

“The Audacity of Common Sense”

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One of the biggest challenges for anyone trying to prescribe a relationship for Canada with the U.S. is to separate the emotional or psychological undercurrents in Canada from common sense. Relationships between countries are driven by a combination of interests and sentiments. This is only normal. Canadians reflect a wide range of sentiments about "America" – from a clear sense of power inferiority to more than occasional spasms of moral superiority – and with a hodgepodge of often contradictory impulses between the two. But, the balance between interests and sentiments is often out of kilter. The fact that most Americans have a generally benign view of things Canadian – that is those who think about us at all – only compounds the challenge of finding common ground. In Canada, it takes political courage to climb over the emotional constraints and there are few rewards for those who do. It is often easier to "keep a safe distance" or, worse, measure our significance as Canadians by the manner or frequency with which we differ from the U.S.

These attitudes limit the margin of manoeuvre for Canadian governments, especially minority governments. Efforts to work with the U.S. on either bilateral or global issues of common interest are inevitably criticized as 'kowtowing' or 'going along' with U.S., not Canadian aspirations. This juvenile reflex by the media and others is a major reason why Canadian politicians approach the U.S. relationship with a degree of trepidation.

Witness the attempts in our election – notably in the debates and the most recent TV ads - to tar Stephen Harper with the brush of George W. Bush, under-coated by some with unadulterated streaks of anti-Americanism.

Given the spectacular collapse of U.S. financial markets, stock market turbulence and the clumsy attempts by Washington to respond sensibly to the crisis, one might well wonder why any approach to the U.S. by Canada or any other country would be worth the candle. The "gloom" is spreading quickly and globally. While the new Administration will obviously be pre-occupied, if not overwhelmed, by this domestic debacle I would argue that the implications of what is happening extend well beyond the U.S. and call for heightened vigilance, creative thinking, cool heads and deliberate action by all whose interests are integrally linked with the U.S. economy. As Si Taylor points out, apart from anti-Americans in Canada, few in this country will take satisfaction in seeing their great neighbour awash on such a sea of troubles.

I have chosen tonight to try to provide some grounding or grist for the efforts of our authors as they search for new prescriptions on key issues in our relationship and at a time of real uncertainty. They are not, of course, obliged to endorse any of my views ... but I hope this will prod some good debate tomorrow.

To make it somewhat topical given events next month, the title for my remarks is "The Audacity of Common Sense." Because, when I thought about the issues on our agenda – and the concerns we have about each – I was struck by the simple fact that what many of us believe is needed is a clear prescription of common sense, moreso in the wake of the financial debacle.

Where a degree of common sense would be most relevant in the first instance would be on the fundamental debate of trilateral versus bilateral approaches to this relationship. The allure of trilateralism was meant, in part, to temper the risk of bilateral association. You tell me whether it has really helped.

I am open to debate on this but let us at least knock down some shibboleths. Proposing greater emphasis on bilateral vs. trilateral approaches to the U.S. should not be seen as disparaging or neglecting Mexico. That is just silly. Rather, recognizing the primacy of the bilateral relationship is a profound expression of two simple facts:

1) the priority issues of concern to Canada vis-à-vis the U.S. are bilateral not trilateral in nature and quite different from the bilateral concerns of Mexico with the U.S. and;

2) the modest results from efforts in recent years to give substance to a trilateral dialogue have proven the limitations of this approach. I would argue, in fact, that trilateral meetings of the heads of the three governments may have contributed to high level neglect or inattention to key bilateral issues and concerns by all three.

Giving greater and more consistent attention to our bilateral relationship does not preclude doing more trilaterally where it makes sense to do so but let's put the priority where it belongs.

The most serious threats to Canada's well-being are a breach of security along our shared border or a severe bout of protectionism in the U.S., aggravated these days by the financial convulsions on Wall Street, as well as by deeper concerns about the U.S. economy. The best defence against these potential threats is, quite often, a good offence.

Consider the border and the manner in which we have allowed an initiative that was intended to be "smart" in the wake of 9/11 become dumber and dumber. Instead of seeking ways to alleviate the congestion caused by the U.S. fixation on security, Canadian officials (according to Perrin Beatty) seem not only to tolerate new procedures, but also seek ways to emulate the Americans with more of the same. That really is silly and double trouble for all who depend on smooth border transit.

What is happening now at our shared border makes no sense whatsoever for either country. New inspection and identification procedures spell long lines, delays, frustrations and extra costs for 'just in time' deliveries. The situation cries out for wholesale reform, balancing genuine security concerns with the overwhelming need for efficient movements of people, goods and services. Real concerns about security in North America should be addressed in a pragmatic, rational manner. The 'one system fits all' approach in the name of a "war on global terror" is the antithesis of common sense. We should contemplate measures to increase security at the perimeter of both countries in order to ease congestion along our land border. The drive for substantial reform can only come from the top in Ottawa and Washington. It should be our #1 priority in a first meeting with the new Administration.

Americans do harbour concerns about Canada's immigration and refugee policies which, as seen through their exaggerated security lens, embolden stricter surveillance procedures at the border. Some perceptions are based on fact; many however stem from myths initiated and perpetuated by the Department of Homeland Security. We need to make the distinction very clear and, where there are real weaknesses or gaps, we need to take remedial action. (We are unlikely to make much progress on this by urging the U.S. to emulate Canadian immigration policy.)

To those who say Canada has to be treated equally with Mexico, I say think again. America's problems with the Mexican border are primarily about drug trafficking and illegal immigration. Neither of these is a priority concern on the northern border. (Incidentally, I hate to disabuse Robert Frost but good fences do not necessarily make good neighbours. In fact, fences are unlikely to be much of an answer for either border.)

As Katie Macmillan has proposed, one simple remedy to border thickening would be a concerted effort to remove impractical differences between us on standards and regulations. In Canada, fortified orange juice is classified as a drug; in the U.S., it is a food product. Why the difference?

In Canada, anti-theft immobilizers are required on all new vehicles; in the U.S., lower cost, new entry vehicles are exempted. Again, why the difference?

Part of the reason why new cars from the same manufacturers are 30 – 50% more expensive in Canada lies in differentiated standards that make no practical sense and undermine the merit of “free trade.”

The narcissism of small differences should not hobble our ability to gain efficiencies from the increasingly integrated nature of our two economies. That is fundamental, common sense.

Shirley George’s paper, along with the contributions by other authors on the topic of the border, give substance to these concerns and offer practical prescriptions that would provide instant relief to exporters on both sides assuming there is the political will to make changes. I welcome in particular suggestions of pilot projects and new institutional concepts that would energize needed reforms.

Patrick Grady estimates that congestion at the border has caused a 12% decrease in exports of Canadian goods – excepting energy and forest products – and 8% lower exports of services. These numbers need more elaboration. It would also be beneficial to have comparative data on U.S. exports. But the trend is obvious to anyone who has experienced the hassle of contemporary border transit.

To improve competitiveness more generally, we also need to take a hard look at our tax regime – federal and provincial. Instead of tweaking our system with features distinct to Canada, by shutting down efficient cross-border tax planning structures in a way that harms only indigenous Canadian companies, or adding new complexities to already cumbersome tax rules, common sense would suggest that we contemplate reforms that would make our system less discriminatory, more efficient and more competitive.

The Advisory Panel on Canada’s System of International Taxation – established after some of the more peculiar initiatives were inserted in recent budgets – should help the government recover lost ground on tax competitiveness. While this is something that can be done unilaterally, it is myopic to think that we can make changes to the international tax system in Canada without taking due account of the implications globally. Basic, basic common sense.

The Rotman School’s Roger Martin, among others, has pointed out that businesses in Ontario underinvest in their companies because of that province’s high taxes, adding that their marginal, effective tax rates on investment “are among the highest in the world.”

The debacle in U.S. financial circles is having repercussions extending well beyond the U.S. and is certain to trigger a series of Congressional initiatives on regulatory reform. The run-up to elections is probably the worst time for sensible remedies. We have to hope that the massive bailout injects a degree of confidence and some stability into financial markets but it is no panacea. Whether new regulations are ever the answer to fundamental greed is also a good question. But the systems of risk management clearly did not work and there is genuine scope for reform to counter excesses and abuses.

The impact on the U.S. economy and on those, like Canada, that are heavily dependent on that economy, will be serious for some time to come. The priority for the new Administration will inevitably be riveted on settling the aftershocks and inspiring necessary confidence. The structural and fiscal flaws in the U.S. are apparent. The solutions less so. The relative stability of our own financial market will not make us immune from the downdraft but that, and our more stable fiscal situation, should give us a credible voice to register in Washington to help calm markets and possibly to avoid counter-productive regulatory impulses.

Each author needs to consider carefully whether or how events of recent weeks prompt changes to their analyses or to their prescriptions.

Ironically, the one bright light in the U.S. economy of late has been the growth of exports. Never forget that Canada is the U.S.' largest export market.

The economic malaise in the U.S. will prompt some to suggest that efforts to stimulate more with the U.S. could be a waste of scarce political capital. We hear talk about Free Trade with Europe or something similar with the major Asian economies. Nothing wrong with either provided the enthusiasm is not unilaterally Canadian. History demonstrates that efforts to diversify away from the U.S. tend to reflect more of a political than a commercial agenda. In any event, I would argue that a common sense approach to initiatives with the U.S., intended to improve our mutual competitiveness, would strengthen, not weaken, Canada's negotiating position with others, should there actually be substantive, reciprocal interest.

When you think about energy and the environment, the issues require not a special approach but a common sense, mutual or parallel undertaking, reflecting the integrated and dependent nature of our energy market along with our shared interest in preserving what is, in fact, a shared North American environment. It should not be a contest of who can do more or better. It should more accurately be a basis for common approaches to a realistic goal. Today we have a spaghetti bowl of individual and conflicting initiatives – federal, provincial and regional – some of which are sadly devoid of practical, let alone common sense. Peter Burn and André Plourde offer some interesting recipes to try to make the spaghetti more digestible.

Our North American defence relationship would also benefit from the kind of common sense analysis which David Bercuson is providing. We should consider ways of building on the success of NORAD and broaden both the scope and the command structures in North America to serve our mutual desire for a more secure perimeter without paralyzing our need for unfettered commercial flows. That would be a sensible approach to real concerns about security. Recent, aggressive moves by Russia in its immediate vicinity and in our southern hemisphere may signal a trend to more provocative action globally and may actually give NORAD and NATO a second lease on life!

And by the way, the common approach to the defence of North America, which anchors Canada – U.S. relations, is another major differentiator vis-à-vis Mexico and one which illustrates clearly the limitations of trilateralism.

As does the Arctic – a region where, even though we have clear legal differences with the U.S., I would suggest that common sense should stimulate cooperative actions that would serve tangible and shared defence, environmental and commercial concerns. As Don MacRae reminds us, the issue is not so much Canadian sovereignty but Canadian stewardship of this vast region.

It may indeed be audacious for any Canadian government to tackle these issues, even from a basis of common sense. And there is no guarantee that we would receive a constructive response from Washington no matter who wins in November. The new President will, as I have said, have a full plate of demands – domestic and global – and issues with Canada will not feature prominently or automatically. The first challenge for our (new?) government, therefore, will be to get Washington's attention – demonstrating in compelling fashion why common sense solutions to the border, for competitiveness, for energy and the environment, for security and for the Arctic make sense and offer genuine value to both countries, especially at a time when the U.S. economy is struggling.

It is not really relevant, however, to worry about whether or how the U.S. may respond until we know more precisely what it is Canada intends to propose and whether we are prepared to commit the necessary political capital to attract and sustain U.S. attention. What is certain is that, if we do nothing by way of preparation, we will get nowhere in breaking down barriers to sensible reforms.

After literally decades of involvement in this relationship, I have also learned that careful, consistent cultivation of a more constructive, common sense relationship with the U.S. is best complemented by a broader approach to foreign policy with elements that Canadians can see as distinctively theirs. This may, in fact, be an essential corollary to balance what most acknowledge is the need for prudent management of relations with the U.S. ("Prudent" always, of course, being open to definition.)

Since we are in Alberta, I will try to explain what I mean more precisely with an anecdote involving Joe Clark, who, as our Foreign Minister, met quarterly with his American counterpart, Jim Baker, in the early 1990s. The agenda was usually a mix of "meat and potatoes" bilateral issues (actually beer and lumber) along with topical global issues of the day.

On one occasion, towards the end of the day in a session at the U.S. Consul General's residence in Bermuda, Mr. Clark volunteered a new topic – "Northeast Asia security" - much to the surprise of his American counterpart. This was at a time when the Soviet Union was imploding, sending positive shock waves across Europe.

"How many troops do you have in Northeast Asia, Joe?", asked the Secretary of State. "Well, none, actually" was the answer "but I do see it as a potential flashpoint for conflict, nonetheless." And this was well before North Korea's nuclear ambitions had disturbed the world stage.

The discussion was brief and inconclusive but, on the return flight to Washington, Jim Baker asked me what had prompted Joe to raise the topic. I explained it this way:

"Have you ever wondered what it is like to be Canada's Foreign Minister?" (Clearly, he had not.) "Every day, you wake up and look out the window and there is a huge elephant blocking your view of the world. Everywhere you look, the shadow of the elephant looms large. Everywhere you travel, people ask about the elephant, rarely about you or your views." So, I said, "that is why Canadian Foreign Ministers, as a matter of habit, look hard to define some space on a global issue where the U.S. imprint is not predominant." I cannot say it made much impact on Jim Baker but I have often thought about that exchange and I am convinced that, because of all our neuroses about "living alongside the elephant", Canadians do want to see their government doing something distinct in the world, something with which they can identify and which differentiates to some extent with what the U.S. is doing.

Not necessarily Northeast Asia security, perhaps, but Bruce Jentlesen has provided some ideas to help scratch that unique, Canadian itch, as has John Graham, and I hope we will spend some time on this theme. I genuinely believe it is necessary in order to balance an audacious, common sense approach on bilateral issues to the new U.S. Administration.

It may involve a more substantial commitment in our own hemisphere or a concerted approach to reform some international agencies that seem to have lost their bearings. It might well be the Arctic, where Canada has real security, environmental and commercial interests. Other countries are asserting their, often conflicting, interests in the Arctic and the Harper government has already signalled the promise of new patrol ships, bases and an ice-breaker, all to assert and defend Canada's sovereignty. Does this type of initiative have more legs and, if so, what more is needed?

In my view, the ideal would be a commitment on foreign policy that complemented a more robust approach to the U.S. History shows that efforts to differentiate simply in order to be different rarely serve genuine Canadian interests. What Michael Hart has called Canada's "feel good" approach to foreign policy. Too often, they involved more posture than substance and lacked balance as well as common sense.

But before we define a corollary, we need to decide how best to reinvigorate and recalibrate relations with the U.S. It will take equal parts of commitment and persistence by our government to pursue a common sense agenda. Despite all the emotional baggage, Canadians generally expect their government to manage relations with the U.S. effectively. Grandstanding over differences does not cut it unless you merely want a headline in the Toronto Star.

To give impetus to a more robust bilateral agenda Canada should, in the first instance, propose that annual Summits be reconstituted between the Prime Minister and the President. That would offer the opportunity for firm direction and for the necessary therapeutic push on both bureaucracies. It has to be top down, to ensure priority attention in both capitals. It will only be successful if it flows from a foundation of mutual trust carefully led and nurtured by the two leaders – as Robin Sears has highlighted – and with an agenda of goals that are attainable. Canada will have to take the lead on this with ideas and will have to demonstrate convincingly that what is being proposed carries mutual benefit. The whole point of Carleton's project is to provide a body of compelling research to underpin such an initiative. Above all, I hope that the blueprint we present will move beyond attitudinal constraints and give our government some practical ideas to implement.