

**Searching for the  
New Liberalism**

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## **A Choice not an Echo: Sharing North America with the Hyperpower**

**By Thomas S. Axworthy**

### Introduction

“The hardest task for a people forced to change is to acquire new attitudes and unlearn old lessons”

*D.W. Brogan*

Pierre Trudeau famously told the National Press Club in Washington, DC “living next door to you is in some ways like sleeping with an elephant. No matter how friendly or even-tempered the beast, if I may call it that, one is affected by every twitch and grunt.” Thirty odd years after Trudeau’s quip, the bed has got smaller, the elephant has got larger, and Canadians will have to become quicker and even more supple if we are to stand any chance of maintaining a distinctive way of life while sharing the continent with our superpower neighbour.

Canadian-American relations, like Quebec’s role in Confederation and federal-provincial feuding, is a hardy perennial in Canadian history. Canada’s first strategy was simply military defence as we resisted the invasions of 1775 and 1812, and fears of a renewed assault after the American Civil War played a role in persuading Britain’s North American colonies to unite in 1867. Soon after Confederation, Sir John A. Macdonald launched a second approach: the National Policy of 1879 was an integrated macro-strategy in which tariffs would protect infant Canadian industries, the state would promote massive infrastructure like the railways, while immigration filled the empty West. This was an economic version of the defensive military strategy that had dominated the pre-Confederation years: Canada would build economic walls at the 49<sup>th</sup> parallel and behind those walls a North America different from the dynamic model to the south would emerge. The National Policy did not go uncontested: in 1854 the Province of Canada had signed a Reciprocity Treaty with the United States, but this experiment in free trade ended when the United States cancelled the agreement in 1865 (lack of access to the U.S. market was another spur to create a larger economic union in British North America). Proponents of free trade, however, looked back fondly at the economic good times associated with Reciprocity, and in 1911, Sir Wilfred Laurier repudiated the tariff component of the National Policy and negotiated a free trade agreement with the United States. Laurier, however, was defeated in the 1911 election and the National Policy continued to be Canada’s overall economic framework vis à vis the United States until the mid-1980s. By the last Trudeau government, for example, the Auto Pact and the multilateral trade rounds had reduced the efficacy of Macdonald’s tariff policy instrument, but it was still hoped that resource endowments and a made in Canada energy policy would give Canada a competitive advantage.

In a momentous break with the past, the Mulroney government in the 1980s fashioned a third strategy which promoted integration, not protection. The National Policy was laid to rest in 1989 by Canada's adoption of the Canada-United States Free Trade Agreement and the successor North American Free Trade Agreement of 1994, which brought Mexico into the free trade fold. NAFTA goes far beyond a mere trade policy: it is a defacto economic constitution for Canada. Once in we will never be out, and NAFTA's terms specifically outlaw the essence of the National Policy which was to use a variety of measures to discriminate in favour of Canadian companies. NAFTA's principle of national treatment means that all companies operating in Canada, foreign or Canadian owned alike will be treated equally. Equally significant, the continental integration initiatives of the Mulroney government coincided with the growing forces of worldwide integration of financial markets or what is commonly called globalization. The die is now cast: to thrive economically, Canada must make the globalization rules of the game work for us rather than kicking against the traces. This does not mean that we cannot engineer what John McCallum calls the Canadian advantage, but it does mean that we have to do so differently than past generations.<sup>1</sup>

Therefore, in the twenty-first century we must unlearn some of the lessons of the National Policy. We must turn outward, not inward. Our goal must be nothing less than to make Canada the best platform in the world from which to launch a global business. We must be export nationalists, or as Paul Martin put it while running for the leadership of the Liberal Party in 1990, we must have "nationalism without walls."<sup>2</sup>

This calls for a massive change in our historic approach towards the United States. But such transformation can occur. D.W. Brogan, a celebrated British analyst of the United States, for example, wrote in *The American Character* of how the demands of post-war leadership were pressing in on the United States, demanding a different response than the easy isolationism of the past. Brogan's description of how that change should come about is as relevant to Canada's current needs as it was to the United States in 1944:

"It is a world in which all nations have to make deep adjustments in their mental habits, have to take stock of what is living and what is dead in their tradition. But that adjustment must, all the same, be made in the terms of the living tradition, according to the spirit."<sup>3</sup>

To chart a sensible course for the future we must take the world as it is: we cannot afford to live in a haze of delusions. But in using our heads to adjust to the modern reality of globalization, we must not lose the habits of the heart and forget the traditions and values which have brought us so far. The instrumentalities of Sir John A. Macdonald's National Policy are no longer relevant, but the values which inspired it - a burning desire to create a distinctive way of life in our part of North America - remains as valid as ever.

### The Primacy of Choice

Liberalism is a body of thought dedicated to the proposition that the individual is the unit of supreme value in society. Wilhelm von Humboldt, the founder of the University of Berlin and a philosopher who plainly influenced John Stuart Mill writes that the true end of

mankind “is the highest and most harmonious development of his powers to a complete and consistent whole.”<sup>4</sup> Freedom, von Humboldt argues, is the first and indispensable condition for developing one’s powers, but a second condition is variety and diversity: “even the most free and self-reliant of men is hindered in his development, when set in a monotonous situation.”<sup>5</sup> Liberals believe therefore that every individual has a special dimension, a uniqueness that cries out to be realized. As free agents, human beings are capable of defining their own definitions of happiness or versions of the good. Freedom is the ability to make choices and choice is the mechanism by which we achieve ends that we value. As Aristotle emphasized in Book Six of *The Ethics*, “the origin of action...is choice, and the origin of choice is apposite and purposive reasoning.”<sup>6</sup> Nineteenth century liberals like Humboldt, Mill, and Constant all promoted the processes that enable Aristotle’s primacy of choice.

T.H. Green, Leonard Hobhouse and John Maynard Keynes in the 20<sup>th</sup> century added to this 19<sup>th</sup> century liberal framework an emphasis on the actual opportunities that people have to exercise their choices. Amartya Sen, for example, in *Development as Freedom*, is typical of the modern tradition of liberalism in arguing that “unfreedom can arise either through inadequate processes (such as the violation of voting privileges or other political and civil rights) or through inadequate opportunities that some people have for achieving what they minimally would like to achieve.”<sup>7</sup>

This philosophical distinction between the right to have choice and the opportunity to exercise it, applies equally well to the collective choices we make as self-governing men and women. Sovereignty is the legal right for all states to make unfettered choices within their national jurisdictions; power is the ability to achieve one’s purposes or goals. Traditionally, military or economic resources have been the components of power most useful to get others to do what they otherwise would not do. In recent years, political scientists like Robert Keohane and Joe Nye have examined areas of “soft power” such as cultural reach, the force of example, or the diplomatic skill of some players in converting resources to realized outcomes in the changed behaviour of others.<sup>8</sup> As important as the ability to change the behaviour of others, is the ability *not* to be changed by others, i.e. how much autonomy does a state have on any given issue? No state is fully autonomous, not even the United States, but the critical continuum is the path from autonomy to dependence. Philosophically, liberals do not believe in an absolute good – every individual should be free to decide this for themselves – but we do accord primacy to freedom of choice as the necessary condition to self-empowerment. Collectively, a liberal government should give great weight to expanding as much as possible the power resources that will give future generations the ability to choose. The promotion of choice or enhanced autonomy in an admittedly interdependent world should be a preeminent goal for Canada in the 21<sup>st</sup> century.

### The Unipolar Moment<sup>9</sup>

Promoting Canadian choice and expanding autonomy while living beside the most dynamic and powerful state in the world is no small task. This requirement has always been one of Canada’s challenges, but as we enter the 21<sup>st</sup> century, it has never been so pressing, because the United States has never been so powerful. Hubert Vedrine, the former foreign minister of France, describes the United States not as a superpower, but as a hyperpower with supremacy in “the economy, currency, military areas, lifestyle, language and products of mass culture.”<sup>10</sup> Not since the height of Rome has one state so towered over the rest of the world. And we are all very lucky that the United States is a freedom loving democracy – if

Napoleon, Hitler or Stalin had enjoyed such a power discrepancy with the rest of the world, it would have meant the conquest of the planet.

Forecasting is always hazardous in politics. It was not too long ago that authors like Paul Kennedy were predicting the decline of the United States because of imperial overstretch and Japan was touted as the coming power.<sup>11</sup> The American economy, of course, could falter, or budget deficits and out of control military spending could become unsustainable, or the United States could even suffer from a terrorist attack with weapons of mass destruction. But the odds of any of Anthony Lake's *Six Nightmares* happening are low, though not impossible, and it is much more likely that the unipolar moment will last, at least for a generation.<sup>12</sup> Since the 1860s, Canada has learned to live with the United States as a major power, then from 1945 on as a superpower, and for the foreseeable future we had better get used to sharing the continent with a hyperpower.

If living in the world of globalization means that Canada must unlearn some of the economic lessons of the past, then dealing with a hyperpower means we must equally unlearn some of the diplomatic verities of the more recent post-war era. The new status of the United States, and changes in the world since the demise of the Soviet Union in 1990, means that two essential assumptions that have governed international relations since 1950 – containment as a western balance of power policy vis-à-vis the Soviet Union, and nuclear deterrence, based on a rational state to state interaction model – no longer apply. There is now a large conceptual hole in the theory of international relations. That hole is being filled by a unilateralist school of thought within the United States which includes key members of the Bush administration and which seeks American predominance, not balance, as the central foreign policy goal. The United States now has the power of Rome: crucial to the future of the world will be the internal American debate about whether the United States should also fulfill the imperial mission of Rome.

In its emotional impact, September 11, 2001, has been the day which in the words of many commentators “changed everything.” Certainly the awful reality of terrorist threats to innocent civilians, known in the Middle East and Europe for a generation, was finally brought home to North Americans, and with that realization came the even more shocking understanding that however bad September 11 was, it could have been worse. Had the al-Qaeda hijackers flown aircraft into nuclear installations (which had been their original plan), or if they had fashioned chemical or biological weapons (which they were attempting to do in their bases in Afghanistan), the resulting destruction would have been magnified by a horrifying degree. To the nearly 3000 families who lost loved ones in the al-Qaeda attack (including 24 Canadians), September 11 was an awful personal tragedy: for the rest of us it brought home the age old lesson that providing security is the number one responsibility of the state, and that safety can never be assumed, it must be secured.

The debate in the United States about its new position in the world, however, long predates September 11. In fact, the proponents of today's unilateral stance began articulating their position only months after the fall of the Soviet Union. In March of 1992, the *New York Times* broke a story about a secret Defence Planning Guidance study prepared by Paul D. Wolfowitz, the Pentagon's Under Secretary for Policy, and sent to then Defence Secretary Dick Cheney, and National Security Advisor Colin Powell. The classified document rejected the strategy of collective internationalism that had guided the United States since 1945 and argued that America's political and military vision in the post-Cold War world should be to ensure that no rival superpower be allowed to emerge in Western Europe, Asia, or Russia.<sup>14</sup>

George Bush senior lost the 1992 election to Bill Clinton and little more was heard of this doctrine of paramountcy as the Clinton administration followed a policy of engaged multi-lateralism. But the hardliners continued to beaver away in their think-tanks, and the success of George Bush Jr. in winning the 2000 election brought back to power conservatives like Dick Cheney, Donald Rumsfeld, Paul Wolfowitz, Richard Perle and others associated with the 1992 study. What was once a theory has now become an official doctrine.

Almost immediately, the Bush administration showed its unilateralist tendencies by promoting anti-ballistic missile defence, threatening withdrawal from the 1969 ABM treaty, repudiating the Kyoto treaty on global warming, rejecting the International Criminal Court and, for good measure, supporting protectionist duties against European steel and Canadian soft wood lumber. But the September 11 terrorist attack on the United States strengthened the hard line faction even more within the administration, and the President has recently endorsed both the objective of superpower paramountcy and the possibility of preemption if the United States if it perceives a threat to be imminent, i.e. the United States will strike first. On September 20, 2002, the Bush administration released its “National Security of the United States” report to the Congress. Mr. Bush’s document states that “the President has no intention of allowing any foreign power to catch up with the huge lead the United States has opened,” and while seeking allies in the battle against terrorism, “we will not hesitate to act alone, if necessary to exercise our right of self-defence by acting preemptively.”<sup>15</sup>

If the unilateralist drive of the Bush administration were an aberration, or typical of only a small group of conservatives, it would be worrying but not necessarily critical for the long-term. Unilateralism, however, is one of the three predominant schools of American foreign policy and its roots run very deep. The first tradition in America’s approach to foreign policy is isolationism, a current that stretches back to Washington and Jefferson’s warnings about “entangling alliances.” Wishing to avoid Europe’s wars and believing that the United States had a special providence from God, Secretary of State John Quincy Adams best articulated the premises of isolationism that made it the lodestar of American foreign policy for more than a century:

“Wherever the standard of freedom and independence has been or shall be unfurled, there will be America’s heart, her benedictions, and her prayers. But she goes not abroad in search of monsters to destroy. She is the well wisher to the freedom and independence of all. She is the champion and vindication only of her own.”<sup>16</sup>

The second tradition of unilateralism has almost as long a pedigree as isolationism. President Monroe declared in 1823 that the United States would oppose any attempt by the European powers to restore their possessions in Latin America thereby abrogating to itself the role of Latin America’s “protector”: and as early as 1832 the United States sent a fleet to the Falkland Islands to reduce an Argentine garrison that was interfering with American shipping. In 1844, the United States preemptively went to war with Mexico and increased its area by two thirds, with the annexation of Texas and the conquest of New Mexico and California. Between the Civil War and the Spanish-American War, marines were sent to Cuba, Uruguay, Argentina, Chile, Columbia, and Haiti.<sup>17</sup> The war with Spain in 1898 gave the United States protectorates over Puerto Rico, the Philippines, Guam, and defacto over Cuba. The Jefferson tradition of isolationism and the Monroe doctrine could co-exist because unilateralism and isolationism are ideological twins. “They both spring from the

same exceptionalist impulse,” writes Michael Hirsh, “a deep well of American mistrust about the rest of the world, especially Europe.”<sup>18</sup>

Both isolationism and unilateralism are contested by a third tradition in American foreign policy, liberal internationalism. Forever associated with Woodrow Wilson, its inventor, and practiced to perfection by Franklin Roosevelt, liberal internationalism seeks to build international institutions to create rules of the game, standards of conduct, and international enforcement mechanisms. All of the post-war international architecture – the United Nations, the World Bank and International Monetary Fund, NATO, and the General Agreement on Trade and Tariffs (GATT) and its successor institutions, the World Trade Organization, are American inventions. Today, when an influential body of American public opinion treats the multi-lateral system it created like Rosemary’s baby, we must remember that liberal internationalism has been the dominant influence in American foreign policy since 1945. The unilateralists are winning some innings, but the game is far from over.

What, if anything, can Canada do to tip the balance in the internal U.S. debate toward liberal internationalism? This is the same issue that faced Lester Pearson, Ernest Bevin, and Jean Monnet in 1945-48, although then the debate was between internationalists like Dean Acheson and isolationists like Robert Taft. The answer is largely the same as in 1945: don’t overreact, offer to help, and take your own responsibilities seriously. But in playing a constructive role internationally and in serving as an ally of the liberal internationalist camp within the United States, Canadians must face up to a crucial fact. For years, we have been under investing in foreign policy and military capabilities. We talk the talk but we no longer walk the walk. To be taken seriously as a contributor to one of the great issues of our time – the future role of the United States in the 21<sup>st</sup> century, and thus the future of the international system itself – we need a radical shift in priorities.

### Defence Against Help

Finance Minister John Manley was much criticized lately when he made the statement that Canadians “should grow up” and reflect a more mature attitude towards the United States, but Manley was only speaking some hard truths. To some Canadians anything the United States does is suspect: thus there was opposition to the American led war against al-Qaeda and the Taliban in Afghanistan, even though al-Qaeda was using Afghanistan as a base camp and even though the Taliban had turned that country into one large concentration camp for women. Even when the Americans were right, they were wrong. On the opposite side of the spectrum, there are some who are so fearful about the wrath of the United States that they would have us either support poor ideas – such as the militanization of space – just because the United States is an advocate, or remain silent even when the United States goes off-kilter. Maturity requires that we have the confidence to support the United States when it is right and the courage to oppose them when they are wrong. Meaningful choice implies that we should decide issues on their merits, not by whom is the proponent of the idea.

But Canada does *not* have meaningful choices in many areas of international concern, because we have a credibility-capability gap of immense proportions. Walter Lippman, adviser to Woodrow Wilson and the dean of American pundits for four decades wrote that a successful foreign policy “consists in bringing into balance, with a comfortable surplus of power in reserve, the nation’s commitments and the nation’s power.”<sup>19</sup> The real test of a nation’s commitment, Lippman wrote, is the capabilities that it devotes to the task. This is a

test that Canada is failing. For years we have systematically reduced our investment in foreign policy resources while expanding our rhetorical commitments.

There are three broad avenues of power in foreign policy and, in recent years, Canada has diminished its capacity in every one of them. A starting point is the energy and ability of the men and women who represent our interests or defend our security abroad. The Canadian Foreign Service was once one of the best in the world. Henry Kissinger, for example, writes in his memoirs that “Canadian leaders have a narrow margin of manoeuvre, that they utilized with extraordinary skill.”<sup>20</sup> But years of pay-freezes have meant that well-trained Foreign Affairs and military officers face a huge wage disparity compared with the private sector, while spouses find it difficult having a career in a foreign posting. The Department of National Defence is finding it exceedingly difficult to recruit professionals like engineers or doctors. The most worrisome brain drain in Canada is the brain drain away from the military and the Foreign Service.

In our most important foreign posting, for example, - Washington – Canada’s human resources pale in comparison with Mexico. Mexico has consulates in scores of American cities and the Mexican Ambassador in Washington is almost of Cabinet rank in importance. In contrast, Canada has few outposts in major U.S. cities and a very over-worked staff in Washington. There is plenty of American goodwill towards Canada, but it takes a tremendous amount of work to penetrate the U.S. bureaucracy, secure a place on the congressional radar screen or get calls placed through the White House switchboard. Indeed, it is not only Senators, Members of the House, or White House staffers who need to be lobbied: the staffs of the myriad of House and Senate Committees and the personal staffs of the politicians are also critical gate keepers. Washington is a constant beehive of activity. In Ottawa, the U.S. ambassador needs to know five or six senior Ministers, a dozen key officials, and some influentials from the Prime Minister’s office. In Washington, the Canadian Ambassador needs to influence not a handful of people but literally hundreds of individuals, because the U.S. government is a many splintered thing.

Economic resources are a second component of international power. Canadians certainly have an image of themselves as generous donors committed to the development of the underprivileged. Prime Minister Chrétien rightly placed African development at the center of the recent G-8 meeting in Alberta. But the reality is that we have been punching well below our weight. The Trudeau government made the Canadian International Development Agency (CIDA) a pillar of our foreign policy and increased spending tenfold from \$277 million in the late 1960s, to a little over \$2 billion in 1984-85. Today, CIDA’s budget is still only \$2.4 billion which explains why in real terms Canada’s percentage of aid to GNP has fallen from .75% in 1975 to .25% today, compared to the Netherlands who spend three times as much at .84% of GNP.

It is military capability, however, that has fallen the furthest. When I first went to work in Ottawa in the mid-1960s, there were over 100,000 men and women in the military, with half in the army. Today, the manpower of all three services is only 60,000 and the army was so stretched by the deployment of 750 troops to Afghanistan that the mission could not be renewed. Today, Canada is 34<sup>th</sup> in the world contributing to peacekeeping, a far cry from the halcyon days of Mr. Pearson. In 1993, when Prime Minister Chrétien took office, we spent \$12 billion on defence. We still do. Our NATO allies on average spend 2% of GNP on defence, we spend less than 1%. This is not failing the Lippman test; these results are so dismal it means that we should not even be writing the exam!

The decline in Canada's capabilities in military and foreign policy resources has a direct impact on Canada's ability to choose sensible policies and to influence the United States to stay on a multi-lateral course. It should surprise no one that security is the number one concern of American policy makers. The United States is a potential target for weapons of mass destruction. Canada can *never, ever* allow itself to be a security threat to the United States. In the days of the Cold War when Canada's airspace was vital to the defence of North America, Canada built and manned three radar networks to provide early warning. In NATO's early days Canada contributed to European defence, squadrons of F-86 fighter jets, then the best fighter aircraft in the world, months ahead of the United States! Terrorism is today a threat to North America similar in magnitude to the Soviet bomber menace in the Cold War, and we must make the same kind of decisions that we did in the era of Louis St. Laurent and C.D. Howe. Either we do the job properly, or the States will rightly insist upon taking its own measures. Both for the protection of our own citizens and to avoid such "defence against help," North America security must return to the priority it commanded in the 1950's.

Under the Chairmanship of John Manley, an ad-hoc Cabinet Committee on security has been meeting since September 11. This committee should become permanent and Canada should create a National Security Council to provide integration and consistent advice on security and international issues. Ottawa is organized vertically into silos like immigration or defence. But national security is a horizontal issue that involves a host of departments ranging from Customs, to the Coast Guard, to Immigration, as well as the core departments of National Defence, Foreign Affairs, the Canadian Security Intelligence Service, and the Royal Canadian Mounted Police. The mission of the National Security Council would be "the promotion of a way of life acceptable to Canadian people and compatible with the needs and legitimate aspirations of others. It includes freedom from internal subversion and freedom from the erosion of political, economic, and social values that are essential to the quality of life,"<sup>21</sup> a definition used by the National Defence College of Kingston, Ontario (now typically closed because of the 30% reduction in defence spending).

Over the next decade, Canada must double spending in the envelope of homeland security, foreign aid, diplomacy, and national defence. The 2001 budget had major increases devoted to homeland security needs in cross-border infrastructure and agencies like the RCMP and CSIS. The Senate Committee on National Security and Defence has since usefully pointed out major problems in the security dimension of Canada's ports.<sup>22</sup> Canada never had the "porous" border portrayed by the popular television drama "West Wing," but this belief is now an article in faith in many American circles, and in a country which knows little about its neighbour, this is a serious perception gap. Canada does not have to adopt American procedures and policies on homeland security, and the 30 point plan for a "smart border" for the 21<sup>st</sup> century jointly announced by Deputy Prime Minister John Manley and Homeland Security Director Tom Ridge in December 2001 is an example of shared, not unilateral, decision-making. But Canada does have to be proactive on homeland security issues, not only because clogged borders hurt the Canadian economy far more than the American, but because we must be acutely sensitive to the overriding security concerns of our neighbour. It should be Canada leading the way in suggesting new procedures and introducing new technology to ease flows at the border while keeping out undesirables. It should be Canada that has an up-to-date emergency measures plan to deal with potential catastrophes. It should be Canada that innovates in protecting the security of our ports and airports. We owe it to our own citizens and to our neighbours.

In the lead up to the G-8 summit in Alberta in June 2002, Prime Minister Chrétien announced an 8% annual increase in Canada's international development budget, leading to a doubling of aid resources by 2010. This commitment should be confirmed by a future Liberal government. If Afghanistan proved anything, it proved that the world cannot "ignore" failed states: here we can offer real leadership, along with Japan, the European Union and the United Nations who understand better than many of the American unilateralist champions that draining the swamp of terrorists requires that you fill in the ditch with productive earth. Trade is the critical piece of the puzzle. Nations in Africa and Asia rightly scorn the West for promoting free trade in theory but protecting agriculture and textiles at home. The Nordic countries lead the world in development assistance: Canada should lead the world in opening our borders to Third World trade. There is real power in being a moral example (not to mention the benefits to Canadian consumers).

Recent budgets have committed resources to homeland security and Prime Minister Chrétien has given a lead by increasing funding for development. But it is in National Defence where the need is greatest and where leadership has been most absent. The Auditor-General, and committees in both the House of Commons and Senate, have made an irrefutable case that just to maintain the military at the existing level of 60,000 troops will require an immediate increase to the defence base budget of at least \$1 - 2 billion dollars. To increase the military to 75,000 - 80,000 troops will require an annual defence budget of \$18 - 20 billion, instead of today's \$12 billion. This is a huge increase, but Canada has been under investing in the military for a generation. So limited has Canada's investment been for so long, that even doubling defence expenditures will only bring us up to the NATO average;. The Department of National Defence should receive annual budget increases of \$1 billion a year over the next several years until it can sustain a modern well-equipped force of 75,000 - 80,000 troops.

Canada's credibility gap in international affairs must be closed. We have tried to run an active foreign policy on the cheap but we cannot get away with such smoke and mirrors any longer. It is not national conceit to believe that Canada has something very valuable to offer to the world. In this unipolar moment, the world needs multilateral champions. If we match resources to our values, we can be in the forefront of those states committed to the liberal internationalist ideal. This will require a large shift in national priorities to make our capabilities match our commitments, but in so doing, we will reaffirm the ancient wisdom of Horace that "it is your concern when your neighbour's wall is on fire."

### The Canadian Way

Matching resources to Canadian values in international affairs will require one major realignment of priorities; giving Canadians real choices in their economic futures will require a second. A productive economy is both critical in itself - having meaningful and challenging work is one of humankind's most basic desires - and it provides the resources to give us choices in other areas such as social policy. The central issue of our time is how to deliver a superb quality of life through a productive innovative economy that makes the world of deep integration work for us, not against us. If we do not succeed in engineering the Canadian advantage or the "Canadian Way," as the Conference Board puts it in a recent report, then our half of North America will languish, our children will move south, and our corporate assets will be picked clean.<sup>23</sup> We need a strategy that will, if fifteen years, enable us to match the United States in per capita income and to surpass them in a generation. This

radical reversal of recent trends will not occur through incremental steps: in a competitive world we need an economic strategy that will break us out of the pack.

The Canadian Way in domestic policy should follow the same precepts that I have advocated in international policy – an investment strategy of major proportions. As in security matters, there are competing camps in Canadian public opinion on how to respond to a world of deep integration. Some still, emotionally reject globalization and fight it in all its forms. Others have given up on Canada’s ability to chart an independent course and recommend a common currency and even joining a custom union with the United States. The reactions of those worried about globalization are understandable: these are issues of democratic accountability about a world in which private trans-national corporations and financial traders have so much power. But I have never understood those who want us to give up such crucial instruments as monetary policy when they have worked so well for us in the recent past. During the negotiation over the Canada-U.S. free trade pact, for example, the great worry of Treasury Secretary James Baker was that Canada would gain U.S. market share by depreciating its currency. That is exactly what has happened. The floating exchange rate, supported by the Bank of Canada, has given Canadian suppliers a decade of competitive advantage vis-à-vis the strong U.S. dollar. This is not a result that can be sustained forever. In time, as current account surpluses pile up, Canada’s dollar will increase in value and Canada’s suppliers will have to compete on quality, but it is monetary policy that has allowed Canada to adjust so well to continental integration. One only need look to Argentina to see the dangers in tying yourself to someone else’s currency.

In creating a distinctive polity in the northern half of North America, the Canadian Way should reject both the institutional integration model of the European Union and the individualistic minimum safety-net approach of the United States. The Euro shows the difficulty of maintaining a one size fits all currency while the cumbersome decision-making procedures of the Union often led to a lower common denominator outcome. The ability of the Canadian Parliament to take decisions quickly is an essential component of the Canadian advantage. Pooling sovereignty between Canada and the United States would also create a problem the Europeans do not have: the overwhelming weight of one of the partners. Institutional integration leads to dependence not enhanced autonomy.

The American model of low taxes reduced public investment, and weak or non-existent social safety nets would also not be in Canada’s interest. Canada has a history of public enterprise and collective investments in key areas like education, health, infrastructure, and poverty reduction will be as important to our future as they have been in our past. Franklin Roosevelt said that taxes are the price we pay for civilization and in order to pay for the investments called for in this paper, Canadians must be prepared to continue to pay a higher percentage of tax than their American neighbours. Rates between tax categories should change - I favour reduced business taxes and increased consumption taxes – but the affluent will continue to pay significantly higher taxes in Canada. It took us a decade to get out of the deficit hole: it will take a decade more of debt reduction and public investment, before Canadian rates on personal income tax can be significantly reduced. A liberal approach to the Canadian Way should explicitly reverse the approach of Ontario and British Columbia of cutting taxes first and making public investments later.

In developing the “Canadian Way”, Canada’s independent monetary policy shows the value of using what instruments you can to create an advantage. There are many other policies that can be fashioned in a similar way: immigration levels should be increased both to provide

skilled workers and to reduce the aging of Canada's labour force; retirement policies should be revised so that Canadians over 65 can still contribute to the work force if that is their choice (skilled labour shortages not unemployment will be our problem in the future): Canada must finally achieve a real internal domestic market – it is ridiculous to have more open borders between Canada and the U.S., than between Ontario and Quebec; and Canada should broaden our trade horizons beyond the United States by seeking out additional trade pacts with Japan, the European Union, and Latin America. But four policy areas should have special political priority: debt reduction, livable cities, tax reform, and investing in children.

In providing choices for future generations, nothing is more important than maintaining budget surpluses and gradually paying down debt. This realization came home to me in a very personal way in my years in working for Pierre Trudeau: in the early 1980s, inflation was high, interest rates were over 20% and with the federal government already running a large deficit, there was little fiscal room to stimulate. Unemployment soared but there were few real immediate options. The policy cupboard was bare. We simply had to let the interest rate policy take its course. No Canadian policy maker should ever be in such a handcuffed position again. After an immense national effort, ably led by Jean Chrétien and Paul Martin, the federal government is now finally in fiscal surplus. Short of war or a national emergency, it must stay in surplus. The investment strategy I am advocating requires surpluses of \$8 – 10 billion a year. If this figure cannot be attained on current projections, then consumption taxes should be raised. Investment instead of consumption is the bedrock for providing future choice. The current policy of making annual reductions in Canada's debt is also wise. Every nickel saved in interest payments is a nickel that can be used in future investment. At present, Canada's debt to GNP ratio is projected to fall to 40% from the sky high levels of the 1990s: within a decade through higher growth and annual continued reductions, this ratio should be further reduced to 25%. The potential for international economic turbulence is high: Brazil, like Argentina may be the next economic domino to fall and even mighty Japan is having trouble selling its bonds. Prudence should dictate that in an uncertain world you reduce your own vulnerability. Where possible, the provinces should also be encouraged to reduce debt: in Atlantic Canada, for example, there is a real sense of grievance that as their energy resources increase tax yields, the federal government reduces equalization payments. There is little real incentive, except pride, to move from dependency. Instead, the federal government should maintain the equalization formula but direct a portion of the federal transfer to paying off provincial debt. Only when the provinces are out of debt, should equalization payments be reduced.

Jobs are created by productive enterprises. Where companies locate and where they expand are two crucial corporate decisions which Canada's public policy must influence if we are to succeed in giving Canadians real economic choices. The Canadian Way in health care, for example, responds to Canadian values but also gives companies in Canada a real advantage because the state pays for health insurance for workers, rather than corporate coffers. In making a location decision for North American investment, all things being equal, most companies will either settle in the United States because of transportation costs and closeness to markets or in Mexico because of lower wages.<sup>25</sup> One key factor in a firm's decision is the quality of infrastructure which means defacto the quality of Canada's cities. Cities are, of course, more than economic entities: they express our sense of community, our devotion to public space and beauty, and they reflect, too, our diversity and notions of justice. But as Jane Jacobs first educated us, and as a host of analysts have confirmed since the publication of *The Death and Life of North American Cities*, cities are also engines of economic life and incubators of creativity.<sup>24</sup> To have a strong economy in the 21<sup>st</sup> century, Canada needs

thriving, safe, clean, innovative cities where senior executives and employees alike want to live. Continuing investment in urban infrastructure – mass transit, water and sewage, and low-income housing – is both an economic and social priority. In 1945, the forward thinkers of Canada’s post-war reconstruction strategy proposed to the provinces a plan in which the federal government would pay 20% of approved capital projects on an ongoing basis. We need such thinking today. Infrastructure should be removed from the stop and go of public works politics to become the mission of a new federal-provincial-municipal foundation charged with joint planning and prioritization of our infrastructure needs. To be effective such a body needs a guaranteed revenue base, so that it can plan for the long-term. Such a body will also give municipalities a place at the decision-making table.

Infrastructure is one location variable subject to public policy. Taxation is another. Canada has the reputation of being a high tax country, and even with the reductions in corporate tax announced in the 2001 budget, at a 40% rate, Canada is just in the middle of the pack in the cost of doing business. The United States still has significant advantages. Head offices and global champions matter: they create wealth, they invest disproportionately in their home countries, they form hubs of activity in inviting and retaining people, ideas, and capital, and they provide the intangible but very real need for Canadians to be decision-makers, not just decision implementers.<sup>25</sup> If we do not have great Canadian companies at the top of the global game, then Canadians will simply join companies headquartered abroad. Smaller countries like Sweden, the Netherlands or Switzerland have been far more successful in attracting and retaining head offices of major global players than Canada. Part of the problem is branding: as a member of Harvard’s executive teaching program, I have visited scores of influential decision-makers in Europe and Asia (as part of an American delegation). In such meetings, one quickly learns who is in the buzz and making an impression on an international audience. For many years, one could not attend such international gatherings on public policy without hearing of Ireland; more recently the example of Finland is often touted. South China attracts enormous interest. Rarely, if ever, is Canada mentioned. We are simply not on the international radar screen.

One way to establish a brand and influence corporate decision-making is to move as boldly on taxation as we did on ending the deficit. Our mantra should be: be daring, be first, and be different. The cost of doing business in Canada must be radically improved. Payroll taxes, which are taxes on jobs, must be reduced, especially the employers contribution to unemployment insurance. Business capital taxes hurt enterprise, because the tax is paid whether or not companies make profits. When Ireland decided in the mid-1980s to cut corporate taxes to less than one-third of Canada’s rate and to make tuition free for university students, this combination of reducing the cost of business and investing in brains, created the “Celtic Miracle” and Ireland enjoyed the fastest economic growth in the industrialized world.<sup>26</sup> Canada must do the same. We must not only reduce corporate taxes to U.S. levels, but we should significantly go beyond them. Corporate tax-cutting is one means within our direct span of control to offset the many locational advantages of the United States. Tax reform – to encourage savings, to promote investment and to reduce the cost of doing business – is the best single way to manufacture a Canadian advantage. Our international brand should be to have the world’s most intelligent tax policy.

Lastly, the phrase “lifetime learning for a knowledge economy,” has been a slogan not a policy. Canada has a good education record but not an exceptional one. Here, too, investment is needed. At present, Canadians can put money away in registered education plans for students studying full-time at institutions. This should be extended for lifetime

learning and professional development. If Canadians save to educate themselves, they should be encouraged. Companies contributing to individual education accounts should therefore get a credit and individuals saving for education should get a deduction similar to the Registered Retirement Savings Plan.

Investing in people should also be concentrated where the need is greatest and where the need is broadest. Aboriginals face the most obstacles in our society. And low-income children, as a group, are the largest number of Canadians who lack real choices. If there is a “silver bullet” in Canadian public policy, it is the work on Early Years education by Margaret McCain and Fraser Mustard.<sup>27</sup> Canada has 1.3 million poor children or 20% of Canada’s youth. It is no coincidence that Canada also suffers from a 20% dropout rate. Within the next decade, Canada should eliminate child poverty. Like Medicare, this investment in the social good will also provide immense economic benefits. The National Child Benefit should be increased on a fixed schedule until families are over the low-income line. This schedule should be tied to the \$100 billion in tax cuts announced in the 2001 budget. As taxes come down, so too should child poverty. Norway and Sweden have child poverty levels of only 3%: improving the life chances and choices of Canadian children by reaching similar levels within a decade should be Canada’s next great social advance. Canadians should never forget the wisdom of Diogenes that “the foundation of every state is the education of its youth.”<sup>28</sup>

## Conclusion

The language of priorities must be the religion of reform. Taking office in 1993, the Liberal government of Mr. Chrétien rightly made deficit reduction and macro-economic management the overriding national priority. It took two terms but the macro-economic policy framework of Canada is now one of the best in the world, and the results are beginning to show. Canada should lead the OECD in economic growth in 2003. In the decades ahead, we require the same kind of devotion to the investment needs of the micro-economy. To provide enhanced choices for Canadians we must continue to keep the budget in surplus and, where possible, reduce debt. Within this prudent fiscal framework, over the next decade we must attain annual surpluses of \$8 – 10 billion which will give us the resources to invest in urban infrastructure, corporate tax cuts, life-long learning, and ending child poverty. By choosing the Canadian Way of public investment rather than the fixes of adopting the US currency or a customs union, Canada can become the best location in North America to do business without a reduction in autonomy. Canada’s margin of manoeuvre will be further enhanced by a steady commitment to debt reduction. While investing domestically, Canada must also forgo our recent habit of starving our military and letting our international development goals shrink. The world needs multi-lateral champions both to continue to build an international community and to serve as a counterpoint to the unilateralist impulse of some American decision-makers. Preaching won’t do the trick but constructive engagement will. To govern is to choose. If we choose well in the next decade, we can ensure that future generations of Canadians will continue to have real choices when they take up the democratic responsibility of defining the good life for themselves.

## Notes

1. John McCallum, then Chief Economist of the Royal Bank, now Minister of National Defence, told the University of Waterloo in a February 2000 lecture that Canada risks seeing its standard of living slide to only 50% of that in the United States and that without a fundamental policy change Canada would “slide into Americanization and a major challenge to the long term survival of Canada’s distinct identity.”
2. Quoted in Richard Gwyn, Nationalism Without Walls (Toronto: McClelland & Stewart, 1995), p. 9.
3. D.W. Brogan, The American Character (New York: Time Inc., 1944), p. xlvi.
4. Wilhelm von Humboldt, The Limits of State Action, ed. J.W. Burrow (Indianapolis: Liberty Fund, 1969 edition), p. 10.
5. Ibid, p. 10.
6. Quoted in John Adair, Great Leaders (Guilford, Surrey: The Talbot Adair Press, 1989), p. 74.
7. Amartya Sen, Development as Freedom (New York: Alfred A. Knopf, 1999), p. 17.
8. Robert O. Keohane and Joseph S. Nye Jr., Power and Interdependence. (Boston: Little Brown & Co, 1977), pp. 27-29.
9. Charles Krauthammer, “The Unipolar Moment,” Foreign Affairs (Winter 1990-91), pp. 23-33.
10. Hubert Veldre, France in an Age of Globalization (Washington, DC: Brookings Press, 2001), p. 2.
11. See Paul Kennedy, The Rise and Fall of the Great Powers (New York: Random House, 1987).
12. See, for example, Anthony Lake, Six Nightmares (Boston: Little Brown & Co, 2000).
13. See the New York Times March 9, 1992, “U.S. Strategy Plan Calls for Insuring No Rivals Develop,” by Patrick Tyler, p. 1.
14. New York Times, September 20, 2003, “Bush to Outline Doctrine of Striking Foes First,” by David E. Sanger, p. 1.
15. Quoted in Henry Kissinger, Does America Need a Foreign Policy? (New York: Simon and Schuster, 2000), pp. 238-239.
16. For a fascinating review of the history of American foreign policy see Walter Russell Mead, Special Providence (New York: Alfred A. Knopf, 2002).
17. Michael Hirsh “Bush and the World,” Foreign Affairs, (September/October), p. 20.
18. Walter Lippman, quoted in Walter Lippman and the American Century by Ronald Steel (New York: Vintage Books, 1981), p. 406.
19. Henry Kissinger, White House Years (Boston: Little Brown and Co., 1979), p. 383.
20. Quoted in the Report of the Standing Senate Committee on National Security and Defence, “Canadian Security and Military Preparedness,” February 2002, p. 51.
21. Ibid, pp. 108-116.
22. See, The Conference Board Report, Performance and Potential 2001 – 2002, Ottawa, 2001.
23. For a good discussion of the location decisions of firms see Jack Mintz, Most Favoured Nation (Toronto: C.D. Howe Institute, 2001), pp. 5-25.
24. Jane Jacobs, The Death and Life of Great American Cities (New York: Vintage Books, 1961).
25. These points are made well in Thomas Paul D’Aquino and David Stewart-Patterson, Northern Edge (Toronto: Stoddart, 2001), pp. 217-262.
26. Ibid, p. 248.

27. For a follow-up on what has happened in Ontario to the Early Years study note The Toronto Star, September 6, 2002, "Broken Pledges on Early Years," by Vanessa Lu, p. 1.
28. Adair, Op.cit, p. 143