

## In these economic hard times, divided we fall

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Stephen Harper and his Conservatives can once again call themselves "Canada's new government." But to govern in hard times, they will need to adopt a different style from what we have seen in their first term in office.

First, Ottawa has to find a way to co-ordinate action with the provinces and territories, just as leaders of the industrialized countries have had to co-ordinate actions in recent weeks, despite their natural tendency to do their own thing. Second, policy makers must be wary of deeply held views about the role of government. As U.S. Treasury Secretary Henry Paulson discovered, such views can lead to serious policy errors.

Mr. Harper's old style of government put the provinces and territories in a separate compartment from the federal government. His main way of dealing with issues that spilled from the federal to the provincial compartment was to send the province a cheque. Meetings involving heads of government were rare, short and poorly planned. No attempt was made at problem solving. Previous governments invested more effort but too often got bogged down by a long history of mistrust and one-upmanship.

In economic hard times, failure to work together will be intolerable. The reason we have a federation is that Ottawa and the provinces share the same economic and political space. And a key function of federalism is to pool risks when the going gets rough.

All the regions of the country are vulnerable in this downturn. The Canadian economy, taken as a whole, is diversified. But we have a lot of one-industry provinces: forestry in British Columbia, autos in Ontario, oil and gas in Alberta and, increasingly, Saskatchewan. When all these industries face a downturn at the same time, sharing risk becomes a bigger challenge.

In past recessions, governments could count on the "automatic stabilizers" built into tax and spending policies to moderate the impact of recession on people and regions. But two of the most important federal automatic stabilizers - equalization and employment insurance - are broken. And in both cases, the compartments are not watertight - they spill over, big time, to the provinces and territories.

Look at the equalization system used to raise the tax revenue per capita of the poorest provinces to a common standard based on the 10-province average. TD Economics forecasts that Ontario will become a poor province by that standard in 2009, and thus become eligible for equalization payments. Since more than one-third of federal revenues come from Ontario taxpayers, they will be paying a big chunk of the bill. How sustainable is that?

And look at the Employment Insurance system. It used to provide a minimum income to about 80 per cent of the unemployed, but in 2004, only 44 per cent were eligible. The fact is that large numbers of unemployed will have no income protection in this slowdown. (The most vulnerable are the people in the insecure jobs in retail trade, food and accommodation, which are concentrated in the cities.) The rules are now so twisted that only 22 per cent of the unemployed people in Toronto and Ottawa are receiving benefits.

If the unemployed can't get EI from Ottawa, their only choice is to apply for provincial social assistance. But they can only access social assistance if they have assets of less than \$5,000. (That's in Ontario; the limits vary by province.) Since many will be poor enough to qualify for social assistance, provincial spending will increase.

With these two policy instruments impaired, and the world economy heading into a slowdown, federal and provincial governments will have to find new ways to moderate economic hardship. This challenge cannot be met if governments work on their own.

The first priority then is to abandon the infrequent and unproductive dinners at the Prime Minister's residence and establish a regular forum for constructive engagement among 13 governments whose job is to serve Canadians in good times and hard times.

That regular forum should involve heads of government, but should be supported by regular meetings of other ministers, especially finance ministers and social services ministers.

It has to be a place where governments can establish a common understanding on the state of the economy and society and make a genuine effort to solve problems rather than hand out Band-Aids. Above all, they should give each other advance notice of planned actions.

It will take time to fix equalization and EI. In the meantime, they can begin a series of strategic investments that will help the country to achieve longer-term goals.

For example:

Get ready for the next oil price shock through investments in energy conservation, a national energy grid and renewable energy.

Use the downturn in construction to build affordable housing.

Create career options for recent graduates and new immigrants to help them gain useful work experience now and to avoid severe labour shortages down the road.

The Prime Minister and the premiers are now scheduled to meet on Nov. 10 to discuss the turbulent economic situation. It's up to the Prime Minister to use that occasion to initiate more constructive engagement with his colleagues. They can begin by setting the ground rules to make federalism work better in a period of hard times.

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