

# Judy and Peter Went to Ottawa

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## Ottawa

Back in Grade 12 in Annapolis Royal Regional Academy, a boy named Pete sat in the third row right behind a girl named Judy. They were two gifted students attending a small school on the edge of Nova Scotia's Annapolis Valley. And for the five years after Judy moved to town in Grade 8 until their graduation in 1960, they had each other to provide a handy gauge of their progress. In a word, they competed, in the finest sense of the word.

Today, Peter Nicholson, 52, and Judith Maxwell, 51, are two of the most influential thinkers in Ottawa, members of the select group of people who provide the intellectual fodder off which governments feed. They occupy that critical middle ground between academe and politics, linking the world of ideas to the world of action.

What they think matters.

What they think also differs. Mr. Nicholson is still very much the son of a former provincial Liberal finance minister. Ms. Maxwell is very much the daughter of an Anglican clergyman. In terms of the current Liberal government in Ottawa, they could be stand-ins for Paul Martin and Lloyd Axworthy - the fiscal conscience and social conscience. "I guess you can say they are the two wings of Liberalism," remarks Canadian Labour Congress economist Andrew Jackson.

Mr. Nicholson is right in the thick of the action, as the personal guru to Finance Minister Paul Martin. The two men have known each other since they attended periodic policy-wonk weekends in 1979 organized by former Liberal cabinet minister Hugh Faulkner. Mr. Nicholson was one of Mr. Martin's choices to address the pivotal 1991 Aylmer conference near Ottawa at which the Liberal party began its break from the interventionist, big-spending politics of past.

It was there that Mr. Nicholson warned the assembled, many of them deeply skeptical, that Canada was drawing closer to the invisible line where confidence suddenly vanishes. "At best, a heavily indebted nation is hostage to its external financiers and thus increasingly constrained to satisfy their objectives rather than its own." Events in the past few months have proved him right.

His major contribution since joining Finance as a special adviser last March was writing the government's so-called Purple Book, which serves as Mr. Martin's guide to what went wrong with the Canadian economy and what course should be followed to make it right. Now Mr. Nicholson is helping with the budget, providing just the sort of intellectual energy that the

high-voltage Finance Minister demands. He will also be lending his thoughts to Canada's science effort with his appointment this week to the National Research Council.

Ms. Maxwell, the former head of the now defunct Economic Council of Canada, plays to a larger but more diffuse audience. She was part of a small, no-profile group that met regularly in early 1993 to bounce ideas off David Zussman, the one-man Chretien transition team. She was a key member of Lloyd Axworthy's task force on social-policy reform and headed up an investigation into the Finance Department's economic-forecasting capabilities. And the Liberals put her on the board of the Bank of Canada - an economic Mother Teresa among the teeming masses of monetarists.

But Ms. Maxwell's real strength is her talent as an ideas merchant. She is one of the central switchboards through which the ideas of Canada's academic and policy elite are transmitted. "What I'm good at," she says, "is seeing the connections between things that other people have not related, creating a synthesis and translating it into a language and idiom that people can connect with. That's what I like to do, that's where I get my kicks."

Judith Maxwell and Peter Nicholson may have grown up in the same small Nova Scotia town of Annapolis Royal (pop. 750) and ended up in the equally small world of Ottawa policy wonks, but there the similarities end.

Mr. Nicholson is a big, high-energy sports fanatic - a weekend watching football is as much enjoyed as one reading Robert Reich - who, like his current boss, he thrives on late nights at the office spent thrashing things out. He likes a beer (Ms. Maxwell is strictly tea). He and Mr. Martin talk almost every day, or, more often, night.

Surprisingly, he's not an economist, at least by training. His undergraduate and graduate degrees are in physics and he holds a PhD in mathematics from Stanford. But even as a mathematician, his preference was for practical solutions. His speciality was operations research, a discipline born out of Second World War army logistics that were responsible for allocating scarce resources efficiently.

Mr. Nicholson went on to teach at the University of Minnesota, but on a visit home one summer he realized he wasn't making much difference in the world. The revelation came in the form of an article by a Columbia University mathematician.

"He said that in every generation there are only a handful of great mathematicians. He said for all the rest their research probably harms no one and they may be useful as teachers. But if they had never been born, the subject would be none the worse for it." Mr. Nicholson knew he wasn't one of the handful, and decided to look for another line of work.

In the seventies, he moved to Ottawa, trading on his expertise in operations research. It was the days of the Limits to Growth mentality and governments were beefing up their technical capacity to project coming shortages.

But Mr. Nicholson soon discovered he was far from the action. The eddies of Ottawa policy development seemed much more alluring, so he set down a road that allowed him to play increasingly important roles developing policy in everything from urban planning to rail privatization to allocating quotas in the Atlantic fishery.

“Someone once told me that Wellington’s motto was that he always marched toward the sound of gunfire,” he says of his desire to enter the policy fray. “You don’t want to stay in a place that’s a backwater.”

He took a brief detour on his career path to run for office himself - and even his mathematical mind failed to factor in the outcome: The Liberals lost, but he had the misfortune to win, thereby relegating himself to the Opposition backbenches, the biggest backwater of them all.

His reputation as a competitiveness guru really began in 1984, when he served as the in-house guru to Bank of Nova Scotia chairman, Cedric Ritchie. He worked on everything from bank regulations to Third World debt to Canadian Senate reform. (His scheme of an equal Senate with weighted votes was briefly flavour of the month in the Charlottetown negotiations.) He also built up a body of work describing Canada’s competitiveness problem - an economic cancer he traced to the decline of Canadian productivity and the kryptonite-like effects of growing public-sector debt.

When Mr. Martin beckoned last March, Mr. Nicholson couldn’t resist. “It’s that thing about getting close to the gunfire,” he says. “I wanted to march toward it.” He arrived just in time to catch a barrage. Rising interest rates were putting the boots to Mr. Martin’s first budget, touching off the sort of full-blown fiscal crisis that Mr. Nicholson had been warning about. “It really irks me that this has been characterized as a sort of right-wing Bay Street ideological issue. I mean I am anything but a right-wing Bay Street ideologue. I’m really not,” he says.

“I can plainly see how this debt undermines all of the fibre of society and for me this is not ideology, it’s pure arithmetic. We just can’t go on this way. The longer we go on the harder it’s going to be to stop. The arithmetic shows that.”

His friends call him the bionic pen for the volume and high quality of his writing. (He confesses to never having learned to type, but says these days he would be more accurately dubbed the bionic dictaphone.) The Purple Book, a trenchant 87-page analysis of how governments got into the current fiscal mess, complete with prescriptions for the things they should and should not do in future, is regarded by many as the successor to the Liberals’ Red Book of election promises.

It pulls no punches; The CLC’s Mr. Jackson says he was shocked when he read it because he has never seen anything out of Finance that is so explicit in stating that core unemployment - the rate at which inflation starts to reappear and recessions threaten - now is at least 8 per cent, three points higher than had been thought.

But Mr. Jackson allows that Mr. Nicholson is not simply a Tory in disguise. He still sees a major role for government in such areas as science and technology. The right-wing Liberals

don't seem to contemplate cuts with great joy or as the correct course, Mr. Jackson says, but rather with a resigned inevitability.

For his part, Mr. Nicholson sees himself as a person who is willing to pluck good ideas wherever he finds them. "I'm realistic enough to understand that there is always a trade-off between trying to think of what the right thing is and trying to get people to do it. If you take a pristine, excessively theoretical, inflexible, ivory tower, academic approach to dealing with these problems, then you won't be effective. You may have defended your virginity, but you haven't procreated the race."

Judith Maxwell starts out from the same point on the economic map as Mr. Nicholson: the country's long-running fiscal mess. But she quickly veers toward what she calls the other deficit – the social deficit.

She's a study in contradictions: quiet, unassuming and conservatively clad, yet when she speaks or writes (which she does often) she turns heads. "Judy is short and slight of build and she doesn't make any great impact on you when she walks in a room until she starts to speak," says Arthur Kroeger, a former federal deputy minister and past chairman of the Public Policy Forum. "You watch a room when Judy's making a speech and very quickly it falls silent. She's got everybody in her hand. She's not just some econometrician, spinning out numbers. She talks about how this affects people. And she doesn't do it in a mindless, bleeding-heart way. There is a streak of humanity that is very identifiable and is one of the reasons, I think, that she gets so much resonance."

Her Anglican background and small-town upbringing shine through when she discusses policy options in terms of moral choices. Indeed, her best work occurs where economic reality intersects with societal values. She would prefer a society that chooses human beings over laissez-faire economics. Not so that the state will take care of them, but so people will be able to take care of themselves.

"A lot of traditional economics, from Adam Smith forward, has been focused on things and outputs and not on people or the quality of life. I've always had a strong sense that economics needs to be interpreted in human terms." In 1991, her alma mater, Dalhousie University, conferred an honorary degree on her with a description she recites with pride. It called her "a humane practitioner of this dismal science."

Indeed, nothing better encapsulates Ms. Maxwell than the term she has coined to describe the social deficit - increasing insecurity of family life, the growth of child poverty, the hopelessness of youth. She blurted it out in the heat of an argument with Fraser Institute president Michael Walker at a conference in Ottawa in October, 1993. Mr. Walker was dominating a panel session with a dire prognosis of the fiscal deficit. A frustrated Ms. Maxwell sputtered that deficit reduction was important, but it's not just a matter of the fiscal deficit, there's a social deficit as well. A wave of applause rippled through the room. A one-time economics reporter with the Financial Times of Canada, she knew she was onto something.

The social-deficit concept is instructive for several things it says about Ms. Maxwell. She isn't your average economist; indeed, like Mr. Nicholson, she isn't really even an economist (she has a Bachelor of Commerce). She likes to describe herself as a scribe – a synthesizer and popularizer of ideas, a person who can marry research to policy concerns. To her, the words social deficit – a powerful description of the sort of economic polarization that so discomfits her – are almost as important as the underlying concept.

Ms. Maxwell first came to national prominence as chairwoman of the Economic Council of Canada from 1985 until its demise in Don Mazankowski's 1992 budget. She had enjoyed a long moment in the sun in the seventies at the then centrist C. D. Howe Institute. Then she faded into relative obscurity: She had a couple of kids, followed her husband, Tony, to Britain for three years and returned to Canada to a part-time consulting practice. The call to head the Economic Council, an arm's-length government agency that represented the greatest concentration of economic talent in Canada, came out of the blue. She recounts how Paul Tellier, who had just become Brian Mulroney's Clerk of the Privy Council, gave her simple marching order. "Give it impact," he said.

She did just that. Under her, the council evolved from a technical orientation into an important contributor to the country's public-policy debate. It produced reports such as the acclaimed Good Jobs, Bad Jobs, which detailed the relentless polarization of the Canadian work force caused by technological and global economic pressures. In typical Maxwell fashion, it was the catchy title that crystallized the trend for many people.

Then came the council's fateful 1991 report on the economic impact of Quebec separation, which set out the consequences of various scenarios. The Prime Minister's Office was ultra-sensitive about anything involving Quebec and didn't think the analysis, although negative, was sufficiently dire. "Either you were out there combatting the constitutional menace with a sword and buckler day and night or you were agin' us," Mr. Kroeger recalls of the mood of the time. "It was a real sort of combat mentality. And the council thought it was being rational and analytical and professional. But other people said that's no help to us in this fight."

Ms. Maxwell knew she had committed a transgression in the eyes of Mr. Mulroney and Mr. Tellier, and she believes that's why the council was axed. In the hours leading up to Mr. Mazankowski's 1992 budget, she was called in and told that the council was being killed. "I was devastated," she recalls.

But she didn't retreat into exile. She found homes for the Economic Council's on-going research – its final project was served up just last month with the release of a major report on health care showing that huge savings could be realized without jeopardizing quality. She also found new outlets for her own work. Last month, she moved into new offices in Ottawa's downtown to head up the Canadian Policy Research Networks Inc. The new non-profit organization is designed to pick up where the Economic Council left off, but with a nineties' feel to it.

In these difficult economic times, Judith Maxwell is attracting federal and provincial support for research into the family, health care and the crucial question of when job retraining works

and when it doesn't. This time, though, there will be no bricks and mortar, no in-house economists. Each project will be a moving feast of researchers and financial backers. Ms. Maxwell has transformed herself into a policy entrepreneur, a perfect symbol of the knowledge economy about which she speaks.

Unlike Mr. Nicholson, who has consciously limited himself to the role of secretary to a single prince, Ms. Maxwell has her fingers in a dozen pies. But for now Mr. Nicholson is the more influential. That derives partly from his proximity to Mr. Martin, and from the ascendancy of his major preoccupation – the fiscal deficit.

Mr. Nicholson sees his policy differences with Ms. Maxwell in terms of emphasis, as complementary views from different sides of the same prism. Although they don't have much of a social connection, they remain intensely interested in each other's work. "I've always read Judy's message as 'Yes, we have to pay attention to the economics of the marketplace, but for heaven's sake, let's not forget about the social dimension and how those objectives in fact contribute to our economic achievement,' " he says. "She has constantly stressed that it is not an either/or, and I think she has put the stress on the social side because over the past number of years that has been the one that has been most easily forgotten.

"And perhaps mine has been that 'Yes, it is not an either/or, but we've got to place the greater stress on the economic side.' "

Even at the moment of Ms. Maxwell's redemption – a word that makes her cringe – she is frustrated. So much seemed possible in October, 1993, the month she coined the term social deficit and a new government came to power seemingly bent on doing something about it. When Mr. Axworthy called and asked her to help him with his social-policy reform, it looked like the man might have met the moment. Now she speaks about her great disappointment at how the window of opportunity appears to have been slammed shut.

"The thing that I've been very worried about is that we would end up having social policy made by finance ministers preoccupied with the fiscal realities instead of making social policy based on the basic values of society," she says. "But if I'm going to be angry, what I'm angry about is that we have postponed the real medicine on the fiscal side and we've let it get worse and worse and worse."

Indeed, it's not her old schoolmate, Mr. Nicholson, she's upset with. It's that the fiscal deficit – that damned fiscal deficit – was allowed to get so bad that Mr. Nicholson's agenda has become the only game in town. It's not a sentiment with which he would disagree. For now he is at the head of the class.

## **IN THEIR OWN WORDS**

### **Judith Maxwell**

“(The) polarization of the work force, rising economic insecurity and the dramatic changes that are taking place in the family has placed a whole new set of stresses on the social-safety net. And the safety net, which was largely designed for the problems of the 1960s, is not coping well, despite expenditures in the billions of dollars. Families are working harder, running up debts, commuting farther and have less time for family-centred activity. . . . (The) lack of adequate child care, the high participation of women in the work force and increasing unemployment is placing a terrible burden on families. . . . This is what I mean by a social deficit.”

“We build industrial facilities, fixed links to PEI, frigates and highways in the name of job creation. But we do not consider that if we added 100,000 child-care places (far less than the number we need), we would probably create 10,000 new jobs (my guess). Where did we get this twisted view of what is important in life?”

“During the post-war period, governments used stimulative tax and spending policies to speed up economic growth and create jobs. This approach is no longer feasible because federal and provincial debt burdens have become such a serious threat to the sustainability of governments in Canada. That burden of debt has to be reduced. But that does not give governments a licence to slash and burn. We must find ways to reduce the fiscal deficit that do not automatically lead to increases in the social deficit.”

“It appears, therefore, that the heaviest burden of adjustment has fallen on the youngest generation of workers – unable to get the kind of job experience that would give them a chance at a good job. . . . Will they be scarred forever by these unfortunate beginnings? Analysis by the Economic Council of Canada shows a pattern of higher lifetime unemployment for age groups who enter the workforce during hard times.”

“No Canadian under the age of 25 should be eligible for unemployment insurance. If they are not working, they should sign up for the Job Corps or enroll in a formal education or training program. As long as they are committed in this way, they should be eligible for income support. . . . It would be a tragedy to let these young people be scarred by long spells of unemployment.”

“We have to break from the notion that governments can protect citizens from every cold wind. We also have to break with the notion that governments can let the cold winds blow to make Canadians competitive, without putting in place the supporting reforms on the social side.” Sources: Strategies for Job Growth and Adjustment in Canada in the ‘90s, 1994; Globalization and Family Security, 1993; The Social Role of the State in a Knowledge-Based Economy, 1994; Rethinking Government, 1994.

### **Peter Nicholson**

“Competitiveness . . . is a relative concept where the benchmark of performance is set in the arena of world trade. Export success is therefore one important indicator, provided that it is achieved without simply devaluing the national currency. Although devaluation can boost

exports in the short run – and Canada has benefited from that since 1991 – it is not a feasible long-term strategy to increase the standard of living.”

“A nation’s competitiveness really boils down to the long-run growth of productivity – essentially the ability to do more with less. Rising productivity is the ultimate source of a rising material standard of living. It follows that national policies to enhance competitiveness should, for the most part, be policies to enhance productivity. That, in a nutshell, is my central message.”

“There is no conflict between economic policy and the broader social objectives of Canadians – quite the contrary. Good social policy begins with a good job. And good jobs cannot be created by fiat. The central theme of this statement is that good jobs for Canadians can only flow from a productive, growing economy that possesses both the flexibility and the creativity to capitalize on the constantly emerging opportunities the world presents.

“Taking stock of the past four decades, the most striking feature has been the long-term deterioration of overall economic performance since the mid-1970s. This was a watershed in the economic history of the postwar era and marks the beginning of two decades of relatively disappointing performance for the Western economies as a group – a performance characterized mainly by low productivity growth, stagnating real incomes and rising unemployment rates. In Canada, the productivity slowdown was not sufficiently offset by reduced public and private consumption, resulting in an extraordinary build-up of debt, both foreign and domestic.”

“The right skills are the key to building the smarter, more productive economy on which job and income growth depend. Skilled and adaptable workers are needed to master, and remaster, the increasingly sophisticated technology and work methods that are making virtually every occupation, in some sense, high-tech. . . . It is estimated that almost half of the new jobs that are likely to be created during this decade will require more than 16 years of formal education and training combined.”

Sources: Finding Common Ground, a 1991 Liberal Party policy conference in Aylmer, Que.; A New Framework for Economic Policy (Government of Canada), 1994; Competitiveness and the Canadian Economy, symposium for new members of Parliament, 1994.