

Session 6: Public Policy, Inequality and Growth/Politiques publiques, inégalité et croissance**Panelist, John McCallum, Member of Parliament**

Good afternoon, bonjour. Many of the people here I've known for a long time, but I think this is the first time I've seen any of you in my new capacity as, a politician. So just in case any of you economists are thinking one day of becoming a politician, let me tell you one quick story in my case of this transition. It was Markham, day 2 of the campaign and the people thought it was time I got out there and pounded the flesh and went door to door. It's one thing to give a talk like this, it's another thing to go up to someone you don't know and say, hey will you vote for me. So they were starting me out easy, we went out to a grocery store, Loblaws, just to meet people coming out and it happened we had a Toronto Star reporter and photographer in tow. And so we went up and I was a little nervous, but I saw this man and I said how do you do. And he recognized me and he shouted at me in the most unprintable language for about 5 minutes, and it rapidly became apparent that if there was one thing worse for him than a Liberal, it was a bank economist running as a Liberal. However, having already become a consummate politician I just marked this gentleman down as undecided and continued on my way. Actually he was atypical, but it is a true story.

I guess my feeling now is one of what you might call a triple freedom. Freed of a substantial chunk of my previous income. Freed of the need to pretend that I have a clue what the Canadian dollar will be worth a year from now. I mean really, give me a break, nobody knows that. And freed of the need to pretend that John Crow had nothing to do with high unemployment in the early 90's. So I can now say Pierre Fortin was right. I did say that once in very guarded terms at the Royal Bank, and the next day I woke up on a Saturday and there was the Globe & Mail headline, Royal Bank rips into Bank of Canada. But I think John Crow was pre-Liberal, so I'm now free to speak my mind.

Anyway, to get to the serious matters. The next thing on my notes says excuses. Well, I wasn't intended to be on this panel, I was a last minute addition, I couldn't make it until today so I didn't have the benefit of the earlier sessions and this isn't exactly an area of my former expertise. But having made these excuses, let me go on anyway.

What I'd like to do is focus on a longer-term question. I would contend that what you might call the default position or the control solution is that if you take a long-term point of view, like say 10-20 years from now, Canada will evolve increasingly into an Americanized country and will become in many respects undistinguishable from the United States if we don't do anything about it. And so we could see for example, harmonization of taxes, harmonization of tariffs, we could even see, if Tom gets his way. dollarization. And notice however, that harmonization is a euphemism because who do you think will harmonize to whom? Harmonization is a euphemism for copying everything that the Americans do. And North American common currency is a

euphemism for using the U.S. dollar. So I would contend that if we don't do anything about it we will gradually or not so gradually evolve to this indistinguishability from the United States in terms of our policy structure. And if you copy them on taxes and tariffs and everything else, sooner or later you'll be pressured to copy them on social policies and other things of that nature and then we will converge to U.S. levels of inequality. So given that the nature of this conference is concerned with inequality, I don't think that's a path we want to follow.

Or at least I for one don't want to follow that path. You may say that's a value judgement or a political judgment. Well that's OK for me because I'm a politician now.

So the question is how do we avoid that path. And as I think Jack Mintz has said, I've said this as well, I think our objective should be not to just copy the Americans in everything they do, but in a selective way to do better than the Americans. And I'll give you a few examples of that in a minute. But I'll first say, and I think Toni Courchene said the same thing, that we'd all agree we want to find that combination of policies which maximizes or optimizes both wealth creation and growth on the one hand and our desire for a strong social fabric or whatever you want to call it on the other hand, And I think John Helliwell's work gives us some comfort that the inevitability of Americanization or the alleged smallness of the margin of manoeuvre of national governments is exaggerated by some of the proponents of globalization. He has demonstrated (well I did too before and then he carried it out much further) the fact that the connections, internal connections within a country, Canada for example, are greater by an order of magnitude than the connections with another country like the U.S. This is fine whether one is talking about movements of people or capital or goods or services or whatever. We are freer than many would argue to have distinct national policies to do things that we want to do for our citizens. And I think that's of some comfort to the extent you believe it, because there is this feeling out there that the nation state is dead, that there's nothing left for the nation state to do.

I will end with a few examples of policies that might combine wealth creation with good social objectives. Active social spending has been mentioned earlier this afternoon. Medicare, even though it needs some fixing, is an obvious example of something that is inherently better than U.S. system, on both efficiency and equity grounds. Education, human capital and all of that are also in a good category, though others have talked a lot about those issues.

So let me just end by saying that while I don't agree with Tom Courchene all the time (I once called his idea for a common currency one of the looniest ideas I'd heard), I must say I think he wrote an excellent book. I've read about 1/3 of it and I think he's described very well the idea that human capital development or education is perhaps the most important case of a policy that is good for society and good for growth. Perhaps the only quibble I'd have with Tom is that he doesn't seem to have much of a budget constraint. He wants to cut our taxes, if I read it correctly, more or less to U.S. levels. And then he wants to have huge new spending on education and training and all these wonderful things. I just don't think it adds up. But that's a quibble. That's a matter for finance departments...

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