

While markets burn, Ontario dithers

February 07, 2009

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Most attention focuses on federal efforts to combat the global slump. But provincial governments are equally important. They tax almost as much as Ottawa. In total, they spend slightly more.

Which is why this week's ruminations from Ontario's Liberal government are so disquieting.

On Tuesday, the *Star* reported that the province is pushing ahead with plans to arbitrarily slash government regulations by 25 per cent – this at a time when the world is in a crisis caused largely by regulatory laxness.

In a rambling interview with the *Star* the same day, Premier Dalton McGuinty focused on the limits of government. That's fair enough. But it was an odd point to be making at a time when most world leaders – from U.S. President Barack Obama to Conservative Prime Minister Stephen Harper – are talking about the need for governments to do more.

And in a speech the same day, McGuinty noted that, because of the worsening economic situation, his government plans to postpone spending plans. That too runs counter to the advice of virtually every economist from the International Monetary Fund on down, all of whom want governments to speed up spending in order to counter the global slump.

It's hard to get a definitive sense of where McGuinty is heading. Like most politically successful Ontario premiers, he is congenitally vague. But my fear is that he's in danger of being captured by that most dangerous of phenomena, the big idea.

In McGuinty's case, the idea seems to be that Ontario's problems are largely structural and that economic salvation lies in re-inventing the manner in which both government and business do business.

That's why he's so enamoured of information-society gurus like Richard Florida. Florida, an urban planner, argues that in the future Ontario will be dominated by so-called creative workers such as architects, all supported by an underclass of poorly paid burger flippers.

Indeed, McGuinty's government paid \$2.2 million for the latest version of this thesis, released this week by Florida and fellow guru Roger Martin.

That's also why the premier appears so focused on using deregulation to make Ontario what he calls business-friendly

Now, there's nothing wrong with structural critiques.

In fact, many of the Florida-Martin recommendations – such as encouraging kids to finish high school – make sense.

But the key economic problem that the world faces now doesn't stem from the fact that too few teenagers understand trigonometry. It's a crisis of insufficient consumer demand, sparked by a global financial meltdown and fuelled by an accelerating cascade of layoffs.

Harper understands this. That's why he has signed on to the idea of running even bigger government deficits than those caused by the slowdown. If consumers can't or won't spend enough individually, then government will have to do it for them.

This is what so-called fiscal stimulus is all about.

But does McGuinty get it?

Sometimes, it seems he does. His plans to direct aid to the poor will be useful, not only for reasons of social equity but because low-income citizens tend to spend most of what they receive.

But there are other times when he appears to have slid into another dimension. In particular, his scheme to have every Ontario ministry arbitrarily reduce the number of regulations on its books by 25 per cent makes no sense.

Even the ostensible rationale is full of holes.

"We have regulations on the books that are over 60 years old," a spokesperson for Economic Development Minister Michael Bryant explained earlier this week. "Some go back to horse-and-buggy days. There is literally a regulation that governs horse and buggies in downtown Toronto. The horse and buggy regulation should be retired to pasture."

It was an evocative example. But it wasn't true.

In fact, there are no provincial regulations literally governing horse-drawn buggies in downtown Toronto. There is a provision in the Innkeepers Act that allows riding stables (including those in Greater Toronto) to seize horses boarded with them in lieu of unpaid bills. I expect most riding stable owners approve of that law.

There are also regulations in the highway traffic act requiring horse-drawn vehicles (a common sight in the Amish and Mennonite areas of southwestern Ontario) to carry visible markings at night and limiting them to certain kinds of roads.

For instance, horses and buggies are not allowed on Highway 401 – a regulation that seems eminently reasonable.

But the point is not simply that the government's examples are silly. It's that the entire quota idea is silly.

To demand an arbitrary reduction in regulation at a time when employers are under increased pressure to cut corners and employees are fearful of raising a fuss is positively dangerous.

I'd be curious to know, for instance, which 25 per cent the province plans to trim from its dossier of financial regulations. Does Queen's Park want to make it easier for provincially regulated insurers to get into the kinds of trouble that almost bankrupted their U.S. counterparts?

Finally, there is the structural critique itself. Should the government be preparing Ontario for the kind of world outlined by Florida and Martin, where manufacturing and manual labour are things of the past, to be replaced by a so-called creative class using just brains and laptops?

Putting aside the arrogance of the assumptions (a good backhoe operator has the deft touch of an artist; a good carpenter is creative), I'm not sure that this is in the cards.

Right now, it may make sense to manufacture most things in China. But this advantage may not hold in the future when the Chinese are no longer able to artificially depress their currency (and thus the prices of their goods) and when energy prices go back up. In fact, given that information transmission is virtually costless, it may make more sense to locate the laptop-laden creative classes in low-wage Asian countries. The exodus of information technology jobs to India has already started.

Similarly, as transportation costs start to rise again, it might be more efficient to manufacture bulky goods close to their North American markets rather than import them from abroad. I've run into kitchen countertop makers, for instance, who find it cheaper to ship granite from China than have it mined here. This cannot last.

McGuinty might want to keep all of this in mind as he contemplates his big idea. And with unemployment starting to spiral, he should ensure that his diligent efforts to cut costs don't subvert whatever good may come from Harper's stimulus package.

Thomas Walkom's column appears Wednesday and Saturday.