

Chrystia Freeland is trying to supercharge Canada's growth ^[1]

To repair the economic damage wrought by the pandemic, the finance minister is using lessons from her journalism career and the collapse of the Soviet Union.

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EXCERPTS

When Chrystia Freeland became Canada's minister of finance in August, she had a mandate from Prime Minister Justin Trudeau to aggressively pursue economic growth. She was already Trudeau's deputy and had led the government's international trade and foreign ministries, making her a leading candidate to eventually succeed Trudeau even though she'd been a politician for less than a decade. She's spent plenty of time thinking and writing about economics and government as a journalist at the Financial Times, the Globe and Mail, and Thomson Reuters Corp. and as the author of books about Russia and the rise of the global super rich.

Freeland, 52, spoke with Bloomberg Markets in late April—soon after she presented her first budget—about spending, deficits, taxation, globalization, China, and which workers are really essential. She also talked about Mark Carney, the former Bank of Canada and Bank of England governor who has advised Trudeau on economic issues and who is seen as a potential rival to her as Trudeau's successor. The interview was edited for clarity and length.

STEPHANIE FLANDERS: We have lots to talk about, but we should touch first on your first budget, which passed [in April]. There's more spending in there and more borrowing, much of it in response obviously to the Covid pandemic. Canada's debt as a share of GDP will have risen through this period from 30% to 50% of GDP. Is that it, as far as you're concerned?

CHRYSTIA FREELAND: What we said in the budget was that now is the time that we need to finish the fight against Covid, and that does cost money.

But, Canada being Canada, we are proud of our reputation for fiscal prudence, and that's something that I would say is built into Canada's institutional DNA. And in this budget we show from this year—'21-22—to '25-26 a steadily declining debt-to-GDP ratio, falling to 49.2% in '25-26, and we show a steadily declining deficit, falling to just over 1% in '25-26. So we are confident that the fiscal track we have put forward is reasonable and sustainable. I was glad to see that S&P confirmed Canada's triple-A rating and Canada continues to have—withstanding the extraordinary spending we have had to get through Covid—the lowest debt-to-GDP ratio in the G-7.

I would also say, Stephanie, that we think that our spending has been economically effective. We took the view that the job of the federal government was to support businesses and workers to get through the disaster and what we really needed to focus on was to avoid economic scarring insofar as possible. And I think you already see that in the numbers. In the fourth quarter, with Covid still with us, the Canadian economy grew by almost 10%. That is a testament to the resilience and the entrepreneurship of Canadian businesses, but also the fact that really significant government support helped us to avoid scarring to our economic tissue.

SF: I heard Mark Carney on a podcast say he thought it would take several more budgets to have the kind of growth strategy that the country needs. Do you agree with him that this was less focused on supporting long-term growth than we've maybe seen in other countries?

CF: I haven't heard that podcast of Mark's, so I can't comment specifically to what he said. But we set ourselves three tasks: finish the fight against Covid, support a strong and fast recovery, and put in place measures to push us up to a higher long-term growth trajectory. On the long-term growth front, I think this budget has a number of measures that do that. And I can list maybe the top four areas.

One is a real focus on supporting higher labor force participation. And this budget does that in two important ways. One is a big commitment, C\$30 billion [\$24.9 billion] over five years, to build a universal system across Canada of affordable, high-quality early learning and child care. We believe long term that's going to boost Canada's GDP by 1.2%. We think it's the most significant economic policy, if we can get it built, since Nafta [the North American Free Trade Agreement], simply because it will boost the participation of Canadian women in the labor force. The other labor force participation measure is we have significantly increased the Canada workers benefit, which is a top-up for people who are working and are poor. We see that as supporting them, supporting consumption, but in terms of long-term growth, supporting labor force participation at the bottom. Really, really important, especially post-Covid, when we've all seen how important our essential workers are. So labor force participation is the No. 1 long-term growth push.

The second is a real push in terms of technology adoption by Canadian companies, especially in the small businesses that are the heart of the Canadian economy. We have a number of programs in place to create tax incentives for businesses to invest in themselves and also to provide support from the government with targeted advice to help small and medium-size businesses invest in their own productivity. We've seen a lot of small businesses really being pushed by Covid to adopt technology that maybe they had been thinking about for the past five years. I spoke this morning in a roundtable with women entrepreneurs from Newfoundland and Labrador. One of them talked about how she had set out virtual cooking classes alongside her restaurant. And there are thousands and thousands of stories like that across the country.

Third is a significant investment in our green transition. There is a big investment in our Net Zero Accelerator: C\$5 billion in this budget, and we invested C\$3 billion in December, so that's C\$8 billion to help Canadian companies invest in their own green transformation, and there are some powerful tax incentives in the budget to help our green technology companies, to help the development of carbon capture storage and utilization, to help development of green hydrogen in Canada. So I would say all of those are big investments in long-term productivity growth.

And then the fourth is investment in growing Canada. We are a country where there is a broad national consensus that we like welcoming immigrants. We think it makes our country even better, and that is a real driver of economic growth. For the next three years we're going to have higher-than-usual immigration levels to make up for the loss during the Covid year. This budget invests in that, including investing in housing and public transit, which we need because we're a growing country. So I would say there are a lot of long-term growth measures there, and that was definitely something that we had in mind in putting together this budget.

SF: You have this big step-change in debt. Other countries have now been contemplating and planning tax increases. When would you start considering that kind of thing? And why have you not thought about tax increases to give yourself a bit more fiscal space?

CF: Well, we did enter this crisis in a stronger fiscal position than any other G-7 country. We're glad to have had that position, and that has shaped our response. We are very conscious of the need to maintain that position and be ready for the next crisis.

In terms of this budget in particular, it is very much a jobs and growth budget. Our view is the best way to pay off our debt is to grow our economy and to grow our country. That's where our emphasis in terms of policy is right now.

There are some tax measures in the budget. A really important one is a big push—probably the strongest you've seen from the Canadian government—against tax evasion and tax avoidance. The impact of Covid has been incredibly uneven. People talk about a K-shaped recession, and that is what we have experienced. I think the public tolerance for people not paying their fair share of taxes is lower than it has ever been. So there are significant measures in the budget to cut down on jurisdiction shopping, to close the loopholes that have made that possible, to go after tax evasion and tax havens.

We've also confirmed that we're going to introduce a digital services tax on the 1st of January 2022. Now, we are very hopeful about the discussions at the OECD [Organization for Economic Cooperation and Development] on a digital services tax and on minimum international corporate tax rates. But those discussions have been going on for a long time, and it's been important for us to say that, absent international action, we are going to move ahead no matter what.

We also have introduced a luxury tax in this budget. And again, that's very much responding to a sentiment that Canadians have, and I think—you know I haven't been outside of Canada since Covid started, but from what I read—I think it is a widely shared sentiment that people who have been doing a little bit better, now is the time for them to help everyone else out.

So there are some focused tax measures in the budget, but our overall objective here is, let's drive jobs and growth, and that is going to be the most effective strategy for lowering our debt-to-GDP ratio. We really want to focus on the denominator.

SF: Toronto and many other housing markets in Canada have been on a tear for many years now. And there wasn't anything in the budget trying to respond to that, or at least it didn't seem like there was a big response to the housing market in the budget. It was Mark Carney who first said as governor of the Bank of Canada in 2012 that it was at an unsustainable level, and it has gone up and up and up since then. When are you going to do something about house prices and the unsustainability of it?

CF: Well, there were a couple of measures in the budget on housing. We committed to bringing in a tax on vacant property owned by nonresident non-Canadians. We recognize that Canada is a very safe jurisdiction and Canadian assets are safe assets, and that's a good thing. We encourage investors to take that view. But houses in Canada are homes for Canadian families. And so that's why we put that tax measure in place, and we're consulting on the details now. The budget also includes significant investment in housing, particularly affordable housing, but also a new measure to support the conversion of downtown office space to rental housing. We think some of those [office buildings] could become great apartments for Canadians, and there is C\$300 million in the budget to support that conversion.

SF: Joe Biden in the infrastructure bill has made the infrastructure funding dependent on cities coming up with plans to speed rezoning for new housing. Would you consider doing that?

CF: An interesting thing about Canada is on the one hand we are a vast country with a far-flung population, but Canada's population is really focused on our five major cities. So those are the five mayors you have to talk to. I have a good relationship with all of them, and so do ministers in our government. Certainly, talking with our mayors, the housing challenge is one that they see really acutely as well. We're very committed to working with them on being sure that the supply side is being met.

I would say a Canadian city which has been doing really innovative things on the supply side is my own native Edmonton, Alberta, which has really done some interesting things on opening up the city for construction of new housing, of infill housing, and so on. That's an

example I'm certainly encouraging other Canadian mayors to look at, and mayors around the world might want to take a look, too.

SF: You talked about the changes to people's working habits during Covid. Those who moved out of the cities—maybe back to where they're originally from—and are working remotely, would the government encourage them to stay there to take some pressure off the cities?

CF: I think the encouragement that the federal government should and is offering is making sure that we have good broadband across the country.

We have seen actually, during Covid, a lot of Canadians moving to smaller towns, to different parts of the country. There's been a real boom in Atlantic Canada, for example. I would say there, though, that I think that we should let Canadians make the choices that work for them. And we'll have to see what happens with workplaces post-Covid.

SF: I remember when I was at the BBC writing a blog about Canada's "goodie-two-shoes economy" because it had dodged the global financial crisis so effectively. You had very sensible banking, and you hadn't made lots of mistakes that everybody else made. But when you look at how Canada's responded to the pandemic, and particularly the vaccine rollout, do you regret that Canada hasn't done better?

CF: With Covid—where not getting things exactly right has meant people dying—I hope that every politician everywhere in the world, with the possible exception of [New Zealand Prime Minister] Jacinda Ardern, should look back and have moments of thinking, "Wow, I wish we had gotten that a little bit more right."

We are now vaccinating at a really, really fast pace. In terms of per capita vaccination, it's in the top one or two or three in the G-20, depending on the day. We always knew it was going to be a challenge, because as a small country, fully integrated into the global trading system and into the Nafta North American economy, we went into this crisis without significant national biomanufacturing capacity. That has made it challenging to be dependent on the factories of other countries. But by acquiring a lot of vaccines and by getting into that vaccine acquisition race early, I think we have largely mitigated that. We as a country have decided we need to be in better shape going forward. And so the budget makes an investment of more than C\$2 billion in life sciences and biomanufacturing capacity.

SF: When we met, you were a journalist. I was thinking about who are the best-known journalist-politicians or journalists who later became politicians. You'll be interested to hear they are Winston Churchill, Boris Johnson, and Mussolini. How does all that time as a reporter affect the way you do your job now? Do you still feel a little bit like a reporter?

"The important thing is not to be paralyzed by feeling you need to be perfect. The important thing is to make the decisions"

CF: I'm going to have to think about that list, Stephanie. I've still been a journalist a lot longer than I've been a politician. It definitely shapes how I approach my job. And I would say in maybe three principal ways—two generic to being a journalist and one sort of specific to my own time in journalism.

I still always want to talk to the people who are at the coal face, and I want to hear directly from them. I never really believe that a briefing note can fully capture as much as a conversation with the people who know stuff directly. So I continue to do that. The system really doesn't want politicians to do that, it's just not designed for politicians to be picking up the phone all the time. But that's what I believe in doing.

Second thing that has shaped me a lot is, at the FT, when I moved from being a reporter to being an editor. One of our colleagues—it was actually Peter Bruce—I remember saying to me, "You're an editor now, and you're going to have to make a hundred decisions a day, and hopefully more of them will be right than will be wrong. But the important thing is not to be paralyzed by feeling you need to be perfect. The important thing is to make the decisions, because otherwise the paper cannot be published at the end of the day." You just had to take the information that was coming at you, absorb it, analyze it as well as you could, and then make a decision on which story was in, which story was out, which quote was in, which one was out, and not be too scared of making the wrong decision. That training was really, really helpful in the heat of Covid, especially last spring.

And then, my formative experience as a reporter was covering the collapse of the Soviet Union. And really watching this whole paradigm changing and breaking down in the course of not even years but months and days. Watching it showed me that systems are not eternal and systems can change really fast. In particular, what I saw was the people who were the most successful in that transition were the people who were able to see that it was happening and embrace the transformation and understand that the greatest risk—a little bit like being a news editor—is inaction. When you're in one of those shifting paradigms, you have to be prepared to act.

SF: Arguably, we have a slower paradigm shift that's happening over the last few years in regard to how the world looks at China. I wonder whether you feel there's a risk that you're actually out of step with that, still carrying the flag for a belief that bringing China into the multilateral liberal economic order was the direction the world was going to take? Instead, now you have clear competition much more than engagement and a very muscular China. Are you not changing your approach fast enough?

CF: I think a watershed moment in Canada's relationship with China has been the arbitrary detention [since 2018] of Michael Kovrig [a Canadian former diplomat who worked for International Crisis Group] and Michael Spavor [a Canadian consultant and director of a group that promotes investment and tourism in North Korea]. That is the key issue for our country when it comes to China. These are two really brave Canadians who have been detained for no fault of their own, and Canadians are really aware of it.

SF: But does that change your view of what is possible in terms of future policy with China? Is this a country that you can do business with and you can continue to engage with positively?

CF: Well, look, it is a country that Canada and every member of the G-7 and the G-20 does business with. So that's a reality. This is very different from the relationship of the world's democracies with the Soviet Union, for example, where we occupied very separate economic spheres. But, again turning to that Soviet experience, I have always believed that shared values are really important and are a very important basis for deep international collaboration. For Canada, those values are democracy, human rights, and respect for the international rules-based order. And it can be hard sometimes to take that approach, but I think it's important to bear all of that in mind.

SF: There has been this sea change in attitudes to spending and deficits. President Biden has proposed just under \$6 trillion worth of spending, three big packages. You talked about having had your experience in the post-Soviet world. We saw there how incredibly damaging it was to a society and economy if you lose control of inflation, lose control of the economy. Is there a bit of you that thinks we're being too complacent about spending and borrowing in this era and it's all going to come back to haunt us? Not just in Canada, but this change in the global attitude.

CF: So, no, but I am very careful. I am a Canadian finance minister, so I am surrounded by economists who are very, very careful with our numbers, with our projections. And I'm Canadian, too, so that comes naturally to me. And I think it's a good thing. I'm going to give you an example, Stephanie. In our fall economic statement, we predicted a deficit for '21 of C\$381.6 billion. We came in at C\$354.2 billion, which

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SF: ... is the goodie-two-shoes economy.

CF: You know what? We embrace it. Some people say that we are earnest and boring, and I say it's the Canadian way. It's a good thing.

SF: But we know that there are people on both sides, including Biden's supporters, who are worried that the numbers are getting a bit big. If the U.S. is incautious and gets into trouble, Canada would get sucked into that.

CF: We talked about paradigm shifts and how the lessons of the past shape your actions. I would say something that has shaped my actions, our government's actions—and, based on the conversations around the G-7 table, I can tell you this is shaping the actions of many G-7 ministers—is actually the experience of 2008-2009. And I think what most G-7 countries feel, looking back on the response to 2008-2009, is we didn't do enough and we didn't recover soon enough from the 2008-2009 recession. And it's one reason that I am very focused on driving a fast and robust recovery from the recession Canada has today.

We're glad to have had the 10% growth in the fourth quarter of last year, but we still have 500,000 Canadians who either don't have a job or are working fewer hours than they were before Covid. That to me is an economic imperative, but also a political imperative, to get them back to work. All of us politically can reap the whirlwind if we allow economic hardship to fester.

At the FT, I remember one editor saying to me, "You know the difference between a recession and a depression? It's a depression when a journalist friend loses their job." And something I've been mindful of in this recession is the kinds of people who you and I know, Stephanie, have actually been pretty fine. You know, the worst we've had to deal with is eyestrain from Zoom and having your kids around the house and them struggling from eyestrain from Zoom. One of my children was doing online school today wearing sunglasses, and he said it was because of the glare from the screen. When we look at the numbers in Canada, people at the top of the income distribution actually have more money than they did before the crisis—they've been saving money. And I would just urge all of us to remember the K-shape also means people at the bottom. People who work with their hands have suffered a much greater health risk, they are the ones who have lost their jobs, and our economies will be weaker if we don't help them.

SF: Robert Macfarlane, the British author, he's written in a slightly different context in a book called *Underland*. He talks about "unburials," and he's actually talking about places near the Arctic Circle, where things have become unburied by climate change that people thought were going to be buried for hundreds of years. I feel there's been a lot of unburials due to Covid—things have come to the surface that we knew were there but are now much more visible. If you were still a journalist thinking about the things that have been revealed by Covid, maybe permanently changed, what's the book that you would be writing? What do you think is the most significant thing about this whole period?

"We've learned that it's essential to make it possible for parents, and particularly mothers, to work"

CF: I think that I would write a book called *Who Really Is Essential?* I think what Covid has shown us is who really are the essential workers. And again, not to sort of bring it down to sort of nitty-gritty policies, but it's one of the reasons it was so important for me to increase the Canada workers' benefit in our budget. You know all of us have been going out and saying, "Yay, essential workers, thank you for your service." I wanted to thank people for their service with more money. What we've learned, certainly in Canada and I think around the world, is the people who are truly essential are very often the people who are the least well-paid, who have the least security. And I think we need to support them more.

And a corollary to that is we need mothers to be able to work. Our budget makes a historic investment in early learning and child care. With day cares and schools being closed because of Covid, what had been for 50 years a priority for Canadian feminists seemed all of a sudden to become a real business priority. When there is a child-care challenge, it's the mother who quits her job. And we have seen a sharp decline of women's participation in the labor force. And we all sort of looked at each other in Canada and said, "Oh, no, this is a problem, it's a problem for our economy." So I think we've learned who is essential, and we've learned that it's essential to make it possible

for parents, and particularly mothers, to work.

SF: I have to ask you one more question. When you talk about the good management of the global financial crisis in Canada, obviously Mark Carney took some of the credit for that because he was the Bank of Canada governor at the time. I see he's kind of staked a claim as being part of the Liberal Party in recent weeks. Would you support him for prime minister if it came to it?

CF: I support Justin Trudeau for prime minister. I'm very privileged to serve in his cabinet. But Mark is a good friend of mine—he's actually my son's godfather. And we've known each other for a long time. And, actually, he was one of the many, many people I talked to as I was putting together the budget, and I'm grateful for his advice.

SF : Are you going to go out and make a pact at some point about which of you would run if and when there was a vacancy?

CF: I'm wearing a short-sleeved dress, so I can only metaphorically roll up my sleeves. But metaphorically I would have to say my focus is on delivering the 270 programs we have in this budget. There is a lot of work to do.

And I really would also say the prime minister is younger than me. He is younger than Mark. He's doing a really good job, and I am very confident he's going to lead our party and our government for a long time.

SF: Well, in your journalist days you would have said that was a nondenial denial, but it's been a delight to talk to you. And very nice to see you, Chrystia, with your short sleeves and everything else.

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