prime minister Tony Blair's New Labour government invited private sector providers into their socialized medicine system. The result was reduced patient wait times and improved productivity within the NHS. Is there a lesson in here for Canada?*

**Paul Corrigan**

UK's New Labour government left one important legacy to governments that want to reform their socialized medicine systems. That is the vital importance of the development and deployment of a compelling public narrative for change as an integral part of the reform program. Unless the public thinks there is a very strong reason for challenging some of the preconceptions about their socialized medicine system, they

will mistrust any government attempting reform.

Like most Canadians, the English electorate love their socialized medicine system, the National Health Service (NHS). The 10 minute representation of real nurses dancing at the opening of the London Olympics is more talked about than any other aspect of the ceremony. As the biggest gift that the British people have ever given to themselves, changing the NHS is something that governments do at their peril.

By 2001 the New Labour government had developed a strong narrative for change, based on public anxiety about waits for hospital and doctor appointments. From 2001 onwards, every time that the New Labour government said anything about reforming the NHS, it stressed that access was poor and needed improvement.

The 2001 Labour Manifesto pledges to “cut maximum waiting times by the end of 2005 for outpatient appointments from six months to three months and for in patient appointments from 18 to 6 months.”<sup>1</sup>

The politics of this was not a shot in the dark by the Labour Party. Every focus group and opinion poll showed that long wait times were the major issue the public had with NHS services. People were worried and wanted something done.

Interestingly, most staff and managers in the NHS did not see access as a problem in the same way that the public did. After all, if you provide a service, a long queue is simply a long order book, and the willingness of people to wait a long time suggests your service must be acceptable.

This meant that the New Labour government’s compelling narrative for changing the NHS — decreasing maximum wait times — had originated within the public as a criticism of the current NHS. The work of the government was to translate this criticism into successful policies that would reduce wait times.

It is within this context that the Independent Sector Treatment Centres (ISTC) program was developed. The 2001 Manifesto explicitly pledges that “We will create a new type of hospital – specially built surgical units – managed by the NHS or the private sector – to guarantee shorter waiting times.”<sup>2</sup> The government had a direct mandate to introduce something very new which could be run by the private sector.

This was not a universally popular idea within the Labour Party or the NHS. In developing this policy, we knew there would be sharp political debate from the very beginning. However, given the framing of the policy issue, when people within the NHS argued against ISTCs, they were arguing against a policy that would reduce wait times for NHS patients.

In terms of the politics of reform, this moved the argument from public versus private provision to reducing wait times for patients or not.

Britain historically has had a private health care system in secondary hospital care, paid for mainly by insurance but also with a strand that was “pay as you go.”

Traditionally, the NHS bought “spot purchase” operations from the private sector to fill gaps in provision (in 2003–2004 some 99,000 operations were purchased for NHS patients). However, the spot purchase price was expensive because they were bought individually and led to a 40 percent mark up for cost.

The ISTC program moved to a series of procurements for large numbers of procedures from new facilities. While the existing private sector providers could apply, new providers had to be introduced to get sufficient numbers of new procedures. In the first procurement, none of

the existing providers of private health care won contracts and we had to create a new market of international providers.

That meant that we had to create a new market between December 2002 (when the Department of Health invited expressions of interest to run treatment centres) and September 2003 (when preferred bidders were announced).

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The first attempt to create this market in the summer of 2002 simply did not work, as Department of Health civil servants had no experience or expertise with this. It was recognised that we needed external expertise. Ken Anderson, who had been working in private health care and had experience creating such a market, was appointed to head the Commercial Directorate.

The fact that he was a Texan was a culture shock for the NHS and ensured that the prospective private sector providers knew there was a market-making competency within the Department of Health.

The aims of the Treatment Centre program were to help provide the extra capacity needed to deliver swifter access for NHS patients, spearhead diversity and choice in clinical service for NHS patients (the 2001 Manifesto also said that there would be a choice of provider for NHS patients), and stimulate innovative models of service delivery and increase productivity.

Several waves of ISTCs were planned and about 30 were opened by 2007. By 2006, 122,000 NHS patients had received elective surgery. The program was and remains controversial, but given the public desire to shorten maximum waiting times, the argument to go ahead with the additional capacity was a powerful one. ❁

*Paul Corrigan was special adviser to the Secretaries of State for Health 2001–2005 and senior health policy adviser to Prime Minister Tony Blair 2005–2007. Paul Corrigan’s commentary was included in the recent MLI paper, “A European flavour for medicare.”*

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**Endnotes:**

1. 2001 Labour Party General Election Manifesto.
2. Ibid.

# Canada's jobs recovery tilts toward the low earners

*In a recent Globe and Mail blog, MLI senior fellow Linda Nazareth looked at the numbers on where Canada's job growth is coming from, finding the strongest growth in the bottom quartile of earners. "Four years after the recession, the Canadian job market is still a kind of work in progress," writes Nazareth.*

## Linda Nazareth

It has been four years since the recession ended, and we keep hearing about how well Canada's economy did compared with that of the United States. We were back to our pre-recession level of employment pretty quickly; they still are not. But before we all get a bit too smug (in a nice, Canadian sort of way), maybe we need to take a good look at the numbers. They show that Canada is creating jobs — but maybe not precisely where we would like them to be.

In an ideal world, there would be lots of jobs for workers with all kinds of skills — but not much about today's global economy is ideal. In the US, for example, a recent analysis in *The Wall Street Journal* shows a kind of two-track recovery in that country's job market. Employment is rising nicely in occupations that pay the most (senior manager, doctor, lawyer) but not rising much in the lowest-paid occupations (fast-food worker, retail sales clerk, unskilled construction labourer). It is not a happy situation, and it is increasing income disparities in that country. But that's the US — are things any better in Canada?

To find out, I looked at Canadian employment by occupation as of the latest month available (October, 2013) and ranked, from highest to lowest, the 30 or so occupational groups for which Statistics Canada provides earnings data. At the top were senior managers (whose hourly wage, although most are paid weekly, comes out to about \$52.67); at the bottom were retail salespeople (average \$14.12, although that figure is likely inflated by the fact that supervisors are included in the count). Then, I looked at the share of each of these occupational groups as a percentage of total employment (for example, about 0.3 percent of Canadian workers are senior managers, while about 7 percent are retail workers).

From those calculations, I was able to group workers into one of four quartiles (each containing one-quarter of all workers in the country) by earnings. The top quartile had the senior managers, as well as many professional workers, while the bottom had a mix of service sector workers and categories such as "helpers" on construction sites.

So how did the four quartiles of earners do in terms of employment growth?

Between October, 2009 (the recession supposedly ended in May of that year as judged by a blue-ribbon panel of economists brought

together by the C.D. Howe Institute, but because the data are not adjusted for seasonality it makes more sense to use October as the benchmark) and October, 2013, overall growth in Canadian employment was 6.8 percent. Growth was just 4.4 percent for the highest-earning quartile, but a solid 11.5 percent for the bottom quartile. The group second from the top grew 7.3 percent in employment terms. The group second from the bottom, a category comprising mostly clerical and manufacturing-oriented workers, experienced the slowest growth, at 5.7 percent.

You can pick your favourite explanation for what is going on. The slow growth of top-tier workers probably had something to do with restraint in the public sector, as well as financial sector caution after the recession. On an annual basis, you actually can see that employment was down every year in this category, with the exception of the 12 months ended October, 2012, when there was fairly robust growth.

In the lowest tier of earners, there has been growth in employment every year — the only category for which this is true. This past year in particular, employment was up a strong 5.7 percent. That's good news — sort of. It likely reflects a migration of workers who used to be in the second and third tiers toward lower-paid occupations. In the third tier (the category that includes the manufacturing and clerical workers), employment fell in the year ended October, 2012, and grew just 0.7 percent over the past 12 months.

So what is the takeaway? Well, unlike the US, we are not actually talking about a two-speed job recovery. It is not like there is a ton of employment growth for top earners, and not many opportunities for those at the bottom. We are not exactly seeing a hollowing out of middle-earner jobs either — although certainly those are growing slowly or not at all.

Four years after the recession, the Canadian job market is still a kind of work in progress. Now, well into the fifth post-recession year, there is still a lot of caution in the hiring of any but the lowest-paid workers. It remains to be seen whether employers will feel the need, the desire or the confidence to step up their hiring of anyone else. ●

*Linda Nazareth is a Senior Fellow at the Macdonald-Laurier Institute. Her book *Economorphics: The Trends Changing Today into Tomorrow* will be published by Relentless Press in January, 2014. This commentary was originally published in the Globe and Mail's *Economy Lab* blog on November 14, 2013.*

# CREATING BETTER WAYS TO MOVE THE WORLD



Cities are the world's future. By 2050, more than 70 per cent of the global population will live in an urban area. But the success of these expanding social and economic hubs rests on re-defining the way people move within cities and between them: We need smart transportation networks that offer inter-connected mobility - fast, efficient and seamless connections.

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# Credit where it's due

## Payment cards benefit Canadian merchants and consumers; over-regulation can harm them

*In a recent paper released by the Macdonald-Laurier Institute, the authors concluded that there is no evidence to support the contention that proposed regulations on payment cards in the Canadian market will help lower-income consumers or small merchants. In fact, suggest the authors, it is more likely such regulations will hurt them. The following is the executive summary of the MLI paper.*

***Ian Lee, Geoffrey A. Manne, Julian Morris and Todd J. Zywicki***

Payment cards and associated networks facilitate efficient retail transactions, providing enormous benefits to both buyers and sellers:

- Debit cards offer security, convenience, and a ready access to funds
- Credit cards provide all these benefits and more, enabling consumers to spend money they don't currently have in their bank accounts.
- This in turn enables merchants to sell additional goods and services they wouldn't otherwise sell.
- By obviating the need for expensive in-house credit operations,

that benefits consumers and merchants alike.

credit cards enable small merchants to participate in the modern retail economy.

- Electronic payments expand small merchants' geographic reach online to a degree unthinkable in the absence of credit and debit cards.
- Growth in the use of electronic payments has also created more general benefits to society and the economy by increasing efficiency and expanding the availability of credit.
- One study of European countries estimates that a country may save 1 percent or more of its GDP by switching from all paper to all electronic payments.

These benefits are often impaired by overzealous regulation. The claim — made by Canada's merchants and the NDP — that interchange fee regulations, interference with surcharging rules, and restrictions on the "honour-all-cards" rule are beneficial to "all stakeholders, particularly small and medium sized businesses, entrepreneurs, and consumers" is simply false. The opposite is more nearly the case. There is little reason to believe that most stakeholders would benefit from such regulations, and every reason to believe that consumers would be harmed.

Instead of imposing regulations on the operators of payment card networks, which would undermine competition and harm consumers, Canada should seek to promote competition. The most effective way it can do that is to remove government-imposed restrictions on Interac that limit its ability to compete freely. Perhaps of greatest importance is the removal of restrictions on the setting of interchange fees. The removal of these restrictions would enable Interac members to invest in new technologies and build out their networks knowing that if they offer a superior service, they will be able to charge more for it. Equally important is avoiding the imposition of costly new restrictions, like proposed regulations prohibiting the imposition of no-surcharging or honour-all-cards rules.

Sadly, rather than recognizing that the way forward for Canada is to reform its debit card system in the competitive model of its credit cards, some critics want to dictate significant business practices and impose price controls on the credit card market. As we demonstrate, however, the proposed interventions would almost certainly increase costs for consumers, reduce innovation, and hamper the efficiency of the Canadian payment system.

Competition has been a key driver of the investments that have enabled the emergence of payment card ecosystems. But competition has not always and everywhere been permitted to operate freely. For nearly 20 years, Canada's debit card system has operated as a government-regulated monopoly. By contrast, its credit card system has been subject to more-or-less open competition.

These regulations have produced unintended and undesirable effects. Generally, they distort incentives, undermine investment in system expansion and the deployment of new technologies, and slow up the shift to electronic payments.

Notably, the Interac Consent Order (a set of restrictions on the operation of Interac, including its nonprofit status, governance structure, and caps on interchange fees, that were established following a ruling by

the Competition Tribunal that Interac was anti-competitive), although aimed solely at the "debit market," has artificially lowered the costs of interchange fees for debit card transactions and thereby incentivized merchants to discriminate against other forms of payment, likely slowing the development of credit card and mobile payments in Canada.

This has had follow-on consequences. For example, the difficulty of using debit cards for transactions online and the slower adoption of credit cards has likely contributed to the relatively slow uptake of online transacting by Canadians. Meanwhile, the lack of Interac's international interoperability has made it exceedingly difficult for Canadians travelling abroad to use their debit cards.

In the US, regulation of interchange fees for debit cards under the Durbin Amendment has resulted in harmful cost shifting. Banks have significantly reduced the availability of free chequing accounts, with particularly deleterious effect on poorer consumers. In 2009, prior to Durbin, 76 percent of banks offered free chequing; by the end of 2012, that had fallen to 39 percent.

*(R)ather than recognizing that the way forward for Canada is to reform its debit card system in the competitive model of its credit cards, some critics want to dictate significant business practices and impose price controls on the credit card market.*

Australia's experience with interchange fee price controls is similar. There is no evidence that Australia's comprehensive cap on interchange fees — in place since 2003 — has resulted in lower retail prices for consumers. Australian consumers on average are unambiguously paying more and getting less as a result of the country's interchange fee price controls and payment network regulation.

There is no evidence that this regulation of payment cards has benefited consumers in the form of lower retail prices. In other words consumers face considerably higher banking costs, while paying the same for their consumer goods. Since the higher banking costs fall disproportionately on poorer consumers, interchange fee and payment network regulation have been distinctly regressive. Moreover, while the enactment of such regulation may have proven a boon to large "big box" retailers, it has actually resulted in a price increase for many small merchants.

Worldwide, large merchants have benefited from payment network regulations at the expense of consumers. There is every reason to believe the same outcome will continue to occur in Canada if current efforts to regulate are enacted and unless existing regulations are relaxed. ❁

*The report is co-authored by Geoffrey A. Manne, founder and executive director of the International Center for Law and Economics (ICLE), Ian Lee, a professor at the Sproul School of Business at Carleton University, Todd J. Zywicki, Professor of Law at George Mason University and senior fellow of the International Center for Law and Economics, and Julian Morris, vice-president of research at Reason Foundation. To view the full report, visit the Macdonald-Laurier Institute website.*



## 2013: The economic year in review

*Economist Dan Ciuriak examines the global economic milestones and developments of 2013 and suggests that “as we zoom out and add more historical context, the events of 2013 seem to take on greater significance: from “same old, same old” in the new normal (a slow, jobless, debt-driven recovery), to signs of change in the Zeitgeist, and possibly even to historic tectonic shifts.”*

### **Dan Ciuriak**

After the dramas of 2010-2012, when the erstwhile global recovery reeled from pillar to post, buffeted by one momentum-draining shock after another – the European sovereign debt crisis of 2010; the tsunami-related disruption of Japan’s economy and the US “fiscal cliff” standoff of 2011; the threat of a euro breakup (“Grexit”) and China’s slowdown in mid-2012 — the year 2013 was greeted with relief and a bit of cautious optimism. It was not unreasonable to hope that the “recovery that survived” might actually pick up steam as the drag from structural adjustments and household deleveraging of the preceding years wound down, tail risks receded, and central banks continued to pump money into the economy. Optimistically, the closely watched Global Purchasing Managers’ Index (PMI) had risen briskly over the course of the second half of 2012, pointing to stronger results ahead.

However, as the year unfolded, those hopes faced one cold shower after another. Already in January, the IMF downgraded its forecast for 2013 from 3.6% to 3.5%, largely to reflect softer conditions in Europe. Further downgrades followed in April (to 3.3%), July (to 3.1%), and again in October (to 2.9%).<sup>1</sup> This was followed by a further downgrade to 2.7% by the OECD in its November 2013 forecast.

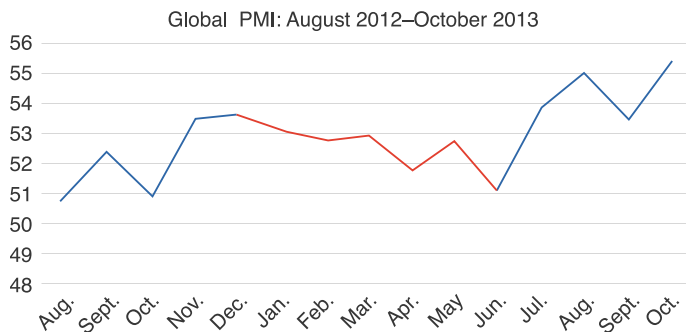
The series of downgrades reflected in the first instance disappointing economic performance in the major economies and the slowdown in the BRICS (Brazil, Russia, India, China and South Africa). In the United States, failure to cut a budget deal triggered the “sequester” – automatic spending cuts mandated by the Budget Control Act of 2011 that ratcheted up fiscal restraint sharply.<sup>2</sup> In Europe, the hoped-for emergence of the Eurozone from recession was delayed. In China, the shift to domestically driven growth and “rebalancing” of the economy resulted in an expected slowdown – although only to a more-than-respectable cruising speed in the high 7% range. However, a tail-off in commodity prices and speculation that the commodity supercycle<sup>3</sup> had peaked (in part because of China’s slowing growth) dampened prospects for resource dependent emerging markets. Only Japan bucked the trend and surprised on the upside due to an aggressive stimulus package (“Abenomics”<sup>4</sup>) to restore growth after the post-tsunami reconstruction “boom” (in Japan, 2% growth is a boom) had lapsed.

Adding to the headwinds was a renewed round of financial volatility. Remarks by Federal Reserve Chair Ben Bernanke on 21 May 2013 broaching the idea of a “taper” before year end – a gradual reduction of Fed purchases of government debt and mortgage-backed securities



under its quantitative easing program – set off a sharp reaction in financial markets: long-term yields rose in the United States by over 100 basis points and a sell-off in emerging market assets gathered steam over the summer, driving down local equity prices, driving up interest rates, and driving down currency values. To give a sense of the outsized impact, the IMF writes that the jump in emerging market local bond yields was roughly three times as great as its own estimates under its US monetary tightening scenario.<sup>5</sup> The sovereign risk spreads in the euro periphery also widened again.

The Global PMI confirmed the weakening as it trended down over the first half of the year, falling off sharply with the US sequester, and approached stall speed in June.



Source: JP Morgan/Markit; compiled from various news releases.

But again the recovery survived as it had time and again in the preceding years. The Eurozone helped as it timidly emerged from recession in the second quarter (an annualized rate of growth of 0.3%) after a record 6 quarters of contraction and followed that up with an expansion in the third quarter (0.4% annualized). A mini-stimulus package in China supported stronger third quarter numbers. The clarification by the Fed that tapering did not imply interest rate increases<sup>6</sup> boosted equity markets, which in turn had at least marginal positive wealth effects for the real economy. The Global PMI bears out the general strengthening of the recovery in the second half.

Nonetheless, no corners were turned in 2013. The four major economies – the United States, the European Union, China and Japan – remain dependent on stimulus: self-sustaining private sector-driven growth is not yet in sight. Politics in the United States have locked the parties into fiscal brinksmanship which creates risk: an OECD “thought experiment” evaluates the consequences of a binding debt ceiling as a new global recession. The weakness of the growth dynamic in the Eurozone leaves residual skepticism as to whether the recession is really over; the fact that the European Central Bank cut its key policy rate in November emphasizes the downside risks, as does the S&P downgrade of France’s sovereign risk rating. China growth-skeptics look at its job creation numbers which signal recession, not expansion.<sup>7</sup> And Japan is off the charts in terms of worries about its financial wiring. Moreover, in its November outlook, the OECD emphasized that all the cylinders of the global growth engine were sputtering – trade growth was tepid, credit expansion flat, and domestic and foreign direct investment were lifeless.<sup>8</sup>

The Holy Grail of commentary is perspective. Vantage point determines whether we see trees or a forest, a jumble of data or meaningful

pattern, and whether pattern translates into portent. As we zoom out and add more historical context, the events of 2013 seem to take on greater significance: from “same old, same old” in the new normal (a slow, jobless, debt-driven recovery), to signs of change in the Zeitgeist, and possibly even to historic tectonic shifts. The following are some candidates for events by which 2013 may eventually be remembered:

**The dawning of the post-BRICS era.** The BRICs each emerged from their individual versions of chaos in the early 1990s<sup>9</sup> to become a force on the global stage over the course of that decade. The coining of the term “BRICs” in 2001 signaled the recognition of their arrival; their main impact was however on the expansion of the 2000s. Their common feature was that they were large, continental economies whose rapid growth had global impact, particularly on commodity prices but also on the supply of goods and services more generally. But the bloom on every rose must fade. In 2013, all the BRICs posted very un-BRICs-like growth. And new nomenclature was coined: PC16 (“Post-China 16”), which captures the ambient sentiment that the world going forward will not look like the world to which we grew accustomed in the past decade.<sup>10</sup>

**Limits to the extension of global value chains.** The risks of extended value chains were revealed by floods in Thailand and the Japan tsunami which disrupted technologically advanced supply chains. Meanwhile, the historical opportunity to exploit cheap but proficient Chinese labour is nearing its end. In the recovery from the global crisis of 2009, global trade has not outpaced global GDP growth as it had for the past few decades. In 2013, we became aware that the intermediate goods share of total trade had fallen for the first time in the globalization era. The Snowden tapes’ revelation of industrial espionage: this may be a watershed event for global business. Quite apart from highly publicized nation-state actions to safeguard the privacy of their own communications, worldwide, businesses must be taking (without any publicity) counter-measures to protect their industrial secrets. It would be a dereliction of duty on the part of Boards of Directors not to do so. The implications for business strategy remain to be seen. But increased globalization is not likely one of the outcomes. Google executives are talking about the “Splinternet” replacing the Internet.

**The cresting of the age of mega-regionals.** The Trade in Services Agreement (TISA), the Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership, and the Regional Comprehensive Cooperation Agreement (ASEAN and its six plus-one partners) were all in swing. All are discriminatory (that is to say preferential) trade agreements, which underscores the logic of the domino theory of such agreements.<sup>11</sup> Put in the best possible light, these are net trade-creating agreements that will serve as stepping stones to an eventual seamless global trading system. But it takes a very optimistic reading of the trade literature to sanguinely accept this view. Woe might be the WTO.

**The changing geography of trade.** In 2013, the Northwest Passage from North America’s west coast to Europe, was traversed by the Nordic Orion in September-October 2013 carrying coking coal from British Columbia to Finland.<sup>12</sup> The Northeast Passage from Asia to Europe is already open for several months a year. These developments change the economic geography of trade<sup>13</sup> as they cut thousands of

miles and tens of thousands of dollars from costs of transit of goods – the Nordic Orion alone saved around \$80,000 in fuel by taking the Arctic route. This is but one consequence of the failure of collective action on climate change.

**The cracking of the OECD consensus.** Post-WWII economic history divides into two distinct eras. The first was the era of Keynesian demand management policies during which exchange rates were fixed, capital flows were constrained, fiscal policy was pre-eminent and the constraining factor on growth was perceived to be aggregate demand. That era ended in the 1970s amid a perfect storm of negatives:

- slow growth and inflation (“stagflation”);
- fiscal deficits (from over-use and mis-use of the main policy tool of the day, tax incentives and fiscal outlays);
- microeconomic distortions (bloated public sectors, inadequate incentives); and
- policy impotence of the main policy tool, namely fiscal policy (due to the breakdown of the Phillips Curve trade-off between unemployment and inflation).

The solution, to shift the supply curve out, ushered in the era of supply side policies. This era stood Keynesianism on its head. It featured: fluctuating exchange rates, massive international flows of capital, monetary policy pre-eminence, and the perception that the constraining factor on growth was supply. Three decades later, we face a similar set of problems to those faced by 1970s-era Keynesian policymakers:

- slow growth (the OECD region grew by a cumulative 2.5% between 2008 and 2012), this time coupled with deflation (the obverse of the problem of the 1970s);
- fiscal deficits; microeconomic distortions (zero or negative real interest hurts interest-income-dependent investors while cutting costs for debtors<sup>14</sup>; they also distort the relationship between the wage rate and the carrying cost of capital); and
- policy impotence of the main macroeconomic policy tool: interest rates are at zero bounds and the extended resort to unconventional measures (the US’s QE I, II, III, the EU’s LTRO, Abenomics, etc.) feels like it’s pushing on a string.

In 2013, the World Bank started to talk about a “new” industrial and innovation policy, three World Bank Chief Economists past and present (Joseph Stiglitz, Justin Lin and Célestin Monga) published a volume on the “rejuvenation” of industrial policy, the OECD put out a discussion paper, “beyond” industrial policy, and both advanced and emerging markets signalled the urgency of capturing industrial activity. Governments are not repudiating the OECD consensus — the basis for that has not yet been laid. But they are groping for a way out of the stagnation/deflation binds of the entrenched supply-side policy framework — just as supply side economics represented a way to break out of the stagflation trap of Keynesianism three decades earlier.

The most hated bull market in history: The liquidity-fuelled record-breaking rise of stocks which saw the Dow Jones, the NASDAQ and S&P 500 hit all-time highs has left investors skeptical. But if investors hate the bull market, one can only imagine what others are thinking. The City of Detroit declared bankruptcy over a trifling debt of \$18 billion, little more than the \$13 billion settlement paid by JP Morgan for its role in the subprime mortgage fiasco (which was a major contributing

factor to Detroit’s fiscal woes). Today, JP Morgan’s share price didn’t seem to notice – it is at 10-year highs,<sup>15</sup> but Detroit apparently cannot honour its pension payments.<sup>16</sup>

### A winter’s worth of discontent in the United States

If ever a country had it made, it would be today’s United States. If one evaluates economic welfare by consumption per capita, the United States is into the zone of negative marginal returns – it needs to consume less – not more – for the sake of its own health. If one evaluates economic progress by technology, America should be taking time off to go to the golf course while machines do the hard work of producing golf clubs. If one evaluates national security in any which way possible, the United States should be sleeping easy, protected by oceans to the east and west and friendly neighbours to the north and south.

*The OECD November forecast lists US fiscal behaviour as a risk – that is, the OECD is not confident that the United States can do the math regarding what is and is not in its own interest.*

But the United States is frothing with internal vitriol and fractiousness. So much so that it managed to shut down its government in 2013 at a cost of between 0.2% to 0.6% of quarterly GDP growth<sup>17</sup> over internal distributional issues that will seem in historical perspective to be molehills no more consequential to a great power than the frictions that, in a remarkably similar parallel, distracted England a century earlier – internal division of power (Irish home rule), voting rights (the suffragette movement), internal income distribution (coal miners’ strike), and entanglement in a war with impoverished locals in a country far away of no conceivable strategic importance.<sup>18</sup> The OECD November forecast lists US fiscal behaviour as a risk – that is, the OECD is not confident that the United States can do the math regarding what is and is not in its own interest.

### Canada’s Year in Economics

It is hard for Canada to turn a corner when the United States does not. So Canada turned none in 2013. But, there are corners to turn: Canada has had no per capita real income growth to speak of in the past five years – 2013 was no exception — and has been running not insignificant deficits on the current account (-3.1% of GDP on average over 2008-2013) and structural fiscal deficits (also -3.1% of GDP over the period) — again 2013 was no exception. However, at the same time, according to Bank for International Settlements data, cautious Canada also has no housing bubble and is listed with Germany as among the least leveraged countries in the world.<sup>19</sup> A solvent clientele makes for a solvent financial system, so well done Canada on that score. The exchange rate remained high but only moderately so,<sup>20</sup> although a better balance between interest rates and the exchange rate would be healthier for the economy all around.<sup>21</sup>

On the downside we have Blackberry down and no new iconic names to replace it. On the plus side, Budget 2013 made a pivot to manufacturing, making it the second top priority. We still can’t talk about

industrial policy in Canada, but Canada is starting to move with the Zeitgeist on this one. Something needs to be done about innovation and innovation runs through manufacturing. And a new, export-savvy Governor at the Bank of Canada.

On trade, Canada settled with Europe and joined the Trans-Pacific Partnership. A pivot to high-growth economies this is not – TPP economies had a weighted average growth of 1.7% over the last decade or so (2.9% excluding Japan and the United States) and Europe has been in recession for five years. The energy superpower in North America turns out to be America – frack! Speaking of bad timing, the one region that Canada is not targeting broadly in its global commerce strategy is Sub-Saharan Africa – where McKinsey has recently found “lion economies”<sup>22</sup> on the move and which accounts for a number of

the “Post-China 16” that strategists are eyeing. For the record, Sub-Saharan Africa grew 26% in the past five years.

So not a thrilling economic story for Canada – but sometimes it’s not bad to be boring. Thank goodness for the political entertainment in 2013. 🌟

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## Endnotes

1 IMF World Economic Outlook and Updates, October 2012, January 2013, April 2013, July 2013, and October 2013.

2 The automatic spending cuts under the BCA were originally scheduled for 2 January 2013, but the agreement over the “fiscal cliff” in December 2012 delayed this until 1 March 2013 when failure to reach a budget agreement forced President Obama to sign the sequestration order.

3 Since 2000, there has been a steep rise in resource prices reversing a longer-term decline since the 1980s. This era of high, rising, and volatile resource prices has been characterized by many observers as a resource price “super-cycle.” Since 2011, commodity prices have eased back a little from their peaks, prompting some to question whether the super-cycle has finally come to an end.

4 The program is named after Japan’s Prime Minister, Shinzo Abe, who instituted a “three arrows” policy upon re-election in December 2012: a massive fiscal stimulus program, aggressive monetary easing with the Bank of Japan applying quantitative easing, and structural reforms to boost Japan’s competitiveness. The result was stronger than expected growth in 2012 but also a sharp devaluation of the yen, a steep rise and then fall in the Nikkei, and intensified worries about Japan’s monetary and debt mountain.

5 IMF, World Economic Outlook, October 2013, p. 16.

6 The specific criteria of an unemployment rate outlook of 6½% and inflation consistent with the Fed’s view of an inflation rate consistent with price stability, namely 2%, were first enunciated in December 2012; they were reaffirmed recently. See “Remarks by Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System, at the National Economists Club Annual Dinner, Herbert Stein Memorial Lecture,” Washington, D.C., 19 November 2013. Adding nuance (and wiggle room) to past statements, Bernanke indicated that rates could even stay near zero “for a considerable time after the asset purchases end, perhaps well after the unemployment threshold is crossed and at least until the preponderance of the data supports the beginning of the removal of policy accommodation.” (at 18).

7 Gordon S. Chang, “Jobless Growth in China? Employment Stats Say Recession Has Already Started,” *Forbes*, op-ed, 10 November 2013.

8 OECD, “The Global Economic Outlook: Stronger Growth Ahead,” 19 November 2013. Presentation by Chief Economist Pier Carlo Padoan.

9 All the BRICS were in economic crisis in the early 1990s: China was in its post-Tiananmen Square recession; Russia was in economic free-fall following the collapse of the Soviet Union in 1991; India was in a balance of payments crisis (partly induced by the collapse of the Soviet Union, a major trading partner); Brazil was in a hyper-inflation economic meltdown; and South Africa was experiencing its worst economic performance of the post-WWII period with stagflation and declining investment in part due to the anti-Apartheid sanctions. The simultaneous recovery of these economies over the latter part of the 1990s was sufficient to inspire the coining of the term “BRICs” by November 2001 (O’Neill, 2001). Apart from the accelerated growth that is possible in a post-crisis recovery stage, the BRICS also gained the large early returns from trade opening as they moved from virtual isolation from the global economy towards much more open economies, and reaped the major benefits from internal policy reforms that moved them from excessively heavy state intervention towards a more

liberal market-oriented economy. The main phase of the BRICS expansion post-2001 also benefited greatly from the bubble-driven growth in the industrialized countries. O’Neill, Jim. 2001. “Building Better Global Economic BRICs,” *Goldman Sachs Global Economics Paper* No. 66, 30 November 2001.

10 George Friedman, “The PC16: Identifying China’s Successors,” *Geopolitical Weekly*, 30 July 2013.

11 Baldwin, Richard. 1995. “A Domino Theory of Regionalism,” in *Expanding Membership of the European Union*. Richard Baldwin, P. Haaparanta, and J. Kiander, eds. Cambridge, U.K: Cambridge University Press, pp. 25-53.

12 See Danny Bradbury, “Climate change opens up Northwest Passage to commercial shipping,” *Business Green* (October 1, 2013).

13 See Marco Evers, “Northeast Passage: Russia Moves to Boost Arctic Shipping?” *Der Spiegel*, August 22, 2013, for a recent comment. The Northeast Passage sea route from Hamburg to Shanghai reduces distance travelled from some 20,000 km through the Suez Canal to 14,000 km, or about 30 percent. Given the conventional gravity-model estimate of a 1 percent increase in trade for each 1 percent increase in distance, such a reduction, sustained for several months each year, would have a measurable impact on trade between Europe and Asia.

14 McKinsey Global Institute, “QE and ultra-low interest rates: Distributional effects and risks,” November 2013.

15 BBC World News, “Business Live: JP Morgan pays record \$13bn fine,” 20 November 2013.

16 Dominic Rushe, “Detroit accused of exaggerating \$18bn debts in push for bankruptcy,” *The Guardian*, 20 November 2013. Rushe reports that “City workers and retirees face draconian cuts on the \$3.5bn in pension payments, and another \$6bn in healthcare benefits they are owed. The average Detroit pensioner gets \$19,000 a year. Under a deal now being discussed they would be given 16 cents to the dollar, cutting the average pension to \$3,040.”

17 Office of Management and Budget, “Impacts and Costs of the 2013 Federal Government Shutdown,” November 2013.

18 The reader is directed to George Dangerfield’s “The Strange Death of Liberal England” for an account of how Great Britain parlayed global supremacy into a supporting role on the global stage

19 Christian Dembiermont, Mathias Drehmann, and Siripom Muksakunratana, “How much does the private sector really borrow? A new database for total credit to the private nonfinancial sector,” *BIS Quarterly Review*, March 2013, Bank for International Settlements: 65-81.

20 “Price Puzzles and the Exchange Rate,” Remarks by John Murray, Deputy Governor of the Bank of Canada, Mount Allison University, Sackville, New Brunswick, 19 November 2013.

21 Dan Ciuriak “Bank of Canada should restore the ‘Made in Canada’ monetary policy instrument,” *Inside Policy*, June-July 2013 (Ottawa: MacDonald-Laurier Institute).

22 McKinsey Global Institute. 2010. *Lions on the Move: The Progress and Potential of African Economies*. McKinsey & Co. June 2010.



Courtesy the Department of Foreign Affairs

JOHN BAIRD: MLI POLICY MAKER OF THE YEAR

# John Baird's mission: Transforming Canada's role on the global stage

*The Macdonald-Laurier Institute has selected Foreign Affairs Minister John Baird as its Policy Maker of the Year. In this insightful profile, Robin Sears examines the background, the record and the character of the dynamic leader of Canada's foreign service. Sears notes how Baird has evolved and matured as a politician and asks the Minister about the legacy he hopes to leave behind when he moves on from Foreign Affairs.*

## **Robin V. Sears**

The television clips of the leaders in Colombo were a dramatic visual. No Prime Minister Harper, merely a junior sit-in. It was the diplomatic equivalent of an empty chair. And it was the sharpest demonstration yet of John Baird's determination to reshape Canadian behavior and reputation internationally. To those who had been watching his high-wire act

for the past two years, it was predictable that his "principles-based foreign policy" would not quietly accept the arrogant hauteur of Sri Lanka's brutal victors as Canada's host and the Commonwealth chair.

It marks an important divide in the history of Canada internationally. Pearson, Trudeau, and Chrétien, were each typical of the "solid and reliable" approach of Canadian diplomacy at the

Commonwealth, pushing quietly for statements critical of Nigeria's brutality in Biafra, regularly condemning Zimbabwe's cruel octogenarian dictator, Robert Mugabe, etc.

But not showing up! Never.

No, "you must be at the table to make change" was always Canada's narrative. Baird does not descend to the "Munich attack," in his condemnation of the legend of "Canada as the eternal compromiser," in his choice of Churchill over Chamberlain as a guide. But you feel his contempt for this "go along, get along" style of Canadian diplomacy the moment the issue is raised.

Privately, he wonders if there is anyone we wouldn't "happily sit down with in the days gone by." Interestingly, two weeks before it was announced, he hinted broadly that Canada would not be alone in its protest — and indeed, even more damagingly for Sri Lanka's autocrats, the Indian prime minister snubbed them as well. Baird had clearly been canvassing allies.

Those Canadian opponents who would sneer at Baird's "naive" conception of the necessary compromises of foreign policy, might want to be careful. On attack, Baird can be devastating. One can imagine him slapping Pierre Trudeau's son for supporting the "sleazy compromises with evil," the value-free rhetoric of pin-striped diplomats.

The Conservative government of Stephen Harper loves to contrast itself on many fronts with that of Trudeau père. Given its history of finely targeted missiles one can anticipate that the Conservative attack machine will extend to international policy — especially given Trudeau fils' several foreign policy malapropisms, most recently over China. It won't be pretty. In contrast to Baird's domination of the House, even after four years in his chair Justin Trudeau often displays the bewildered frown of a kid who took a wrong turn on his way to the student Model Parliament.

To Ottawa insiders, what makes John Baird the only really interesting Harper government minister are his contradictions. To Canadians whose picture of this lifelong politician is framed by Question Period clips, he is the quintessential Harper attack dog. Roaring indignantly at some Opposition impertinence, Baird in full flight is impressive in his domination of the House... but you would be forgiven for praying that you did not get stranded beside him on a long flight.

To a passel of puzzled ambassadors, to the small group of journalists invited to share a bottle of wine, to his many friends in every political tribe, however, he is a gracious, funny, self-deprecating, and insightful public servant.

He clearly delights in the contradiction and its power to confound his enemies. He cheerfully accepts a characterization of his public face as that of a "highly theatrical political actor." One can imagine Baird relishing the opportunity to dash onto a Stratford stage, brandishing his sword and bellowing angrily at Hamlet or Lear.

Many politicians are very different in private than their botoxed public smile. In Baird's case one suspects that his yin/yang disguise is more strategic and contrived. His reputation means that he enters every new relationship as a politician with the advantage that the newcomer will always be slightly wary and on the defensive. They are then more easily won over by the gracious private Baird, surprised to find him congratulating them on a recent speech, marriage or a child's graduation. Relieved not to be struggling to free their bleeding ankle from his jaws' savage grip.

Baird is also a very private public man. He will accept teasing and hints about his private life but that is a door few are permitted to open. He will not be drawn either on his early political motivations beyond saying that his childhood was full of news and current affairs, that he was always drawn to the spectacle of political battle.

*To a passel of puzzled ambassadors, to the small group of journalists invited to share a bottle of wine, to his many friends in every political tribe, however, he is a gracious, funny, self-deprecating, and insightful public servant. He clearly delights in the contradiction and its power to confound his enemies. He cheerfully accepts a characterization of his public face as that of a "highly theatrical political actor."*

The son of an Ottawa municipal employee he decided early that he wanted a life in politics. The choice was never driven by his parents' hopes. For a suburban Ottawa boy in the 80s it was an unusual ambition, as was his early determination to get into provincial — not federal — politics.

Perhaps he knew that he wanted to launch himself on a wider stage than the rather limited political village that is Ottawa. He credits two people with opening his eyes to public life. His Grade 7 teacher, Ms. Kay Stanley and his MP Walter Baker. Stanley talked to him about the world and Baker, a widely loved gracious politician — whose funeral Baird attended at fourteen — was a symbol of well-lived political life.

Baird is delightfully open about his ambition, admitting that at fourteen he decided that he wanted to be an MPP by the time he was twenty four, and a minister by thirty. He missed both goals — by only days in each case. Yet, he has no apparent ambition for leadership. He seems completely happy acting in harness for a strong populist leader, first Mike Harris then Stephen Harper. He is a loyalist, offering at one point to give up his seat to new party leader John Tory when, as he puts it with obvious contempt, "Ernie Eves refused..."

Yet he is not the unthinking loyalist that he projects in public. He is frank in his assessment about how the Ontario Tories lost their

“intellectual energy”, leading to defeat. While he would never be quoted by the friends and allies in whom he confides, in private he is a savvy critic of the gaffes and missteps of his colleagues. His assessment of Stephen Harper’s strengths and weaknesses is closer to the conventional wisdom than it is to party orthodoxy.

His convictions are as complex as his public and private faces. He professes to a stern conservatism, after laughing at the memory of his first vote for a leader of the Ontario Conservative Party being cast for perhaps the reddest of Ontario Red Tories, Roy McMurtry. He loves the confused reaction, when he brags, “I always told both guys that I was probably the only person in the world to have voted for both Roy and Mike Harris for leader!”

Those who have watched Baird’s evolution from his anti-welfare rhetoric of almost twenty years ago in the Ontario Legislature marvel at his growth. He admits that he almost cried with joy on the night at Queen’s Park when the Harris government passed the omnibus labour bill reversing all the Rae government’s pro-labour legislation. He admits that he could not stand to be in the Legislature when it paid tribute to the departing Bob Rae — for fear he would fail to stand, so he stayed away. This year he led the tributes to Rae in the House as he retired from federal politics.

This year, as well, he hosted a private dinner for Brian Mulroney, Elizabeth May, Bob Rae and a few invited guests, in his minister’s dining room at the top of Fort Pearson, in honour of Mulroney’s Acid Rain Treaty anniversary. It was an elegant evening of gracious affectionate war stories among seasoned politicians, led by Baird himself. Their respectful jibes at each other’s expense had some of the young Tory staffers’ — weaned on a less respectful partisan discourse — jaws on the floor.

He has pushed Canada to the forefront of the battle for religious freedom, sexual freedom, tough anti-human trafficking measures, and fierce opposition to childhood marriage and genital mutilation — not the typical menu of a typical Canadian Conservative foreign affairs minister. His fierce defense of Israel has not prevented him developing a wide circle of Arab ministerial friends. He quickly lists half a dozen whom he considers as friends to a skeptical visitor. His ability to make new friends quickly is an enormous asset. As he points out, foreign ministers’ longevity is poor, citing several countries where he is on to his second or third in two years.

That his reputation is more nuanced internationally than at home is visible in the reaction of his peers. Tony Blair’s enthusiasm for Baird’s reputation in the region would cause many Canadian Liberals’ heads to explode. As the Mideast representative of the Quartet countries, Blair is responsible for the economic development plan for a prospective Palestinian state. He speaks very highly of the role Baird has played. “I know from...what people in the region say, [that] the position of Canada today is immensely important...Thank you very much to you for your work there,” is part of a much longer unsolicited endorsement.

The picture that emerges from asking about Baird in the Ottawa diplomatic community reflects the same Janus-faced mask he wears so well domestically: hard-edged advocate of “principled foreign policy” in public, nuanced partner in dialogue in private.

Challenged about the Harper government’s tough anti-Iran rhetoric, its anti-UN stance and most recently its decision to bail out of the Commonwealth Summit Baird comes close to anger.

“This bullshit that Canada has always been the referee with no stake in the game, no principles it advances is just that, bullshit. People respect our taking principled stands. Even if they don’t agree with us, they respect our convictions. I don’t need their approval or validation,” he snaps, referring to the barrage of criticism of a retired generation of Canadian diplomats.

And don’t even mention Joe Clark to this successor. Clark’s just published gratuitous attack on the Harper government’s international record, doesn’t merit a response in Baird’s view.

His revulsion at the Commonwealth’s acceptance of sleazy partners such as the brutal Sri Lankans, or the bizarre defense of Syria or Iran among too many member countries of the United Nations may be grounded in principle. But there is another analysis which it seems to fit as well: the deeply anti-institutional bias of the populist DNA of this government.

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Choosing between the pretentiously named “freedom agenda” — borrowed from the Bush propagandists — and institution building, Baird sits with the prejudices of many in his government. Freedom first. There is a curiously naive, if genuinely held faith, in the power of “freedom” to overwhelm corrupt or malign institutions. Without the protection of strong institutions in communities where tribal thugs, or religious bullies or boys with guns hold power, their so-called “freedom agenda” is likely to get you killed.

They have little patience with those who argue that Diefenbaker used the Commonwealth to isolate South Africa and Mulroney used it to throttle apartheid itself.

The Harperites’ open contempt for the UN General Assembly, for example, is after all merely a more candid display of what many who endure its hypocrisy also believe. What one jaded UN veteran dubbed, “our oceans of meaningless words flooding across a desert of inaction.”

Baird is also keenly aware of the risks of megaphone diplomacy, pointing out with some indignation that his critics only hear what he says in public. By definition no one hears the quiet demarches that he delivers on behalf of Chinese dissident prisoners, or victims

of religious or sexual oppression in the Middle East, he protests. Then he adds, “But I don’t worship at the altar of consensus. I don’t seek validation from the establishment and the elites,” adding a particularly strong smack at the criticism from one of Canada’s most revered diplomats.

He claims that his loud denunciations on child marriage or official homophobia in Uganda usually follow strenuous efforts to deliver warnings in private. “We followed the criminalization of sexual orientation in Russia very closely. We cautioned them at the highest level nine times before going public.”

He bristles as well at the suggestion that he has combative relations with his bureaucracy at the embattled Department of Foreign Affairs, Trade and Development.

Old school diplomats mutter on the Ottawa cocktail circuit, seven and a half years after the Huns arrived at the gates, that the Harperites are “destroying in a decade half a century of Canadian diplomacy.” Their friends in the development community echo the diplomats’ rage, claiming that Harper’s evisceration of CIDA was designed to take development dollars and spend them on trade promotion.

It’s too early to tell if any of that conspiratorial claim is true, but Baird reports that departmental officials — from his new, widely-respected Deputy Minister, Daniel Jean, down to the geographic and sector leaders — enjoy “co-operative, supportive and professional relations” with he and his staff.

Baird has an incentive to claim that there is “peace at Fort Pearson” of course. He does not want to appear to be a Minister incapable of winning his officials’ loyalty. In defense of his claim, it is widely said that Baird managed Treasury Board — a typically thankless portfolio in a period of restraint, and Transport — a sprawling monster of a portfolio, and Environment — a death trap normally for ambitious Conservative ministers, to rave reviews both from clients and officials.

Given the ability of seasoned diplomats to offer several sincerely held, but completely contradictory views, depending on their audience, it may well be true that they snarl about the Huns to friends and to each other in private, but then turn and smile winningly during sessions with their political masters.

The integration of diplomats, trade officials and development experts in a single department has never been done in Canada. Versions of it have been tried elsewhere to mixed reviews. The integration of the giant new department is likely to be a large part of Baird’s legacy whenever he moves on, so he has a big investment in making it work. Given his mastery of very tough departments first in Queen’s Park and now in Ottawa, it would not be prudent to bet against him.

Make no mistake, Canada’s loud and confident young Foreign Minister is keenly sensitive to legacy.

He wants to drive a spike through the smooth-talking, always compromising, friend-to-dictator-and-democrat-alike, brand of

Canadian diplomacy that the Harper Conservatives believe they inherited. They knew what they despised, but they had a harder time defining their own Conservative strategy.

Through four previous foreign ministers, they struggled to describe what it was they liked: flipping from Africa to the Americas, from big projects to aiding the poor in Haiti, then to maternal and child health from hard infrastructure, and most recently a still inchoate vision of “corporate/government partnerships” in delivering assistance.

Partly due to good timing, and partly because Baird has a sharper political nose and eye than any of Peter MacKay, Maxime Bernier, David Emerson and Lawrence Cannon — his long list of predecessors — Baird’s agenda has been crisp and clearly defined.

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First he likes to move quickly and decisively: he led on Libya, only a half step behind the manic French President Nikolas Sarkozy. He led on Burma, fighting for early recognition of the regime’s stumbling efforts toward democratization. And, he led on Syria when many, including the Obama administration, were more querulous.

He also enjoys the bold move. He has finally launched the long promised Office of Religious Freedom, which has taken a series of unexpectedly tough positions and offered a long list of grantees access to its considerable cash.

He has been a lightning rod on the sexual exploitation of boys and girls, on human trafficking and on child marriage — using language that he acknowledges sometimes causes discomfort in diplomatic circles. Then he explodes, “But who will defend a nine year old girl being forced to marry a 54 year old man! Who? If Canada won’t?”

But it is his bold stance on sexual orientation that has won him a considerable international profile. On the cruel cynicism of Putin’s attacks on gay men and women, on the torture and murder of gays in East Africa and the Middle East he has been fearless and unrelenting.

A vestige of a Conservative women’s group from the 80s, “Real Women” — today reduced to a couple of dozen aging bigots from

Western Canada — attacked Baird by press release for attempting “to impose foreign cultural values” on third world countries, appearing to enthusiastically support the torturing and imprisoning of their gay citizens. Baird lashed back, and as he points out they quickly climbed down in a hair-splitting letter to editors.

Asked about the role he is playing in dragging Canadian Conservatives from the dark days of early Reform propaganda on “the sanctity of the family,” “marriage’s sacred bond between a man and a woman” and the “troubling role of activist homosexuals in our school system,” Baird dismisses such concern: “I don’t know a single Canadian Conservative today who believes in the criminalization of sexual orientation.”

Well, he must filter his Conservative friends with special care most observers would respond. There may not be many today who would openly espouse such thoughts publicly, but there are many with deeply homophobic quotes on the record from days gone by.

Later, one expects that Baird will acknowledge the revolution in social values he helped promote within his own political tribe, and maybe also internationally. Today, it is still too new, too early — and the repressed social conservatives too dangerously sullen — for any such celebration.

Baird wants part of his legacy to be a Canada that speaks “truth to evil.” Landing in Cuba, in part to attempt to win the release of an aging Canadian businessman, unfairly imprisoned without trial by the Cuban national security hardmen, Baird offered no public praise for the aging dictators or their regime — something Trudeau the Elder did with enthusiasm on every visit.

Instead, in tough private meetings he noted just how much of Cuban foreign exchange reserves were the product of 500,000 Canadian sunseekers on Varadero beaches.

It is tempting to conclude that Baird’s, like Harper’s, uncritical support of the most right-wing government in Israeli history is merely a play to unlock the 50 year embrace of the Liberal party by rich Jewish businessmen. That may have been how it started. Harper did use the most right-wing leaders of the Canadian Jewish community as important early fund-raisers. He managed to pry several very important Canadian Jewish leaders from their lifelong seats in the leadership of the red team to his own.

But, however opportunistic the Reform/Alliance impulse may have been, Baird is unapologetically and clearly sincerely pro-Israeli today.

Still, the Baird complexities poke through even here: he restored funding for the Palestinians, and has travelled several times to Ramallah. As Blair’s unreserved compliment indicates, even at this core of Harperite international orthodoxy Baird follows a more nuanced path than he usually acknowledges or gets credit for. As he says, referring to Arab leaders, “Even though we disagree on one big thing, we work together well on many others.”

The next two years will be challenging for Baird. Assuming the departmental integration proceeds without too many brown envelopes from angry civil servants landing on reporters’ desks, the restraint agenda is already causing a slowdown in funding.

Critics will jump on any apparently greater flow of money to “public/private international development co-operation” involving Canadian corporations abroad, at the expense of traditional sacred cows like the UN system and its many agencies, long the recipients of generous multi-year Canadian funding.

Baird argues with considerable conviction, but perhaps somewhat more dubious evidence, that “Canada has won respect for its clarity and strong positions, even from those who don’t agree with us.” Perhaps, but the universal muddiness of diplomatic discourse is also functional.

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Minimizing differences is less likely to lead to confrontation than heightening them. That is the foundation of every negotiator’s playbook.

Others have trod this path. Margaret Thatcher’s “robust” foreign policy legacy is a source of pride to British Conservatives to this day. But they quickly abandoned it as soon as she was gone, reverting to the Foreign Office’s comfortable verbal mush.

It is a verbal style employed by Tory grandees that Labour Deputy Denis Healey said witheringly made him feel as if he had been “savaged by a dead sheep.” Carl Bildt, the tough-talking Swedish conservative, was its first non-leftist foreign minister in nearly half a century. His clarity and unrelenting rhetoric on Serbia and “ethnic cleansing” were also quickly replaced by the more placid nostrums of traditional Nordic diplomacy.

Baird may have instilled, more permanently, permission to ask the tough questions traditional diplomacy works hard to avoid having asked let alone answered. Before John Baird, the idea of challenging child marriage was never a DFAIT priority.

“When was the last Foreign Minister you heard attack enforced marriage more than me?” he asks rhetorically. Indeed, the record is clear that none have been as vigorous about all forms of intolerance — sexual, ethnic, religious — as this one.





Pictured: Minister John Baird with Burmese opposition leader Aung San Suu Kyi

Another more prosaic legacy is sure to be part of the Baird years: the absorption of Canada's revered development organization into the new monster department. Now, even its friends have to admit that CIDA had become a sclerotic, ritual bound, bureaucratic swamp by the time of its demise.

It was an organization — like Indian Affairs and Northern Development — with a deep obstructionist culture, about the efforts of outsiders to change sacred policy.

It had happily digested several so-called CEOs and Ministers, and their reputations. CIDA officials would brag, in a strange form of gallows humour, that it took a minimum of two years for any new idea to move from conception to execution in the field.

The experience of others who have attempted a similar mash-up of diplomacy, trade promotion and development assistance is mixed. There is, after all, a natural conflict between those whose priority is to assist the poorest of the poor, those who want to help sell more Canadian products and services abroad, and those pin-striped chaps whose job it is to stay beneath the radar and ensure that Canada stays out of trouble.

Fans of the merger of all three of Canada's international roles — trade, diplomacy and development — argue that integration will cut waste, duplication and overlap. Time will tell. It's just that such governmental amalgamation efforts — often championed by conservatives as money savers — usually end in tears.

It would be a powerful irony, indeed, if the man who is a lightning rod among critics for "the ruination of Canada's international reputation" were to have as his legacy greater advances on the sexual and

criminal exploitation of children, lesbians and gays than any Liberal government before him, as well as the successful revitalization of Canada's badly decayed international development capability.

Asked what a future assessment of his legacy as foreign minister might be, Baird is as always, ambitious, and somewhat puzzling. He mentions in passing the "battle against terror," and his skepticism on Iran — what you might expect from a more ordinary Conservative foreign minister. But his focus is on something entirely out of the ordinary: blunt truth-telling and fighting for the some of the most powerless.

"[It'll be about someone] who is not afraid to stand up!, he declares, "...and it will be on the values front. Enforced marriage, pluralism, sexual and religious freedom, and the rights of women are becoming part of the mainstream agenda and they never were before...we've pushed that."

"After all, when you have genuine religious freedom most other freedoms will follow — not all, but most. Democracy is an expression of that freedom and pluralism...that's one of the biggest things we've pushed: freedom, prosperity, and pluralism. And the success of pluralism is the Canadian success story..."

If he's right, and he does move the dial on those core values internationally, Liberals and New Dems will never forgive him. Such effrontery in defence of "their" progressive values from an unreformed, shamelessly defiant Harrisite/Harperite Conservative, would be unforgivable. ❀

*Contributing writer Robin V. Sears, a former national director of the NDP, is a principal of the Earncliffe Strategy Group.*

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JOHN BAIRD: MLI POLICY MAKER OF THE YEAR

## Canada's dynamic, blunt-talking Foreign Minister practices a unique but effective brand of diplomacy

*A foreign minister needs a strong constitution for travel, small talk and foreign food. A successful foreign minister needs the confidence of the prime minister and scope for maneuver. John Baird has all these attributes.*

### **Colin Robertson**

“Aieeyahhhh.” And with a single swoop, John Baird brought his hand down on a three inch plywood board.

It didn't crack.

Staff winced and the rest of us looked out the windows of the Pearson Building's ninth floor diplomatic reception area. In the presence of parliamentarians, diplomats and other guests, Baird and Korean Foreign Minister Kim Sung-hwan had just signed a Joint Declaration on Enhancing the Strategic Dialogue. In his remarks, Baird had pressed again for Canadian admission to the East Asia Summit, the

ASEAN Defence Ministers' Meeting-Plus. He committed to resurrect negotiations on the stillborn Korea-Canada Free Trade Agreement.

Now we were all enduring what diplomats describe as an 'awkward moment.'

Baird smiled and joked that he should have practiced more. He had taken taekwondo while an undergraduate at Queen's University. With his former coach watching, Baird had another go.

"AIEEEEEHYAAAAHHHH... SNAP." A clean break.

Guests and a relieved staff cheered. Coach Tae Lee presented Baird with an honorary black belt. The incident says a couple of things about John Baird.

First, he is not afraid to take risks. Baird is very determined and self-confident. If at first he does not succeed, he'll try again.

Second, it is hard not to like John Baird.

He has a sense of humour. His amour propre does not prevent him from laughing at himself and the ever-present smile takes the sting out of the sharp rhetoric and sometimes careless language. Importantly, he likes people. A useful trait when you are a globe-trotting Foreign Minister with a cause and little patience for bromides.

*While (foreign ministers) still require the constitution of an ox and the patience of Job, jets and instant telecommunications have changed their role.*

*With globalization, summitry has expanded exponentially. Every prime minister and president now plays not just a lead role, but in varying degrees has subsumed the role of the foreign minister as the principal participant in international diplomacy, especially in managing global finances. In Canada, this has always been the case on Canada-US relations.*

## Foreign Ministers and Prime Ministers

Foreign ministers used to be second only to the leader. In the US line of presidential succession, the Secretary of State follows the Vice President and Speaker of the House of Representatives.

Until 1946, Canadian prime ministers were their own foreign minister. When Mackenzie King passed the job to Louis St. Laurent, it also signaled St. Laurent's succession as leader and then prime minister. Lester B. Pearson became St. Laurent's foreign minister and then leader and eventually prime minister. Paul Martin Sr. was considered the likely successor to Pearson until Trudeaumania (the 1968 version).

The last foreign minister to become prime minister was Jean Chrétien. His election is not ascribed to his short experience at the Pearson Building. In recent years, the stature of the foreign minister has declined. While they still require the constitution of an ox and the patience of Job, jets and instant telecommunications have changed their role.

With globalization, summitry has expanded exponentially. Every prime minister and president now plays not just a lead role, but in varying degrees has subsumed the role of the foreign minister as the principal participant in international diplomacy, especially in managing global finances. In Canada, this has always been the case on Canada-US relations.

With the Government's decision to fold CIDA into DFAIT, the enlarged Foreign Affairs portfolio (DFATD) now has five ministers and every domestic minister now has international responsibilities that oblige travel and comes with their own 'foreign' service.

The changed global environment and structural adjustments cramp the freedom of movement once enjoyed by the Foreign Minister. They remain the default representative to funerals and inaugurations and international meetings the prime minister does not want to attend. Their calendar comes pre-filled with international conferences and meetings, including a speech to the UN General Assembly.

Thirty-one men and women have occupied the post of Canadian foreign minister. To have relevance they must have the trust of the prime minister. They usually need to spend a couple of years on the job to give them time to develop the confidence of their confrères, especially their US counterpart.

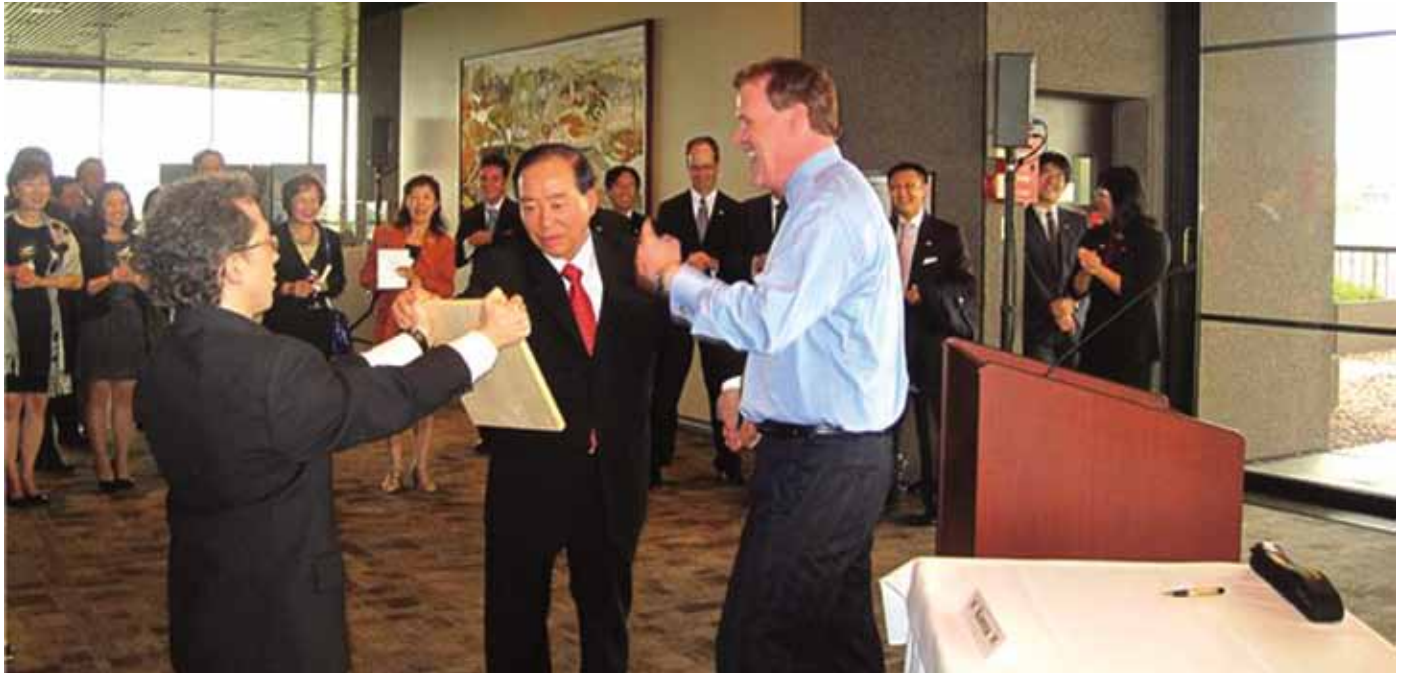
The first quality of a Foreign Minister is the ability to listen. They also need to appreciate and then use their foreign service corps and to bring direction and domestic coherence to our international policy. On the international scene, the best possess imagination and the ability to connect the dots.

To be a great foreign minister you need to have personally led on a major initiative that advanced Canadian interests.

Arguably the Canadian pantheon would include Louis St. Laurent (post-war architecture including NATO), Lester Pearson (UN and peacekeeping), Paul Martin Sr. (Cyprus and Vietnam), Mitchell Sharpe (Third Option), Allan MacEachen (North-South), Joe Clark (South Africa, unification of Germanies), Lloyd Axworthy (Human Security agenda) and John Manley ('Smart Border' accord).

## John Baird: The essence

John Baird has been Foreign Minister since the Conservatives won their majority government in May, 2011. An able parliamentarian with considerable cabinet experience, Baird served provincially from 1995 to 2005 in the cabinets of Premiers Mike Harris and Ernie Eves as the Minister for Children, Community and Social Services, Energy and Francophone Affairs and as Chief Whip. After his election to the federal parliament in 2006 he



Foreign Minister John Baird prepares to chop a piece of wood to earn his honorary black belt

served as minister at Treasury Board, Transport, Environment, and as House Leader.

In contrast to his predecessors — Peter MacKay, David Emerson, Maxime Bernier and Lawrence Cannon — all of whom served in minority parliaments, Baird has the luxury of time for travel without having to be in the House of Commons for confidence votes.

Baird travels well and thrives on the networking opportunities. The Ottawa diplomatic community appreciates his accessibility. Last year he visited 31 countries and held well over a hundred substantive bilateral meetings. This year he has already visited 41 countries and participated in 12 multilateral conferences.

Baird has developed an impressive rolodex and he does not hesitate to pick up the phone to talk with his counterparts.

Importantly, he has the full support of Stephen Harper. In his essential profile of John Baird, *the Globe and Mail's* Campbell Clark observed of Baird: “his penchant for bold steps and embracing strong leaders, his confidence in his own political compass, and the willingness he has displayed ever since high school to shrug off ridicule rather than abandon the task at hand make him the dynamic foreign minister Mr. Harper has long lacked.”

For Baird, words are weapons to be employed for effect as he illustrates in his speeches to the UN General Assembly and in his support for Israel.

In his first speech to the UN General Assembly Baird declared “Canada does not just “go along” in order to “get along.” Citing Margaret Thatcher (Baird greatly admired the Iron Lady and named a cat after her), he argued that “collective action does not mean uniformity.” Baird advanced the case for “enlightened sovereignty” and

*The first quality of a Foreign Minister is the ability to listen. They also need to appreciate and then use their foreign service corps and to bring direction and domestic coherence to our international policy. On the international scene, the best possess imagination and the ability to connect the dots.*

argued that the “greatest enemies of the United Nations are those who quietly undermine its principles and, even worse, by those who sit idly, watching its slow decline.”

This year Baird told the General Assembly that while “the UN Charter mentions the word “peace” four dozen times...“ “peace” the word is easier to locate than “peace” the condition.” On Iran, he warned, “Kind words, a smile and a charm offensive are not a substitute for real action.”

Baird’s words can offend but his likeability helps to cushion the enmities that are often the result of fierce partisanship.

Baird has obliged the usually bland multilateral communiqués to include references to human rights. As he told the American Jewish Committee Forum: “for us it’s all about values... We respect freedom, democracy, human rights and the rule of law. Dignity for the people we serve. We have a history of defending the vulnerable, challenging the aggressor and confronting evil.”

Baird’s support for Israel is unequivocal: “Israel has no greater friend in the world than Canada,” and he told the UN General Assembly in

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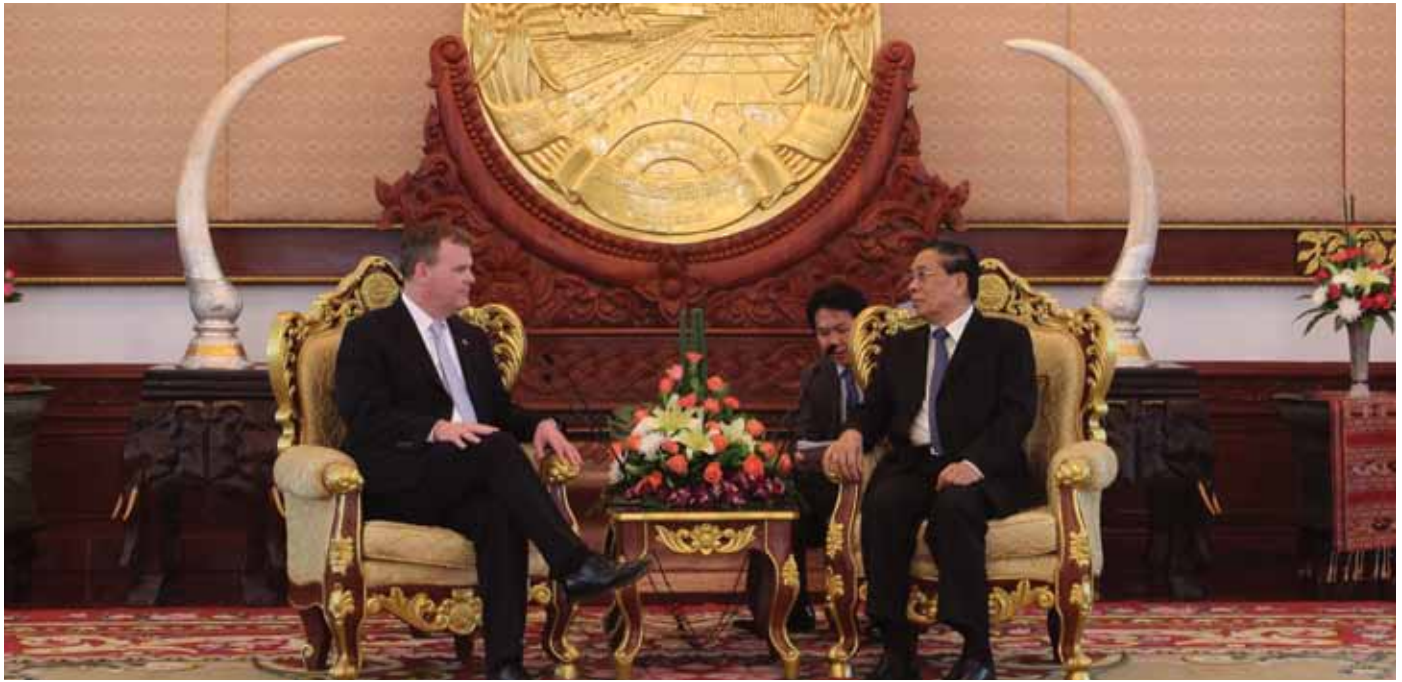
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Pictured: Minister Baird with Choummaly Sayasone, President of Laos

September, “There can be no bargaining over Israel’s existence. While dialogue is a virtue, there can be no virtuous discussion with anyone wedded to Israel’s destruction.”

He is committed to advancing the cause of freedom and defending human rights, especially for those who are persecuted and without protection. From these elements he has articulated the ‘dignity agenda.’

### **The dignity agenda**

Framed shortly after he became minister through speeches delivered in Montreal, the UN General Assembly in New York and Quebec City, the message is clear. People deserve the “dignity to live in freedom, in peace and to provide for one’s family.”

The dignity agenda specifically defends women, children and lesbian, gay, bisexual, transgender (LGBT) people and strongly opposes child, early and forced marriages.

Defence of LGBT rights has put him at odds with some in the Conservative base. He publicly denounced President Putin’s anti-gay policies as “mean-spirited and hateful.”

The dignity agenda neatly avoids the tiresome argument between values and interests by underlining that “doing what is morally right is in our national interest.” As Baird told the Foreign Affairs Committee in November, “Our government wants Canada’s voice to be heard, for it to be clear and for it to be unambiguously free of moral relativism.”

Its roots are bipartisan, acknowledging both Louis St. Laurent, who laid the foundations for modern Canadian foreign policy, and Brian Mulroney, for his work in Africa — especially South Africa.

*The dignity agenda neatly avoids the tiresome argument between values and interests by underlining that “doing what is morally right is in our national interest.” As Baird told the Foreign Affairs Committee in November, “Our government wants Canada’s voice to be heard, for it to be clear and for it to be unambiguously free of moral relativism.”*

The dignity divide is not left versus right but rather between systems that are open and those that are closed. If it is to succeed, the dignity agenda will need to demonstrate the kind of tangible accomplishments that Foreign Minister Lloyd Axworthy’s human security agenda achieved, notably the landmark Treaty on Land Mines and the creation of the International Criminal Court.

For now, the dignity agenda is a combination of policy instruments, notably the creation of the Ambassador for Religious Freedom. While politics and the Conservative base probably contributed to this decision, the Office, with its almost daily cascade of news releases, puts a useful spotlight on individual and group persecution.

In fashioning Canadian policy to Iran, John Baird has applied the force of the dignity agenda with targeted sanctions that will remain in place, notwithstanding the recent interim nuclear agreement, until there is evidence of Iranian good faith.

The Iranian effort has also included what Baird calls ‘direct diplomacy.’

Demonstrated in May, at Toronto's Munk Centre, the Global Dialogue on Rights and Democracy in Iran used social media — Facebook and Twitter — as both amplifier and intervenor in the conversation. Designed to encourage open discussion in the lead-up to Iran's June elections, Baird told his audience, including an estimated 350,000 in Iran, that they "have a friend in Canada."

*(A)s demonstrated by the costly and unnecessary six-month strike earlier this year, the Harper Government's relationship with its Foreign Service has been more one of mutual contempt than collaborative partnership. If the Conservative Government is unhappy with its foreign service, why not ask John Baird to devote some attention to reforming it? The last serious look at the Foreign Service was a Royal Commission conducted by Pamela McDougall between 1979-80.*

### **How effective is the dignity agenda?**

In some respects it is a variation on and successor to the human security agenda articulated by Lloyd Axworthy. It, too, had its critics.

Morality and foreign policy "is a subject much wanting in thought" observed the American historian Gertrude Himmelfarb. Of necessity, international politics depends on hard power both as last resort and as first responder in time of disaster. At the same time, shining a bright light on human rights abuses has worked to both mitigate individual situations and eventually effect remedial change.

Getting right the mechanisms for policy delivery and adjusting them to the rapidly evolving global circumstance is essential if initiatives, like the dignity agenda, are to be effective.

### **Department of Foreign Affairs, Trade and Development: A new design**

The consolidation of diplomacy, trade and development as a single integrated vehicle makes sense. Notwithstanding best efforts at the senior political level, whether the government of the day was Conservative or Liberal, too often there was a disconnect, especially in the field, between foreign policy and development. The consolidation will require a change in the cultures of both former departments. It begins by bridging the gap between domestic priorities and international commitments in the development sphere.

The Government has promised a new direction that would link development programs directly to trade and foreign policy objectives. CIDA partnerships would be broadened to include business as well as NGOs and multinational organizations. Former CIDA Minister Julian Fantino proclaimed "Canadian money" would be used to promote "Canadian values, Canadian business, the

Canadian economy" and served notice that NGOs would not be funded "for life."

This philosophical shift is not unique to Canada. It is supported by an emerging school of thought — notably renowned economists William Easterly and Dambisa Moyo — that argues that after half a century and \$2.4 trillion in investment the West created a dependency culture in Africa. What is needed is sustainable jobs and economic development.

The trend in the West is to return development to the direction of foreign affairs. Then US Secretary of State Hillary Clinton described development as an "indispensable foreign policy tool for advancing American interests and solving global problems." The US, UK, Australia, New Zealand and other European countries are aiming at the same objective.

Hard questions need to be asked on how and where our foreign aid is spent. Integrating it into 'economic diplomacy' will be challenging and its critics deserve attention.

The emphasis should be on outcomes that visibly advance sustainable development and complement Canadian interests.

### **The Foreign Service**

To deliver its ambitious international agenda: recruiting foreign talent to settle in Canada, negotiating trade deals, advancing the 'dignity' agenda and economic diplomacy, the Harper Government must rely on its Foreign Service to design and deliver these initiatives.

Unfortunately, as demonstrated by the costly and unnecessary six-month strike earlier this year, the Harper Government's relationship with its Foreign Service has been more one of mutual contempt than collaborative partnership. If the Conservative Government is unhappy with its foreign service, why not ask John Baird to devote some attention to reforming it? The last serious look at the Foreign Service was a Royal Commission conducted by Pamela McDougall between 1979-80.

In tackling this challenge, Baird could either widen the scope of the outside advisory panel on the CIDA consolidation or create another panel to include a look at the terms and conditions of service. Such a review should include examining a more flexible approach to postings, improved language training, and better recognition of the spousal contribution. It would complement ongoing work on the Government's Global Commerce Strategy and economic diplomacy initiative.

If we are to develop a 21st century Foreign Service and achieve the economic diplomacy goals, our ambassadors and trade commissioners must use social media. If the foreign services of our US and European allies can use these new tools of public diplomacy — to blog, tweet and speak out in support of their national interests — why can't we?

### **Getting down to business**

When the new president, John F. Kennedy, asked the old prime





minister what he most feared, Harold MacMillan reportedly replied, “Events, dear boy, events.”

Managing the files is like playing pinball. In advancing objectives, a foreign minister is constantly dealing with the unexpected.

On his appointment as Foreign Minister, Baird immersed himself in the Libyan and Syrian files and he has since travelled to the Middle East and North Africa on over a dozen occasions. On Syria, he has directed the increase in Canadian assistance for the over two million refugees who have fled the country and underlined the need to protect religious minorities.

Baird has taken a particular interest in Burma. Prior to the April, 2012, Burmese elections he gave a reference library on democracy to Burma’s Speaker and then presented dissident leader and Nobel laureate Aung San Suu Kyi with honorary Canadian citizenship.

On China, Baird wants more engagement, a perspective not shared by some of his senior colleagues in caucus and the cabinet. But as Baird told the Canada-China Business Council in October, we “recognize that we have much to offer one another, that our respective strengths are remarkably complementary and that we have significant unfulfilled potential.” In terms of potential, implementing the Foreign Investment Protection Agreement will be a test of Baird’s ability to bring along his colleagues.

A file on which Baird has devoted considerable personal attention is the implementation of the Convention on Cluster Munitions. As he told the House Foreign Affairs Committee in November, his recent visit to Laos where he saw the horrific effects on children left him “deeply moved.”

Declaring that “no Canadian soldier will use cluster munitions, ever,” Baird notified the committee that we will exempt our Forces

to avoid future criminal prosecution because of our necessary interoperability with our US allies. A sensible approach and it is illustrative of the often opaque choices facing foreign ministers.

#### **An interim assessment**

It is, of course, premature to make a final assessment of John Baird’s performance as Foreign Minister. He is a work in progress. His rhetoric still needs to avoid the gratuitous.

The dignity agenda offers promise, especially in its support of women, children, and minorities like LGBT. It is right to focus on the odious practice of child and forced marriages but it needs a measurable accomplishment, like multilateral sanction through the UN, to give it weight.

The consolidation of CIDA into Foreign Affairs should create the mechanism necessary to deliver on the government’s ambitious international policies on trade, development and foreign policy. Partnership with the private sector is the best way to create jobs and long-term economic development. It will also advance our economic diplomacy goals.

Indispensable to delivery is a trusted, resourced Foreign Service that can use all the new tools of diplomacy.

John Baird has distinguished himself well in a challenging job. If he can deliver on these three initiatives and deal with the inevitable ‘events’, then he will have earned his place in the pantheon of our great foreign ministers. ❁

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# Beyond scandal and patronage: A rationale and strategy for Senate reform

*MLI Managing director Brian Lee Crowley establishes why Canada needs a Senate, and lays out a road map to achieve effective renewal of the upper chamber.*

## ***Brian Lee Crowley***

Today we have a Senate that is not only ineffective in playing its crucial role within our larger constitutional edifice, but has become an embarrassment and a laughing stock, in large part because no one knows what the Senate is for and the way senators get there is widely seen to be illegitimate. The result is that discussions around the Senate focus entirely too much on the peccadilloes of current senators whose shenanigans, however risible, should not blind us to the vital work the Senate can and indeed must do for Canadians.

This paper lays out for readers why Canada needs a Senate, why reform is necessary, and how it can be accomplished.

When properly designed, upper chambers can and should play two crucial functions. First, they can delay precipitate action by government, allowing more time for cooler heads to prevail. In extreme circumstances, it may even be justified to give an upper house a mechanism to veto some kinds of government actions. The idea here is, to use a phrase often applied to the Canadian Senate, to create a chamber of “sober second thought.”

Second, in federal systems upper chambers confer greater democratic legitimacy on national decisions by ensuring that a double majority is needed, one majority of individuals in the lower house, and a second majority of constitutionally-recognized communities (in Canada's case, the provinces) in the upper house.

Both of these functions are highly desirable and it was to fulfill them that the Fathers of Confederation created the Senate. The way they chose to do so (an appointed chamber with lifetime tenure for Senators, later amended to require compulsory retirement at age 75) is no longer appropriate to our democratic and egalitarian age, but abolishing the Senate to get rid of these flaws is like banning hockey to prevent fights on the ice.

Some would argue that the Senate is unnecessary and that the premiers can ably represent their provinces in national affairs, but the job of a premier is quite different. Premiers are elected to head provincial governments. Those governments are given a list of powers and responsibilities by the Constitution. Those powers do not include participating in Ottawa's decision-making about the national interest. In fact the Constitution is quite explicit that provincial governments are supposed to look after "Generally all matters of a merely local or private Nature in the Province," whereas it is Ottawa's job to see to the "Peace, Order and Good Government of Canada." Not exactly equivalent jobs.

Provinces generally see themselves in a zero sum struggle with Ottawa for power. Premiers have an interest in strengthening provincial power and weakening Ottawa because those are two inseparable sides of the same coin. That set of interests and incentives hardly qualifies them to be disinterested representatives of their provincial community in national policy making, for which we require a Senate.

In designing a reformed Senate we should be guided by five principles:

- An appointed Senate cannot have the democratic horsepower to do its job effectively. Twenty-first century senators require the democratic legitimacy that only elections can deliver.
- Second, our parliamentary system requires a Senate that has enough power to influence the government when it really matters, but not so much power that it becomes the government or prevents the government from acting when necessary.
- Third, the Senate should not be merely a smaller Commons. The Senate is a separate institution and should have a different mandate, powers, electoral system, and terms of office than the lower house.
- Fourth, we need to make sure that the Senate has every reason to focus on national issues and questions, and not be mistaken for representatives of the provincial governments in Ottawa. If the Senate is to be valuable it must be a voice for the members of provincial communities, but not of their provincial governments.
- Fifth, and finally, we need to think about the distribution of Senate seats among provinces. There is nothing in logic or our

history or the practice of federalism worldwide that says that all provinces should have equal representation. On the other hand, equality is a simple and intuitively appealing principle in that it treats all the constituent communities in a similar way.

The proposal, then, is a Senate of 66 members (6 each for the provinces, 2 each for the territories), with half the senators elected by preferential ballot at each federal election, thus giving senators a term equal to the life of two parliaments. The reformed upper house would have two key powers relative to the Commons and the government based there, namely a power to delay somewhat government legislation it thinks ill-advised and the power to veto such legislation when opposition in the Senate moves beyond narrow majorities to genuine cross-party consensus. All of these features taken together would make for a more deliberative, less partisan chamber than the Commons.

*Today we have a Senate that is not only ineffective in playing its crucial role within our larger constitutional edifice, but has become an embarrassment and a laughing stock, in large part because no one knows what the Senate is for and the way senators get there is widely seen to be illegitimate. The result is that discussions around the Senate focus entirely too much on the peccadilloes of current senators whose shenanigans, however risible, should not blind us to the vital work the Senate can and indeed must do for Canadians.*

### How do we get it done?

The government is surely correct that there is little appetite among the public for new rounds of constitutional negotiations à la Meech and Charlottetown. On the other hand, this paper argues that real Senate reform (which voters clearly do want) unavoidably requires constitutional change and the Supreme Court is likely to agree. How to square the circle? Ottawa should bypass the bad old approach to constitutional negotiations by tabling a specific reform proposal and appealing directly to the electorate for a referendum mandate to enact its proposals. Given the current mood of public opinion a thoughtful proposal properly explained and defended would stand a very high chance of being enthusiastically endorsed by voters. The provinces, faced with a federal government proposal endorsed in a national referendum, would find it very hard to resist. If, in addition, the federal proposal was carefully crafted to avoid any provisions requiring the unanimous consent of the provinces, the chances of getting the reforms through the formal amendment process increase dramatically.

Senate reform cannot be a hasty reaction to the scandal that is currently enveloping the Red Chamber and Prime Minister's Office.

It will require careful deliberation and hard work. But the ultimate prize of a Senate that will serve all Canadians is worth it.

## Introduction

If Canada didn't have a Senate we would have to invent one. That's because the Senate is a vital piece of our founders' constitutional plan, intended to be an indispensable balancing mechanism between the interests of different communities and the national interest and a force for moderation and reason in national decision-making.

But the Fathers of Confederation were creatures of their time. They thought that an appointed body, explicitly modelled on the aristocratic British House of Lords, could enjoy the legitimacy necessary to carry real weight within Canada's national government. In this they were wrong.

So here we are today, with a Senate that is prevented from playing its vital parliamentary and nation-building role and that therefore saps the ability of the federal government to act forcefully and energetically in the national interest. Not only is it ineffective in playing its crucial role within our larger constitutional edifice, it has become an embarrassment and a laughing stock, in large part because no one knows what the Senate is for and the way senators get there is widely seen to be illegitimate. The result is that discussions around the Senate focus entirely too much on the peccadilloes of current senators whose shenanigans, however risible, should not blind us to the vital work the Senate can and indeed must do for Canadians.

## What's the Senate for anyway?

When properly designed, upper chambers play two crucial functions.

First, such chambers can act as a brake on the excesses of which lower houses can sometimes be guilty. Chambers that are based on rep-by-pop and that are frequently called to submit themselves to election can sometimes find their better judgment overwhelmed by the short term fashions and fads that periodically sweep public opinion. Introducing a chamber that has a somewhat more distant relationship with the electorate can help moderate such excesses. In addition, within our parliamentary system there is little control between elections of the vast power that is conferred on governments, and especially majority governments. A well-designed upper house can play an important role here by delaying precipitate action by government, allowing more time for cooler heads to prevail. In extreme circumstances, it may even be justified to give an upper house a mechanism to veto some kinds of government actions. The idea here is, to use a phrase often applied to the Canadian Senate, to create a chamber of "sober second thought."

Second, in federal systems upper houses confer greater democratic legitimacy on national decisions by ensuring that a double majority is needed, one majority of individuals in the lower house, a second majority of communities in the upper house.

Democratic federations seek to balance two kinds of representation: individuals and communities. Canada, for example, is composed, primarily and fundamentally, of all individual Canadians, just as Australia is composed of all Australians, the United States (US) of all Americans and so forth. The lower house of the national legislature in such federations (in our case the Commons) is intended to represent all of these individuals on a basis of rough equality and hence is universally based on representation by population. Legislation cannot pass our parliament unless it has the consent of MPs representing a majority of Canadians.

But Canada, like all federations, is also composed of constitutionally-recognized communities, in our case the provinces. For national decision-making to be legitimate in a federation the virtually universal rule is that you need something more than the assent of the majority of individuals; you also need the assent of some important share of the communities that make up the country. The interests of the people who inhabit the provinces or states cannot be fully represented by representation by population ("rep-by-pop") alone.

*So here we are today, with a Senate that is prevented from playing its vital parliamentary and nation-building role and that therefore saps the ability of the federal government to act forcefully and energetically in the national interest.*

Why? Just think about Canada: for a long time Ontario and Quebec have had enough inhabitants that they could impose their will on the rest of the country if they so wished if decisions were made on a pure rep-by-pop basis.

I am not suggesting that Central Canada has always got its way, but if you consider that for the vast majority of the 20th century prime ministers and parliamentary majorities always came from Ontario or Quebec, or you look at policies like the old protectionist National Policy that favoured heartland manufacturing over western resources and agriculture, or the imposition of the National Energy Program under Pierre Trudeau that sought to transfer a lot of the west's natural resource wealth to Central Canadian consumers then you can see that Canadian history was littered with examples of the more populous provinces carrying the day in cases of conflict with smaller regions. Fear of dominance of a handful of large states was also a key factor in the design of the US and Australian federations.

In all cases, the way that federations such as these squared the circle of rep-by-pop and sensitivity to regional concerns was through the upper chambers of their national legislatures: when properly designed, such chambers confer greater democratic legitimacy on national decisions by ensuring that a double majority is needed, one majority of individuals in the lower house, a second majority of communities in the upper house. If we didn't have this twin structure to our national institutions, the need to represent individuals and communities simultaneously, we might well be able to do without a Senate.



Other democracies, like New Zealand, did away with theirs, but they don't have provinces or a federal system. In many other countries that are not federations, there are upper houses but they tend to be weak and ineffective, institutions in search of a reason to exist. On the other hand, there is only one federal country in the world without an upper chamber, and that is Pakistan, an unlikely source of inspiration for democratic reform in Canada.

In Canada there is no such doubt about why a properly constituted and functioning Senate would contribute enormously to the success of the national government and the federation. Canada is constituted in part of powerful communities (think for instance of Alberta, Quebec, Newfoundland and Labrador) who have distinct personalities and interests, but don't have equal populations.

If a community felt that its interests were consistently ignored or disregarded in national decision-making, it could easily breed a sense of grievance and resentment, as has happened all too often in Canada's history. In fact the Reform Party's battle cry of "The West wants in" manifested itself chiefly in a call for radical reform of the Senate, ostensibly to prevent Central Canada from consistently ignoring the wishes of the west (both the National Energy Program and the decision to award the CF-18 fighter jet programme to a Montreal firm rather than one in Winnipeg convinced Reformers that it was not enough to change the party in power and that the old domination of Central Canadian elites and voters had to be countered by institutional reform). The idea behind a Senate, then, is to provide a counterweight to pure rep-by-pop decision-making, conferring the seal of approval of the country's regions on federal decisions as well as that of the people's representatives in the Commons.

Because rep-by-pop is the bedrock principle of democracy, the lower house is always the more powerful of the two. But in a federation it is also important that regionally concentrated electoral

majorities cannot run roughshod over the interests of smaller communities. Upper houses play that role. Coalitions of small communities cannot rule over the majority of the population, because lawmaking also requires the agreement of the lower house. But in federations, agreement of the majority is not enough to achieve democratic legitimacy.

Perfect equality of provincial representation is not required in upper houses, but the unavoidable goal is to give smaller communities some counterweight to population's political power, ensuring that their interests are also taken into account. Look no further for the reason why Quebec and Ontario, despite having two thirds of the population, have fewer than half the seats in our Senate as presently constituted.

One of Canada's great political and constitutional weaknesses has been the inability of the Canadian Senate to play this vital role of providing a credible community counterweight to the rep-by-pop based power of the Commons. Appointed senators simply can never have the democratic horsepower to be a real counterweight to the Commons. Ottawa's legislation therefore lacks the legitimacy of the double-majority system that federations have found so indispensable, and this is at the root of many of the problems of regional alienation and suspicion of the national government that have plagued this country since 1867.

Both of these functions (sober second thought and enhanced legitimacy within a federal system through double majorities) are highly desirable and it was to fulfill these two functions that the Fathers of Confederation created the Senate. The way they chose to fulfill these functions (an appointed chamber with life tenure for Senators) is no longer appropriate to our democratic and egalitarian age, but abolishing the Senate to get rid of these flaws is like banning hockey to prevent fights on the ice.

## Premiers need not apply

Saskatchewan's Premier Brad Wall, to pick one example, thinks that the way around this is to abolish the Senate and rely on the premiers to represent community interests in national decisions. On November 6, 2013, Wall's government repealed legislation that enabled the province to elect senators and tabled a motion calling for the abolition of the Senate.<sup>1</sup>

No federation in the world has found this a satisfactory solution, for a variety of reasons. The most important is that premiers are elected to run their provinces. That is not the same thing as being chosen to be a national legislator, someone whose constitutional job it is to represent a provincial community in decisions about what is good for Canada. That last idea is absolutely vital. We must distinguish between those whom senators represent on the one hand and the role they are being asked to play in the federation on the other. The role of senators must be to pursue the national interest, and in those deliberations to be guided in part by what is good for the people who elected them to represent them in the nation's councils.

*The way they chose to fulfill these functions (an appointed chamber with life tenure for Senators) is no longer appropriate to our democratic and egalitarian age, but abolishing the Senate to get rid of these flaws is like banning hockey to prevent fights on the ice.*

The job of a premier is quite different. Premiers are elected to head provincial governments. Those governments are given a list of powers and responsibilities by the Constitution. Those powers do not include participating in Ottawa's decision about the national interest. In fact the Constitution is quite explicit that provincial governments are supposed to look after "Generally all matters of a merely local or private Nature in the Province," whereas it is Ottawa's job to see to the "Peace, Order and Good Government of Canada." Not exactly equivalent jobs.

Sure, premiers may give themselves airs about being big players on the national stage and demand first ministers meetings and create councils of the federation, but this is largely posturing. Remember that provinces generally see themselves in a zero sum struggle with Ottawa for power. Premiers have an interest in strengthening provincial power and weakening Ottawa because those are two inseparable sides of the same coin. That set of interests and incentives hardly qualifies them to be disinterested representatives of their provincial community in national policy making.

It is worth noting in passing that two of our most powerful national institutions, the cabinet and the Supreme Court, both have extensive formal and informal rules to ensure the representation of provincial interests separate from provincial governments. This was the role that the Senate was intended to play by the Fathers of Confederation for the national parliament they were creating. Their intention was the

right one, but the execution no longer fits the needs of a 21st century Canada.

If it helps in understanding the potential of Senate reform for Canada, think about the US example. There is a reason why governors are minor political players in Washington, while senators are second only to presidents. US states are well-represented within federal decision-making by senators who, while always attentive to the views of their constituents, understand they are there to be national policymakers. Governors have lots to do in their respective state capitals; they are fifth wheels in Washington.

We have only to look at the laughable efforts of our premiers to act as national decision-makers (think about removing internal barriers to trade, the search for a national securities regulator, or cross-province collaboration on energy) to see that they are slaves to their parochial interests.

That is not a criticism; it's their job. But it is also why their job cannot be to confer that vital missing element of regionally-representative legitimacy Ottawa lacks and needs. Abolishing the Senate would get rid of the institution that should be playing that role, no matter how badly its current version falls short. It would diminish Ottawa and empower provincial parochialism. Reform may be hard, but it is the only way. Canada deserves the effort.

In saying that premiers and federal/provincial/territorial meetings (in other words, the institutions of so-called "executive federalism") cannot substitute for a properly functioning Senate at the national level, the intention is not to suggest that such collaboration does not have its place in Canada. Indeed, it would be correct to say that Canada is widely regarded as a well-functioning and successful federal system in global terms, and these meetings are a key part of the reason why. But they are still not a substitute for a reformed Senate.

In my view, executive federalism is chiefly a way for Ottawa and the provinces to collaborate on areas of provincial jurisdiction. They have been vital, for example, in developing a national dimension to social programmes like health care and social welfare that largely fall under provincial jurisdiction. But because of the zero-sum nature of the power relationship between Ottawa and the provinces in areas of federal jurisdiction, I would argue that provincial premiers are in a conflict of interest as representatives of provincial interests in federal decision-making. Thus a good case can be made that the power of the premiers has been enhanced at Ottawa's expense over the years precisely because the only way to get credible provincial or regional input on national decisions was through discussions with the provinces. One of the reasons that Senate reform is desirable, therefore, is precisely to give Ottawa that credible provincial input from senators with a democratic mandate. A successful Senate reform would make premiers less important national figures, an outcome that many Canadians would welcome.

## Guiding principles

Even if this establishes why a properly functioning Senate is crucial to Canada and how our national government has been damaged



by its absence, that doesn't answer the question about what reform can or should look like.

There are as many ideas on how to fix our Senate as there are Tim Hortons in Canada. Not all ideas are equally sensible and workable, however. Here are some of the factors that need to be accommodated in designing a Senate equal to Canada's need and potential.

While we want a chamber of sober second thought and a more important role for the voice of the provinces (not provincial governments) in national decision-making, that idea must be reconciled with how parliamentary government works.

The key idea here is that Canadians' democratic interests are served by having the government of the day answerable to the majority in the House of Commons, otherwise known as "responsible government." Everybody knows that no one can serve two masters, and so a reformed Senate with a democratic mandate must be able to make its voice heard and be a powerful participant in national lawmaking without usurping the Commons' role as the chamber that makes and breaks governments.

This is not just a matter of respecting the Commons' prerogatives; much more importantly it is a democratic imperative. Since it is elections to the Commons that determine the relative strength of the parties and therefore who will form the government, a Senate that could too easily thwart the will of the government based in the Commons is thwarting the will of the electorate. A Senate that matters needs to be able to do that occasionally, but only rarely. In our system we want a Senate that has enough power to influence the government when it really matters, but not so much power that it becomes the government or prevents the government from acting when necessary. This balance can be struck quite successfully.

Some other countries, such as Australia, paid insufficient attention to this issue, and created the potential for conflict between the two chambers that has brought about the fall of at least one government. This outcome is to be avoided as much as possible, and Australia has made substantial reform to its Senate to do so.

A second piece of the design puzzle is that the Senate should not be merely a smaller Commons. The Senate is a separate institution from the Commons and should have a different mandate, different powers, different electoral systems, and different terms than the Commons.

*There are as many ideas on how to fix our Senate as there are Tim Hortons in Canada. Not all ideas are equally sensible and workable, however.*

Third, we need to make sure that the Senate has every reason to focus on national issues and questions, and not be mistaken for representatives of the provincial governments in Ottawa. If the Senate is to be valuable it must be a voice for the members of provincial communities, but not of their provincial governments.

Fourth, and finally, we need to think about the distribution of Senate seats among provinces. There is nothing in logic or our history or the practice of federalism worldwide that says that all provinces should have equal representation. There are federations, like Germany, that use a weighting system that gives relatively more representation to smaller states than big ones, but not equal representation. In our own history the distribution of seats started from the equality of the two Canadas (Upper and Lower), both of whom got

24 seats. The other two original (and much smaller) provinces, New Brunswick and Nova Scotia, were together given equality vis-à-vis the Canadas: they shared 24 seats between them (they got 12 each). That explains most of the current distribution of seats in which the West, Ontario, Quebec, and the Maritimes get 24 seats each, Newfoundland and Labrador, a latecomer, got an additional six, and the territories got one each. So our system was based on regional equality marred by the awkward fact that some provinces (Quebec and Ontario) were counted as regions, whereas other regions were constituted of several provinces.

*As long as the powers and procedures of the Senate are properly designed, equality of provincial representation need not lead to undemocratic results, where minorities frustrate the will of the Commons.*

On the other hand, all of these ways of attributing seats in upper houses are complicated and difficult to explain. Equality of provinces or states within federations has the virtue of simplicity and clarity: the Commons is based on equality of individuals, the Senate on equality of provincial communities. If you are a province in the Canadian federation, you are entitled to the same number of senators as any other province. Bigger provinces manifest their extra power in more seats in the Commons, not more seats in the Senate. As long as the powers and procedures of the Senate are properly designed, equality of provincial representation need not lead to undemocratic results, where minorities frustrate the will of the Commons.

To explain that problem more fully, here is the critical issue that can be created by equality of provincial representation. Suppose that every province gets, as I propose, six senators and the territories two each (66 senators in all) and that all decisions are taken by simple majority voting. Now suppose that all the senators from the smaller provinces and the territories formed a united front on a wide range of issues. Such a coalition (all the senators representing Yukon, Northwest Territories, Nunavut, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador) would have a large permanent majority in the Senate in spite of representing less than 5 million of Canada's 34 million people. It cannot be the objective or the result of Senate reform to give minorities in Canada such disproportionate power or the ability to hold the nation to ransom unless they get their way. Even granting that party identification and other factors might make such regional coalitions hard to achieve, that is no reason to ignore the possibility and not to design the institution to avoid this obviously unacceptable outcome.

### **The principles in practice**

So, for the sake of argument, let's say that we are going to have a Senate with equal provincial representation along the lines I have described, one with significant influence in Ottawa, but one that

does not confer unreasonable or disproportionate power on minorities or destroy the principle of responsible government. How might it work?

Let's start by considering what "influence" can and should mean for the Senate. My starting point is that the Senate cannot be allowed to usurp the power of the Commons or the electorate.

For reasons I've explained, in our parliamentary system the Commons is the chamber to which governments are answerable. That does not mean that the Senate can never be allowed to frustrate the will of a government enjoying the support of a Commons majority, but that it should only be able to do so rarely and only when there is a large consensus, not a narrow numerical majority, among senators. By making the Senate's veto power over government legislation real but difficult to exercise, we create an influential institution that the government must listen to and take account of, but we do not empower small minorities to hold the government and the country to ransom.

Similarly, in addition to that vital role of the Commons as the "confidence chamber" that can make or break governments between elections, it is the role of the voters, at election time, to choose governments and approve or reject party platforms. A party that wins a Commons majority at election time is entitled to put its programme to the Commons and, if the Commons approves, to see it adopted. It is then the electorate's job at the next election to pass judgment on the government's use of power over the life of the last parliament. It ought not to be possible for the Senate to usurp this job of the electorate's, namely to pick governments, approve their programme, and then pass judgment on them at the appropriate time, either re-electing them or rejecting them.

Saying that the Senate must not usurp the role of the Commons or the electorate, however, does not condemn the upper house to impotence. On the contrary, a Senate with the proper powers becomes a discipline on the government's power, a calmer, less excitable, less partisan chamber of sober second thought that can make the government revisit and more fully justify its decisions, and that can use the power of delay to engage the public more fully in political debates.

The most important power of the Senate may thus be its ability to slow down the legislative process when it judges the government has acted in a hasty or ill-advised manner, using the high-profile platform and democratic credibility of the Senate to appeal over the government's head to the public to see if Canadians agree with the Senate's concerns. If that agreement does exist, the Senate's ability to delay adoption of legislation is an important power because it allows more time for public opinion to be mobilized and for the government to reconsider.

The proposal, then, is that the Senate have two powers relative to the Commons and the government based there, namely a power to delay somewhat a government hell-bent on passing its legislation and the power to veto such legislation when opposition in the Senate moves beyond narrow majorities to genuine consensus.





Pictured: Australia has a triple-E senate

Ensuring that the Senate can slow down the legislative process to some modest degree as a matter of course, but only frustrate the will of a government supported by the Commons when a broad consensus exists among senators, is not difficult to do. To achieve this, Senate decisions should be taken by simple majority votes with the following caveats:

- If the Senate does not deal with a matter submitted to it by the Commons within some specified time period (such as 90–180 days), the Senate is deemed to have passed the proposal, thus avoiding an indirect Senate veto through inaction.
- The Senate may not amend and may only delay budget (including tax) measures or supply by some period (a so-called “suspensive veto” of perhaps 60–90 days), after which it is deemed to have adopted them. The rationale behind this provision will be explained below in the section on the different roles of the two chambers.
- If the Senate votes down or amends any other bill or business passed by the Commons, that starts the clock on a 60-day reconciliation period during which the two chambers try to negotiate a mutually acceptable solution. If negotiations are unsuccessful, the lower house may, within 30 days, pass a resolution refusing to accede to the Senate’s veto or amendment (the “trigger” might also be the government declaring the matter one of confidence). In that case, the Senate must re-adopt its veto or amendment by a vote of, say, 70 percent of all senators (not just those present) and that 70 percent majority must include at least one senator from each of any seven provinces that together represent 50 percent of the population of Canada.<sup>2</sup> This re-adoption must occur within the next 10 sitting days. Failure to pass this super-majority threshold before the deadline means the Senate’s proposed veto or amendment fails and the measure passes as adopted by the Commons.<sup>3</sup>

The higher you set the threshold, the closer Senate voting comes

*By making the Senate’s veto power over government legislation real but difficult to exercise, we create an influential institution that the government must listen to and take account of, but we do not empower small minorities to hold the government and the country to ransom.*

to rep-by-pop, thus reconciling equal provincial representation and democracy. This also means that a government with a majority in the Commons need only have 31 percent support in the Senate to be able to avoid a Senate veto or amendment.

Assuming a 66 seat Senate, even a united coalition of all the senators from the seven smallest provinces plus all the territories (48 senators) would be unable to impose its will against a determined Commons, but a united Senate would be able to thwart the Commons on anything except the budget, supply, or constitutional amendments, in which case the government would either have to accede to the Senate’s position or call an election and let the electorate decide.

Given partisan and regional division, such a broad Senate consensus would necessarily be a rare event, but not an inconceivable one, which is precisely what would give democratic legitimacy to the veto senators would possess.

Also, even though the Commons would clearly prevail in the vast majority of conflicts between the two houses, the government would doubtless want to avoid the political embarrassment of repeated recourse to the super-majority provision, which gives the Senate

modest bargaining power, which in turn is part of what would make the reformed Senate effective. This reform thus makes for a powerful Senate that is also compatible with responsible government, the predominance of the Commons, and respect of the principle of representation by population.

It will also result in a Senate a third smaller and likely cheaper than today's.

### **A quick word about the role of political parties**

Some Senate reform proponents advocate a non-partisan Senate. This is a pipe dream. In a free and democratic society we cannot prevent people from presenting themselves for election on the basis of party platforms, nor should we want to. Voters have lots of opportunities to vote for independent candidates at election time but they rarely do so.

Political parties are necessary instruments of democratic accountability. Without shared platforms giving voters a sense of what teams of candidates would do with power it is hard for voters to know how to use their vote to achieve the outcomes they desire. Without the discipline of party, politicians would simply be independent and relatively unpredictable actors, giving voters little guidance on how they will use power. Politics is also expensive, and parties are the best means we have for raising and spending the money necessary in an open and accountable way.

*The reality is that no matter how senators are chosen, be it appointment, election, or lottery, the resulting body will be composed of fallible human beings.*

At the same time, political parties are in bad odour with Canadians, in part because they are seen to be hyper-partisan and devoted to their narrow interests rather than the good of the country. One benefit of the Senate reform proposed here is not that it does the impossible and tries to outlaw parties in a democratic Senate. Instead it proposes an institution in which the worst aspects of parties are tamed. Thanks to the super-majority requirement for Senate vetoes (see above) and the electoral system suggested below, the Senate as an institution would rarely if ever be dominated by a single party like the Commons. On the contrary, the Senate will only be able to exercise its greatest power in cases where senators achieve consensus beyond party and regional interests.

### **Non-partisan appointments**

Having raised the issue of party, it is perhaps important as well to spend a moment considering the idea, popular in some circles, of continuing with an appointed Senate, but one where a better and non-partisan appointment process would result in a higher calibre of senator.

This approach appeals particularly to people who are rightly completely disgusted by both the behaviour of some of the senators currently in the news and by the behaviour of political parties more generally. There is a palpable yearning in the land for a body of virtuous Platonic guardians, above the political fray, interested only in the good of the country. There is much discussion of arm's length appointment processes, like those for Supreme Court judges and governors general, that would "get the politics out" of who makes it into the red chamber.

But as James Madison, one of the American founding fathers, once wisely remarked: "If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself." A Senate of disinterested angels is thus perhaps a delightful fantasy, but a fantasy nonetheless.

The reality is that no matter how senators are chosen, be it appointment, election, or lottery, the resulting body will be composed of fallible human beings.

If, therefore, we were to follow Madison's sound advice we would focus on crafting an institution that does not assume senators are improbably virtuous. Instead, it would aim to reduce the scope for bad behaviour while ensuring the transparency and democratic accountability that help keep people honest and focused on the good of the country rather than their individual advantage.

Indeed while everyone's attention has been focused recently on the bad behaviour of a small minority of senators, the fact is that the Senate has been graced over the years with many members of the highest ethical, moral, and intellectual achievements including distinguished scientists, surgeons, athletes, public servants, and business leaders. Yes, there has been dross as well, but I think it is fair to say that the large majority of senators are distinguished people who take their job seriously, behave honourably, and try to do the best they can for the country.

An improved appointments process is, therefore, only likely to change the composition of the Senate on the margins. A few more good people and a few less scoundrels won't overcome the serious flaws that disfigure the institution today.

An improved appointments process would not overcome, for example, the absence of a democratic mandate for senators, who would still find themselves plunged into a legislative backwater. How could a chamber of appointed individuals, no matter how illustrious and distinguished, hope to resist successfully the will of the Commons based on the popular mandate? Any attempt to do so would quickly give rise to charges of a nascent and unaccountable aristocracy running roughshod over the popular will. And why would the best and the brightest respond to the call to serve the nation in the Senate unless they were to be given the power and authority to do the job?



We must not forget, moreover, that unless the Supreme Court of Canada gives an unexpected ruling on the federal government's reference on Senate reform, new appointees will continue to be named until age 75 and will never have to account to anyone for their use of the power granted them under the Constitution.

I, at any rate, have concluded that there is no appointment process that could rescue the Senate from its current disgrace and impotence. We are a modern 21st century democracy. Political institutions draw their power and authority from democratic mandates and parties are an indispensable instrument of democracy. A non-partisan appointed Senate, no matter how angelic its members, could never hope to be anything but an impotent anachronism. Appointing higher calibre individuals is a non-solution to the Senate's shortcomings.

Creating an accountable democratically-elected institution with appropriate checks and balances ensures that when fallible people are given power, the chances of their abusing it are much reduced. That is the best we can hope for in a reformed Senate and it would be an achievement not to be belittled.

#### **Different roles for the senate and the commons**

In addition to representing different aspects of Canada (communities versus individuals) than the Commons, it is sensible to think that each chamber should have unique powers suited to their separate characteristics. We've already talked about the main difference, namely the different central function of the Senate, to provide independent scrutiny of government policy together with the power to slow the passage of the government's agenda while using the Senate as a platform to inform the electorate about senators' objections to government policy, without destroying the principle of the government of the day resting on the confidence of the Commons.

*A non-partisan appointed Senate, no matter how angelic its members, could never hope to be anything but an impotent anachronism. Appointing higher calibre individuals is a non-solution to the Senate's shortcomings*

Other differentiation of the two chambers is possible and even necessary.

It was mentioned above that the Senate should not have an absolute veto power over budgetary, supply, and tax matters, for example. This predominance of the Commons over all money matters reaches far back in our parliamentary tradition and is justified among other things by the close connection between the consent of individuals and the taxes they pay, as well as the centrality of the budget to the government's programme, and we have seen why the Commons must be the chamber that bestows confidence on or withdraws confidence from the government of the day. That necessitates a suspensive veto only for the Senate in these areas.<sup>4</sup>

On constitutional amendments the Constitution Act, 1982 also grants the Senate a suspensive veto only. This was justified by the lack of a democratic mandate for the Senate as an institution. Otherwise an unelected Senate whose consent to amendments was mandatory could, theoretically at least, frustrate any proposals for Senate reform with which they disagreed. That possibility was clearly unacceptable.

In theory, a reformed Senate with a real democratic mandate could be given a straightforward veto over constitutional amendments, but as we will see below from a strategic point of view we should do

*A Senate report that took issue with a government policy would have real authority, but the institutional differences I am proposing between the Senate and the Commons would help to keep the criticism reasoned rather than partisan and inflammatory, which would be an addition to our parliamentary institutions most Canadians would embrace.*

everything in our power to avoid including in our Senate reform plan any provision requiring unanimous consent of the provinces. A unanimous consent requirement would reduce very substantially the chances of success of any Senate reform and since changes to the amending formula, including the role of the Senate in amendments, requires such unanimity, we should just leave the status quo as is.<sup>5</sup>

Next, the more deliberative and likely less partisan nature of the Senate would make it a suitable place to review major government appointments (such as Governor of the Bank of Canada, Governor General, and Supreme Court judges). Again on the grounds that a small minority should not be able to frustrate the will of the government proposing appointees for these posts, however, a 70 percent vote should be required to turn down a government nominee.

Finally, because the Senate would not be the chamber that makes or breaks government but is a chamber of informed sober second thought, its role should be more investigative in nature. The Senate is already justly celebrated for the thoughtful reports it has produced over the years that have taken in-depth looks at complex policy issues and proposed many helpful solutions, including widely lauded reports on topics such as health care, retail price differences between Canada and the US, and the mass media. Such reports today, however, are given no special status in Ottawa, and are merely part of the “noise” that surrounds government decision-making. It would be quite different were the Senate to enjoy a genuine democratic mandate, if its method of election produced a greater diversity of voices, if its power of delay were used judiciously and responsibly, and if the 70 percent threshold for a Senate veto required the Senate as a body to be less partisan and more collegial in its behaviour.

A Senate report that took issue with a government policy would have real authority, but the institutional differences I am proposing between the Senate and the Commons would help to keep the criticism reasoned rather than partisan and inflammatory, which would be an addition to our parliamentary institutions most Canadians would embrace.

#### **Different terms of office and electoral systems**

For a host of reasons, senators should be chosen by a different system and serve for different terms than members of the Commons.

Let’s begin with the terms for senators, which end up being closely related to the timing of Senate elections. Recalling that the Senate is supposed to be a more deliberative body than the Commons, somewhat less partisan, and rather more collegial (senators have to work together across party lines if they are ever credibly to brandish the threat of a veto), we should want senators to be able to take a longer view of things than MPs, whose terms are at best 5 years long and frequently are much shorter, especially under minority government. Sober second thought is best achieved when senators are not burning with election fever quite as hot as that afflicting MPs. That suggests longer terms for senators than MPs.

Add to that the consideration that we need to underline the national nature of the Senate. Senate elections should not, therefore, take place under provincial rules or simultaneously with provincial elections, nor at a different time than elections to the Commons.

Both chambers deal with the business of the nation and both MPs and senators must take part in the debate on the issues confronting the nation and take their guidance from an electorate that has participated in that same national political debate. Provincial elections focus on provincial issues and senators are not decision-makers on provincial issues; only federal elections focus on national issues and federal elections are the only appropriate time to elect senators who are national policy-makers.

The way to reconcile these two indispensable features is for senators to be elected for terms equal to the life of two parliaments, with one half of Senate seats being filled at each federal election. Having half the Senate up for election at each dissolution guarantees that at every federal election, in every province and territory, half the senators must submit to the judgment of the voters.

Unlike the Commons, however, which must be entirely renewed at each election, half of senators from the outgoing parliament will continue to serve in the next one without going before the electorate. That necessarily makes the Senate as a body less anxious to respond to the passions and fads sweeping the electorate at any one time, exactly what you want in a deliberative chamber of review. Senators’ longer tenure will allow them to take a longer view than MPs.

This approach means that senators do not serve for fixed terms, but that is no objection, since neither do MPs. The system proposed here links the term of both senators and MPs to the life of parliament, which is as it should be. Under this system, a senator who had been elected in the federal election of 1984, for example, would have had a term of roughly 9 years (1984–1993), whereas a senator elected in the 2006 election would have had a term of roughly 5 years (2006–2011).

As for the method of election, it should be tied to the different roles to be played by the different chambers. First-past-the-post elections to the Commons are preferable because Commons elections are first and foremost about choosing who will form the government and exercise power.

Elections to the Commons are not, contrary to a widespread opinion, about numerically exact representation of currents of opinion in the electorate. It is a virtue, not a defect of our system that it tends to magnify the number of seats won by the largest party, allowing in most cases a clear victor and therefore a clear party to whom power can be given and, most importantly, who can be held unambiguously to account at the next election for the use they have made of that power.

Unlike the Commons, however, the Senate under this scheme is not where governments are made or broken. That means that we can afford to be more accommodating of a desire to see the diversity of currents of public opinion represented. Moreover, even though elections to the Commons and the Senate are to be held simultaneously, we do not want the Senate to be a mere mirror image of the Commons in terms of its party make-up. On the contrary, by ensuring that only rarely will one party dominate the Senate, and making the Senate's veto rest on consensus rather than narrow majorities, we ensure that the Senate's greatest power can only be exercised by cross-party and cross-regional co-operation, exactly what would be required to give democratic legitimacy to a Senate veto of a Commons-approved decision. Finally, part of the point of the exercise of Senate reform is to find more ways to make more voices heard effectively in the national parliament.

All of these arguments lead me to conclude that we should have some degree of proportional representation for Senate elections. On the other hand, we should avoid a system based on lists of candidates prepared by political parties.

Such systems tend to transfer power away from the electorate and to political parties, the exact opposite of the people we should be seeking to empower. The easiest system — and the simplest one to explain — for achieving a certain degree of proportionality is to give each voter only one vote. That way, with three senators to be elected in each province at each election, but each elector only being able to cast one vote, the three candidates with the strongest followings will be elected, but no individual party is likely to be able to dominate.

If, however, it was felt that every elector needed to cast a separate vote for each of the three Senate seats to be filled, the next best system would be the Irish system for election to the Dail<sup>6</sup> (the Single Transferable Vote or STV), which is also similar to the system used at various levels for Australian elections (including the House of Representatives). It is a system that allows some proportionality while maintaining the ability for electors to vote for specific people and avoiding the transfer of power to political parties that list systems usually entail.

Without going into too much detail, STV (and its close cousin, the Alternative Vote or AV) asks voters to rank the candidates in order of preference. Candidates who achieve a given high level of first preferences expressed are elected. Then, if there are seats left unfilled, the candidate with the smallest number of first preferences is eliminated and their second preferences distributed among the remaining candidates. Such elimination rounds continue until three candidates have passed the threshold to get elected.

## Getting it through

Everybody knows how hard it is to reform the Constitution in Canada. There are good reasons for this. Constitutions are supposed to be the basic rules of the games, and therefore to be stable and to enjoy broad support. We therefore make the threshold to change the constitution high.

The logic of the constitutional amendment process is quite close to the logic for Senate reform. A high threshold for amendment means that we have to stop and reflect on proposed changes and work hard to achieve them, a kind of sober second thought. And just as we aim to achieve double representation of both the national electorate and the national constituent communities in parliament, the constitutional amendment formula ensures that for most constitutional change we have the agreement of the national parliament plus at least 7 provinces representing at least 50 percent of the population. Again, we see the double majority so characteristic of federations. In addition, there is a handful of constitutional provisions of such extreme sensitivity that we require the agreement of all the provinces (the “unanimity rule”).

*The way to reconcile these two indispensable features is for senators to be elected for terms equal to the life of two parliaments, with one half of Senate seats being filled at each federal election.*

The history of constitutional reform post 1982, as seen in both the Meech Lake and Charlottetown Rounds, however, adds other complexities to our understanding of what is required to change the Constitution. Our experience then was that it is extremely difficult to get the provinces to agree to look at individual constitutional amendments (such as a proposal for Senate reform) on their merits. Instead they see amendments that are important to other governments as bargaining chips; they trade off their support on matters of little import to themselves in exchange for support on other, unrelated matters. Thus is every attempt to amend the constitution rapidly transformed into an ever-widening circle of trade-offs and deals with too little attention being paid to the national interest or even the simple coherence of the Constitution itself.

A sensible Senate reform proposal is likely to suffer the same fate. Quebec is likely to be hostile to any reform that reduces their representation in national institutions, but might be induced to accept it (as they did in Charlottetown) in exchange for movement on other issues, such as language, culture, the Supreme Court, and recognition of Quebec's distinctiveness or “specificity.” BC might trade support for Senate reform for changes to the approval process for pipelines. Ontario might demand reform to EI and equalization, which in turn would be opposed by the Atlantic provinces. The whole thing ends up in a quagmire of conflicting demands and endless negotiations.

The question thus arises, is there a way to leapfrog the mass negotiation approach in which provinces withhold their approval of nationally vital reforms in the pursuit of short-term negotiating advantage on unrelated issues?

I believe there is, at least on the Senate reform file. The public level of disgust and disdain for the status quo is palpable. At the same time, Canadians are clearly willing to be convinced that there is a vital role for a reformed Senate and that it can be made compatible with modern ideas of equality and democracy.

The way to proceed is for the federal government to take the lead and come up with a thoughtful Senate reform proposal, ideally along the lines I have laid out here. It should then call a national referendum and appeal directly to the nation for a mandate to enact that reform. A well-crafted and energetically sold proposal would attract wide public support, especially if presented to the voters as the solution to a problem that has plagued this country since its inception, and a major improvement to the workings of our national institutions.

*All of these arguments lead me to conclude that we should have some degree of proportional representation for Senate elections.*

Well done, I believe such a referendum would receive a large national endorsement, and certainly a large majority in at least seven provinces representing 50 percent of the national population. (For an illustration of how the referendum might look and a sample ballot, see Appendix II: The referendum question.)

With that mandate in hand, Ottawa should adopt the constitutional amendment necessary to enact its proposed reforms, and then invite the provinces to do the same. By having a single proposal, submitting it to the electorate, and getting a clear national mandate, we can sweep aside the debilitating and unnecessary rounds of endless negotiations with the provinces on what reform might look like.

There will be a single proposal, put forward on the authority of the national government and parliament, on which all attention will be focused. If it wins the referendum vote, Ottawa will have a clear national mandate to promote its proposals. There will be no negotiations, only each provincial legislature weighing up the decision as to whether they will give their assent to a reform that their own electorate has already endorsed. After a period of sound and fury, my view is that they will submit to the verdict of their own voters, perhaps spurred on by some gentle inducements from Ottawa.

There are three caveats. The first is that Senate reform should at all costs avoid any provision that triggers the unanimity rule. While I think a large majority of Canadians can be convinced to support Senate reform, that does not mean one can guarantee that there will not be one or two provinces in which the proposal might fail to pass. If there were provisions that required unanimity<sup>7</sup> that would stiffen

the resistance of provinces where the proposal was not endorsed and it would take only one such province to derail the whole thing.

It will be vital to keep to provisions that require only the assent of seven provinces representing 50 percent of the population, because that means that no one province will be able to stop reform. We could afford to have up to three provinces fail to adopt the amendment and it could still succeed.

The second caveat has to do with whether or not Quebec might have a veto over changes to the number of senators because it alone, among all the provinces, has a constitutionally imposed list of 24 districts for which its senators are to be appointed.

The reason this might matter is because Section 43 of the Constitution Act, 1982 says that an amendment “in relation to any provision that applies to one or more, but not all provinces” requires the agreement of each province to which the amendment applies. Because Quebec is singled out in the districts for which its senators are named, some authorities have argued that Quebec has a veto over changes touching on the number of senators.

Only the Supreme Court can deal with this question definitively, but my view, for what it is worth, is that such a challenge by Quebec over the legality of the Senate reform laid out in this paper would fail.

Without getting into the constitutional minutiae, note that the Constitution is explicit that the general amending formula (Parliament plus seven provinces representing 50 percent of the population) applies to amendments touching on “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.” The Constitution further gives Parliament alone acting power over amendments in relation to the House of Commons and the Senate. A general Senate amendment scheme such as is proposed here would, I believe, pass muster under this extensive and explicit constitutional authority.

The third caveat has to do with the legislation passed by the government of Jean Chrétien in 1996 that in effect committed the federal government to a second layer of provincial approvals before it could put a constitutional reform proposal to the House of Commons.

While this legislation was presented as a “regional veto” (it would require Ottawa to have the agreement of BC, two prairie provinces representing 50 percent of the region’s population, Ontario, Quebec, and two Atlantic provinces also representing 50 percent of that region’s population), in fact it was really a way for the federal government to grant a veto to Quebec over constitutional change.

This legislation was an abominable and unnecessary idea passed in the panicked atmosphere following the near victory of the Yes side in the 1995 referendum in Quebec. The law tries to undo the tremendous progress made when the 1982 constitutional reform discarded the idea of vetoes for individual provinces and brought in a general reform procedure that ensures broad national agreement on constitutional change but without a veto for any individual province (except



for changes requiring unanimity on which every province has a veto).

Since this legislation does not enjoy public support, and since no government can bind its successors, I suggest that the way around this obstacle is for the enabling legislation for the Senate reform referendum to include a provision that the regional veto law does not apply on the ground that direct expression of national support for the proposal is the strongest authority possible and overrides the need for regional vetoes.<sup>8</sup>

Alternatively, the law seems only to limit the ability of the government itself to introduce constitutional amendment resolutions in the Commons. The simplest way around this legal obstacle, therefore, would seem to be to have someone other than a government minister introduce the resolution enacting the constitutional change.

To return to the advisability of a referendum, it is certainly true that referenda are unpopular with the old guard of political analysts, in part because they have occasioned division in Canada in the past, over conscription and prohibition, for example. But Canada has matured as a nation since then and referenda are a legitimate instrument for determining the national will on vital matters that transcend region and party. Senate reform is one such issue.

Furthermore, we have the precedent of the 1992 referendum called by then-Prime Minister Brian Mulroney on the Charlottetown Accord. That referendum, far from dividing the country, united it in rejecting our political élites and the misbegotten offspring of the Charlottetown Round of endless constitutional negotiations.

Three provinces now require a referendum before approving a constitutional reform in any case, so a national referendum

simplifies and accelerates the process.

Moreover, think how Canada would be different today if Pierre Trudeau had done what he originally planned to do in 1981, and he had submitted his constitutional reform package to the nation in a referendum. Opinion polls showed he would have won handily, including in Quebec.

Had he done so the controversy over the 1982 constitution in Quebec would never have arisen. Instead of such a desirably unambiguous result, René Lévesque, frightened by what the polls were telling him and put in a corner by an unfavourable Supreme Court decision on patriation, agreed to open negotiations with Ottawa over its proposals and the rest, as they say, is history.

A referendum in 1981 would have been a master stroke of nation-building. A referendum today that broke the logjam over Senate reform and helped us achieve a new instrument of regional reconciliation and democratic legitimacy in Ottawa would be another such moment pregnant with national promise. It is a risk, of course. But a risk worth taking and one that I believe Canadians would embrace and endorse.

2017 is the 150th anniversary of Confederation. That's about the right timetable for the reform I am proposing. Senate reform could be the best gift Canadians could bestow upon themselves and their posterity, by courageously modernizing and completing the work of national institutional construction begun by our founders in 1867. They would be proud. ✪

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*His paper on Senate reform was released on November 14 and can be found on the MLI website.*

## Appendix I: *How not to reform the Senate: Ottawa's Reference to the Supreme Court*

On February 1, 2013, the Government of Canada sent a series of constitutional questions (known as a “reference”) to the Supreme Court seeking clarification on Ottawa’s powers to act to reform the Senate.<sup>9</sup>

This move was intended to pre-empt challenges that Ottawa was facing from provinces and others to their piecemeal approach to Senate reform. While it is only tangential to the analysis I have made in the main body of this paper, it is perhaps worthwhile to spend a few moments examining both why the government’s approach to Senate reform is wrong-headed and what the Supreme Court is likely to say in response to the most important reference questions. The government has impaled itself on the horns of a dilemma. On the one hand, they have made repeated promises to reform the Senate along democratic lines, including elections for senators. On the other hand, they have absolutely no desire to trigger a round of constitutional negotiations that would likely result in another Charlottetown Round for which there is simply no appetite among the electorate.

Their strategy has therefore been to propose reforms that do fall within Ottawa’s powers while trying to push the envelope on what those powers are. For example, they have taken the view, properly in my opinion, that electing individual senators does not require constitutional amendment. While the Supreme Court may well disagree with me, my own view is that elections are not constitutionally significant as long as they are consultative only and the legislation makes no attempt to suggest that the Governor-in-Council is bound by law to appoint the winner of such an election to the Senate. Such a consultative vote in no way replaces or diminishes the central appointment mechanism that the Constitution now prescribes.

On the other hand, in the main body of this paper I have offered a series of reasons why the Senate cannot and should not be a body that can usurp the powers of the Commons or the electorate. The fact of the matter, however, is that under the current Constitution, the powers of the Senate and the Commons are essentially equal (the main exceptions: the Senate’s suspensive veto only over constitutional amendments and the requirement that money bills be introduced in the Commons). With these limited exceptions, the Senate has equal powers over all legislation, budgetary matters, and every other aspect of parliamentary decision-making. What has saved us from constant confrontations between the two chambers and deadlock in Ottawa has been the lack of any democratic legitimacy on the part of the Senate. With very few exceptions (the most egregious being the conflict over the GST in 1990) the Senate has had to yield before a determined Commons.

There is little reason to think the Senate would be so self-effacing if its members enjoyed a democratic mandate, as the government’s proposals would produce. On the contrary, the chances are that a Senate with even a homeopathic dose of democratic legitimacy would be keen to flex its muscles and establish both its independence from the government and its power vis-à-vis the Commons. Thus the government’s proposals would create, in my opinion, the worst of all possible worlds, in that the Senate would enjoy real power (powers essentially equal to the Commons) but no responsibility. What I mean by “no responsibility” is that while the government based in the Commons enjoys considerable power under our Constitution, those who exercise that power are clear and unambiguous

(our system tends properly to award power to one party for just such reasons of accountability) and must submit their record to the approval of the voters on a regular basis. Our system awards the government immense power, but holds the tenants of power to account regularly and thoroughly.

Not so our current Senate, were its members to be elected. Under the current rules, senators — once in the Senate — are there until age 75.<sup>10</sup> Senators who were elected and then appointed by the prime minister (the process the government’s reforms envisage and which it is already acting on in the case of Alberta senators) would therefore never be called upon to submit their use of power to the verdict of the voters. In this regard it is worth pointing out that from the point of view of democracy the election that really matters is not the one that puts an official in office. Rather it is the following one where the official is called upon to give an account of himself and his stewardship of power. Under the current rules regarding Senate tenure, senators would be able to skip this unpleasant part of democratic accountability.<sup>11</sup>

Under the government’s approach to Senate reform, in other words, the powers and terms of senators will almost certainly remain as they are, but this powerful and unaccountable institution will now have at least a plausible claim to some democratic mandate, and the already weak deadlock-breaking mechanism that properly exists to resolve conflicts and ensure the predominance of the Commons (the ability of the prime minister to appoint extra senators) would widely be seen to be an undemocratic interference in the workings of an elected body.

Similarly, the government’s reforms defer to the provinces on Senate elections by making such elections a matter of provincial government legislation. This implies that provincial governments are the key decision-makers on whether a provincial electorate should be entitled to elect its senators. As I have been at pains to explain in the body of this paper, there is a fundamental distinction to be drawn between representing provincial electorates’ views on national issues rather than the views of provincial governments. Making provincial governments the instrument of Senate elections, determining the timing and rules of such elections, is a profound mistake that subtracts from the Senate’s standing as a national institution.

The current appointed Senate would be preferable to such a misbegotten reform. Senate reform is a serious business. Our institutions are knitted together in a complex set of relationships and checks and balances that oblige us to look at the effects of changes we make across the whole institutional edifice, and not just in the Senate itself. Senate reform is desperately needed, but we are not so desperate that we should accept gridlock, power without responsibility, or the gutting of our institutions to achieve a simulacrum of democracy.

If, as I expect will be the case, the Supreme Court tells Ottawa that much and perhaps even all of its Senate reform programme requires formal constitutional amendment, I predict the government will quickly realize that it faces three choices: an unacceptable status quo that calls the entire political and institutional edifice into disrepute; an abolition that would damage our institutions and require constitutional amendment in any case; or a serious reform that strengthens our institutions and is endorsed by Canadians. Of these three choices, there is only one that is right for Canada.



## Appendix II: The referendum question

Something as complex as the Senate reform package proposed in this paper is difficult to boil down to a simple question that can be put to Canadians in a referendum. My recommendation would be to include on the ballot paper a plain language statement of the principles on which the proposed reform is based. To be clear, this is not suggesting that the plain language statement take the place of the fully developed proposals. My only point is to underline that the proposals themselves are going to be far too long and complex to fit on the ballot paper.

The statement of principles, then, would in effect be a summary of the reform package's underlying logic. By voting yes on the referendum, voters would be endorsing not merely the principles, but the detailed proposals on which they were based. The referendum campaign would doubtless be spent digging into every part of the reform package, so the statement on the ballot would simply serve to remind voters of what it is the proposed reforms are intended to accomplish.

That statement of principles should be followed by a question that asks voters to endorse both the content of the reform and the amending of the Constitution.

For illustrative purposes such a referendum ballot might look as follows:

### ***The Government of Canada proposes to Canadians a reform of the Senate based on the following five principles:***

1. The Senate must be a national institution that strengthens the federation by ensuring regional and other views are more effectively heard in decision-making in Ottawa and ensuring reasoned and effective scrutiny of government policy;
2. In order to enhance the democratic representation of Canadians, senators must be elected by Canadians but by a different voting method than for MPs and for different terms;
3. The Senate and the Commons must have different and clearly defined powers;
4. Provinces will be entitled to six senators each, territories to two senators each;
5. There must be reasonable mechanisms to resolve conflicts between the Senate and the Commons, thus ensuring that deadlock does not prevent the federal government from acting in the interests of Canadians.

*Do you agree to the Senate reform proposed by Ottawa and its inclusion in the Constitution of Canada?*

Yes  No

### References

- Constitution Act, 1867 (U.K.), 30 & 31 Vict., c.3, reprinted in R.S.C. 1985, App. II, No. 5.  
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### Endnotes

- 1 For more details on what happened in Saskatchewan, see "Saskatchewan repeals elected Senate law, tables motion calling for abolition" by Jennifer Graham (November 6, 2013).
- 2 The composition of this super-majority intentionally mirrors the main formula for constitutional amendment on the grounds that Canadians have already found such a super-majority approach acceptable in that different context.
- 3 Every parliamentary federation has some such mechanism for breaking deadlocks between the two houses of the national legislature and they almost invariably favour the lower house out of respect for the more powerful democratic mandate conferred by rep-by-pop. We have such a deadlock-breaking mechanism in Canada, whereby the federal government is entitled to appoint either four or eight extra senators in the event of a conflict between the two houses. The Senate's non-existent democratic mandate has meant that only once in our history did the upper house defy the Commons to the extent that the government of the day needed to trigger that mechanism. This occurred in 1990 when the Liberal-dominated Senate threatened to derail Prime Minister Brian Mulroney's proposed GST.
- 4 The only exception should be that the Senate's budget should not be subject to arbitrary interference by the Commons through this power. A truly independent Senate cannot be placed in the position where its critical and thorough examination of government policy results in threats by the government to cut the upper chamber's funding in reprisal. Some constitutional formula that guarantees the Senate funding equal to the House of Commons or that requires the Senate's consent to having its budget reduced from that of the previous year would resolve this problem.
- 5 There is some room for dispute about which amending formula different constitutional amendments fall under (the rule of parliament-plus-seven-provinces-representing-50 percent-of-the-population, or parliament-plus-all-the-provinces), but this is one area where there

is absolutely no room for doubt: a proposal to give a reformed Senate a new role in the constitutional amendment process would fall under the unanimity rule. There is no other interpretation possible, in my view, of Part V, Section 41, Sub-section (e) of the Constitution Act, 1982.

- 6 For more information on Irish electoral systems, see Gallagher (2013) "Ireland's PR-STV electoral system: a need for reform?"
- 7 I have already mentioned that changing the Senate's role in constitutional amendments would be one such unanimity-attracting proposal. Another would be a proposal to eliminate the Constitution's so-called Senate floor, a provision by which provinces are entitled to no fewer MPs in the Commons than they have senators in the upper chamber today. This floor is the reason why PEI has four MPs, but under strict rep-by-pop would only be entitled to one. No other province currently benefits from the Senate floor rule, but some may well do so in the future. Eliminating this rule requires unanimity.
- 8 Historically-minded readers will recall that the Liberal government of W.L.M. King escaped its own promise not to introduce conscription in the Second World War by means of a referendum.
- 9 Details of the reference are available here: <http://www.democraticreform.gc.ca/eng/content/harper-government-advances-senate-reform>.
- 10 I am quite confident that the Supreme Court will confirm that this tenure can only be changed by formal constitutional amendment, but I recognize that some other knowledgeable observers disagree. Only the Court's response to the reference will reveal the truth of the matter. But even if it is within the power of the federal government to impose term limits unilaterally (thus avoiding the necessity to formally amend the Constitution), I would be very surprised indeed if the Supreme Court would allow Ottawa to change the rules retroactively. That means that all current members of the Senate would be entitled to serve out their term until age 75. That together with Ottawa's plan to leave the choice whether to have Senate elections in the hands of each provincial legislature means that it could easily take us 30 years just to get all the appointed people out of the chamber, and perhaps longer again to get Senate elections in every province, given the resistance of many provinces to the idea of an energized and democratic Senate.
- 11 I recognize that it might be possible that the democratic process would in effect limit Senate terms in that a convention might emerge in which Senators would never be elected unless they promised their electorates that they would only serve for, say, six years, after which they would resign, trigger a new election, and run again. But as with most of the rest of the government's reform package this seems to me to depend on a whole series of decisions, actions, and behaviours all magically aligning themselves correctly in a way I find extremely implausible and that are in any case not worthy of a mature democracy that takes its institutions seriously.

# The MLI Leading Indicator

*"Look a little ahead, my friends."*  
SIR JOHN A. MACDONALD

NOVEMBER 2013

A MACDONALD-LAURIER INSTITUTE PUBLICATION

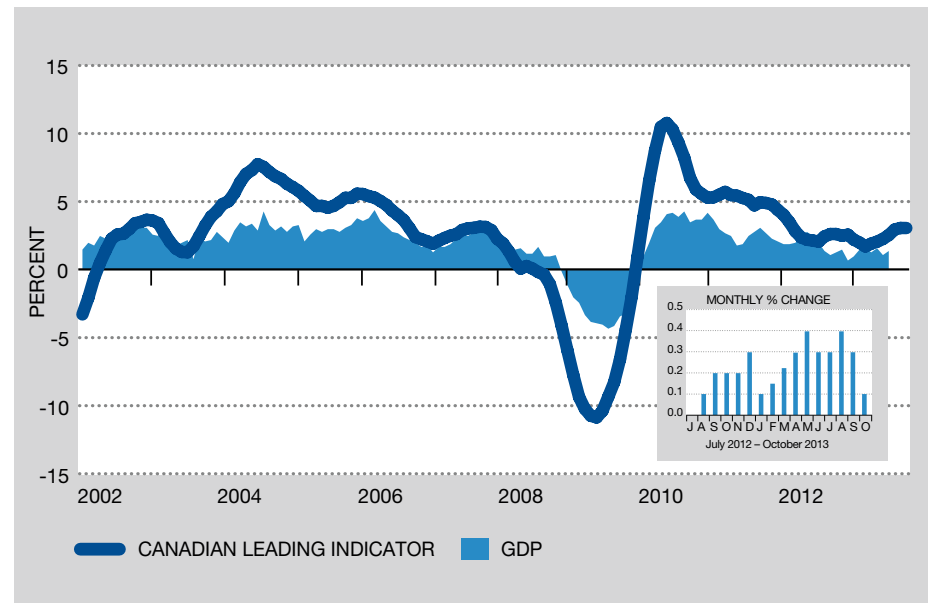
VOLUME 2 ~ ISSUE 11

La version française suit la version anglaise

*The Macdonald-Laurier leading index slowed to 0.1 percent growth in October from a 0.3 percent gain in September. The slowdown in growth is similar to the start of the new year, when an improving outlook for the economy failed to gain traction. The deceleration is likely to be temporary, as the five-month moving average used to smooth the overall index replaced a 0.8 percent gain in the calculation with no change in the most recent month; in November, a 0.4 percent decline will drop out of the moving average, and if it is replaced with something more positive, growth will pick up. Three of the nine components fell in October, after all contributed to growth the month before.*

## Leading Indicator October 2013

FIGURE 1 Year over year percent change



The three components that turned down in October were commodity prices, the average workweek in factories and the interest rate gap. As well, the housing index decelerated markedly, from 2.5 percent growth in September to just a 0.2 percent gain in October. The slowdown in housing reflected a dip in housing starts and a moderation in the growth of existing home sales, after three consecutive

gains of 2.1 percent.

The outlook for exports continued to brighten, as the US weathered the federal government shutdown with little discernible adverse effect. The leading indicator for the US improved slightly to 0.5 percent growth. This buoyancy was reflected in sustained growth of 1.1 percent in new orders for manufactured products in Canada.

The Toronto stock market also advanced 1.1 percent, despite the dip in commodity prices.

Elsewhere, labour market conditions

in Canada continued to improve steadily, and as a result claims received for employment insurance fell slowly.

*The analytical model underlying this MLI Leading Indicator is the creation of Philip Cross Economics and is used here with his permission.*

## Leading Indicators

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13
<b>Canadian leading indicator (January 2002=100)</b>	<b>135.1</b>	<b>135.5</b>	<b>135.9</b>	<b>136.5</b>	<b>136.9</b>	<b>137.1</b>
% change	0.4	0.3	0.3	0.4	0.3	0.1
Housing index (January 2002=100)	92.2	94.6	97.0	99.2	101.7	101.9
% change	1.7	2.6	2.5	2.3	2.5	0.2
US Conference Board leading indicator (2004=100)	97.4	97.6	97.8	98.3	98.7	99.2
% change	0.4	0.2	0.2	0.5	0.4	0.5
<b>FINANCIAL</b>						
Money supply, M1 (millions, 2002) <sup>1</sup>	579,368	581,992	583,699	584,838	586,320	588,942
% change	0.5	0.5	0.3	0.2	0.3	0.4
S&P/TSX stock price index (1975=1000)	12,673	12,562	12,495	12,475	12,541	12,684
% change	0.3	-0.9	-0.5	-0.2	0.5	1.1
Interest rate gap	-2.03	-2.02	-2.00	-2.00	-1.99	-2.01
change <sup>2</sup>	0.01	0.01	0.02	0.00	0.01	-0.02
<b>MANUFACTURING</b>						
Average workweek (hours)	37.1	37.1	37.3	37.4	37.5	37.4
% change	0.3	0.0	0.5	0.3	0.3	-0.3
New orders, durables (millions, 2002)	25,686	25,632	25,690	25,971	25,971	na
% change	-0.7	-0.2	0.2	1.1	1.1	na
Commodity price index, all (US dollar terms)	639.2	643.4	647.8	651.1	652.2	649.0
% change	0.9	0.7	0.7	0.5	0.2	-0.5
Employment insurance claims received	229,836	227,702	230,544	229,452	228,684	na
% change	-0.2	-0.9	1.2	-0.5	-0.3	na
<b>Unsmoothed version</b>	<b>136.7</b>	<b>136.1</b>	<b>136.5</b>	<b>137.4</b>	<b>137.8</b>	<b>137.8</b>
% change	0.8	-0.4	0.3	0.7	0.3	0.0

<sup>1</sup> Deflated by the Consumer Price Index for all items.

<sup>2</sup> First difference.

*The Macdonald-Laurier Institute's monthly Leading Economic Indicator series provides unique and valuable insights into the future course of the Canadian economy – giving advance warning of recessions and upturns. The next release date is December 30, 2013.*



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