The Capitol, centre of the US government shutdown for 16 days in October, including the national parks on its doorstep. Canada-US relations took a collateral hit. Shutterstock photo

Letter from Washington: After the Shutdown

Paul Frazer

It can be challenging enough in the best of times to get Washington to focus through the partisan noise on issues of interest to Canada. But when the US government is distracted, that job gets even harder. During the ongoing US partisan political standoff, Canada runs the risk of losing sight of the big picture, especially on major files like Keystone XL, which has become a corrosive factor in the bilateral relationship. How can Canada protect itself from the machinations in Washington? Delve more deeply into America's psyche, its governance, and its system, and keep reminding US politicians of the real economic costs of political brinkmanship.

There are different perspectives about exactly what occurred during the 16 days in which the US government was shut down. Many in Washington are uncertain what we emerged from when the president and the US Congress reached an agreement to reopen the government. The reader would not be alone in wondering what the whole experience actually accomplished and what it means in the months ahead for the US and internationally, especially for Canada.

In the end, there is no doubt that this agreement is merely a temporary fix: delaying solutions to complex and serious budget problems while temporarily raising the US debt ceiling (or borrowing limit). The 11th hour agree-

ment calls for completion of budget talks by December 13, while funding government operations through January 15 and suspending the debt limit through February 7.

The shutdown hit individuals, communities, and federal operations in different ways—large and small—across the country. The media focused more on the closing of national parks and open-air monuments than on the impact on a host of social programs essential to the daily well-being of children, seniors, the military and their families, and Native Americans among others. In many ways, Washington, D.C., was immune from the full punch of the closure with the exception of the white noise created by political attack and counterattack.

A silver lining was that capital markets remained optimistic that the political players would reach a reasoned agreement to forestall the potential economic calamity of a first-ever default on US debt. Markets essentially absorbed the immediate economic impact of the shutdown as a temporary and unsurprising result of the political circumstances. Evidence that markets largely shrugged off the impasse can be found several indicators, including the Dow Jones Industrial Average with its net gain of over 275 points during the 16-day shutdown. To many on Wall Street, the shutdown mostly was an inconvenience and a shabby example of political intransigence.

Preliminary estimates vary in terms of the shutdown's impact on the US economy: from 120,000 to 130,000 jobs lost, reduced fourth quarter growth between 0.25 per cent and 0.6 per cent, and an estimated displacement of $24 billion to $55 billion in economic production. The more serious impact for now appears to be depressed consumer confidence and investors lacking any willingness to spur further economic activity. This is rooted in heightened uncertainty about the ability of lawmakers to effectively deal in a timely fashion with the most pressing economic and budgetary decisions facing the US.

Too many Americans consider this latest political struggle to be of domestic consequence only. They are unable to relate to currency fluctuations, shifts in the value of Treasury bills, or the international ripple effect of US domestic actions on the global economic front. Americans forget that the rest of the world relies on the US to be sensible and effective. Disarray in US affairs breeds a serious lack of confidence abroad. As an example, the cancellation of President Obama's trip to Asia created a momentary, but worrisome vacuum in a part of the world that the US views as one in which it should be more constructively engaged. It is also that part of the world where the region itself wants such US engagement as a counterweight to overwhelming Chinese presence. The shutdown's impact abroad on American reputation and on respect for the president's power and authority is more abstract, but no less important for the interests of the US.

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Canada in some respects "dodged a bullet" with the shutdown. The Canadian equities markets did not go into a tailspin; trade, although delayed at some border points, was inconvenienced, but not damaged. Border travel was in a similar state. But we would be foolish to ignore the potentially drastic fallout of a US failure to reach budget agreement by December 13 or at least see a clear path to resolution and the political will to pursue it.

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Even without the dislocations caused by another major impasse, there are long-standing issues of some importance in the Canada-US relationship that are not addressed effectively when the US government is distracted. In the best of times, it is enough of a challenge for the Canadian and other governments to focus the administration's attention on key bilateral issues. There is a history of experience in how difficult it is to get the president's time and attention, let alone to knit together the political coalitions so important to obtaining Congressional support or action on an issue. It is a mistake to assign too much power to the office of the president. It is a mistake to overlook the local interests at play in any Congressional office; interests that often cause the lawmaker to respond all too quickly to those narrower forces rather than taking a broader perspective. Canada is constantly facing the possibility of being sideswiped because of a whole array of stakeholder interests that have nothing to do with the Canada-US relationship.

Looking ahead, how does Canada push/pull the US, for example, on all of the undertakings made in the Canada-US Border Security Action Plan and the Regulatory Cooperation Council Joint Action Plan? These two initiatives were designed to speed the implementation of measures to support the cross-border movement of goods and travelers as well as reduce, through regulatory transparency and coordination, barriers to trade between the two countries.

In the midst of a shutdown and during the ongoing US partisan political standoff, Canada runs the risk of losing sight of the big picture. There is a tendency because of the many bilateral issues in play every day to get into the weeds and to be pulled down by that experience.

Keystone XL exemplifies this dilemma. It has become a lightning rod for all stakeholders in both countries and Canada finds itself in a position of "if you win, you lose." It has also become a corrosive factor in the bilateral relationship—one that risks having a longer-term negative impact of poisoning goodwill and constructive relations. Canadians must avoid seeing the final decision as being about

them. There is no doubt that the longer it takes to render a decision the greater the chance that other variables will impact the outcome. Dramatic changes in the US energy sector have turned traditional projections of supply and demand on their head. The vast underground pipeline network knitting Canada and the US is in a dramatic state of flux. The voices for and against Keystone XL are outdone only by the Republican Party with its eagerness to have a prize political football with which to run at every opportunity, regardless of whether or not such action could carry Keystone XL over the goal line.

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Canadian diplomats have long had an unwritten dimension to their work overseas: explaining the US and its politics to those around the world who presume that Canadians—because of geography and the significant bilateral trading relationship—above all others, know and understand the US better than anyone else. While there is some truth in this, Canadians must resist the inclination to believe it fully. It is critically important to delve more deeply into America's psyche, its governance, and its system. Canadians need to do this first and foremost because it is in Canada's interest to do so.

But how can Canada protect itself from the machinations in Washington? The last few weeks prompted many to accept that, unlike Wall Street banks, the US may in fact not be too big to fail. This is a chilling thought. For Canada, in particular, there are no buffers that can be automatically activated. We speak of global connectedness as today's reality, but the greater reality for Canada is the integration of its economy with the US.

If there is anything to be gained for Canadians as a result of the continued gridlock and stalemates in the US, it is the reminder of the need to maintain an effective voice in Washington and in other US influence centres to protect and promote Canadian interests. At the same time, Canadians can use that advocacy to remind US politicians of the real economic costs of continued political brinkmanship that puts the US economy at risk and by extension impacts Canada, to which the US is attached at the hip. P

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