

# Open and free trade system

**INTERVIEW WITH STEPHEN HARPER**

PRIME MINISTER, CANADA

**Our stimulus plan will help us to sustain economic activity**

**How would you characterise the current global crisis, from a Canadian perspective?**

Unlike the recessions of recent decades, this one is occurring without a rise in inflation and interest rates. In fact, interest rates are at record lows, and many countries face the risk of deflation.

Also, for the first time in history, all regions of the world are seeing a rapid slowing of economic growth at the same time, or a so-called 'synchronised' global recession. The immediate source of this global recession is the ongoing crisis of the financial sector in the United States and other advanced Western countries and we will not turn the corner on this global recession until the American financial sector is fixed.

Our stimulus plan will help us to sustain economic activity and make transitions, but it cannot fix the problem of the global financial system. Canada was the last advanced country to fall into this recession. We will make sure its effects are the least severe and we will come out of this faster than anyone and stronger than ever. So far, in fact, while the global recession has hit Canada hard, it has not hit us nearly as hard as it has other countries.

**Is Canada well placed to weather the global slow down? What strengths does Canada possess that makes it resilient in the face of this crisis?**

Canada is entering the most difficult period in memory in a position of significant comparative strength. Our comparative strengths include: First, according to the World Economic Forum, we have the strongest banking system in the world – no small asset in a period of world financial crisis.

Second, we have the best fiscal position in the G7. We have not only one of the lowest debt-GDP ratio and a long-term structural balance in the budgets, but also strengths in off-balance-sheet items such as a solvent public pension plan.

Third, the Bank of Canada has a stellar record of low and stable inflation. Canada should avoid both significant deflation and renewed inflation, both of which are significant risks in other countries.

Fourth, we have a highly educated, skilled, largely mobile, modern workforce. Finally, we have real economic diversity, including commodities that will be in high demand as the global economy recovers.

**How is the Canadian Government addressing the global economic problems? How are you formulating economic plans to address these issues?**

While the government has had to make significant changes in our economic plans to address the immediate challenges of the global recession, we have not changed our focus on longer-term economic objectives.

These objectives are broadly defined by our conservative principles: Building a better market environment for business, making critical growth-generating public investments, and maintaining appropriate and disciplined fiscal policies. In terms of strengthening markets, we continue, most importantly, to lower our tax burdens. For example, just this January, business rates came down significantly – soon to be the lowest in the G7. And we created the tax-free savings accounts for individuals. We are also opening markets to trade.

We are also committed to principles-based, prudent regulation of the private financial sector, including establishing national securities regulation. We have avoided the extreme of the unregulated, or barely regulated, financial and mortgage industries that has caused such grief around the world. Nor will Canada drift into a micro-managed, nationalised sector, which will cause its own problems down the road. We are also pursuing initiatives to improve the structural competitiveness of the Canadian economy – as in implementing, as examples, the Wilson Report and the Paper Burden Initiative. In terms of public investments, we have launched the Building Canada Plan. Through this plan, we are making the largest infrastructure investment in this country – in highways, road, bridges, sewers, public transit, ports, harbours, community facilities, rinks – in over half a century.

We are also making investments in higher education, especially in the research end of education. But we have also made targeted investments in two critical areas of human capital: Immigration and the trades shortages. Despite the rising unemployment we see today, the demographic reality is that, as soon as this global recession ends, Canada will face a long-run challenge of labour shortage, and we are getting ahead of it. Closely linked to our education and research funding is our science and technology strategy. The focus of this is on the area where we have been weakest in Canada – the successful commercialisation of research and development.

The final major pillar is fiscal discipline and we operate

Stephen Harper,  
Prime Minister  
of Canada

in an era when G20 countries have agreed to move to deficit spending in order to stimulate their economies. But even as we are increasing expenditures temporarily, for stimulus purposes, we continue to implement an expenditure management system which is permanently removing spending in low-performing programmes.

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**You have established a 'stimulus package' called 'Canada's Economic Action Plan'. What are the fundamental points of this plan?**

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This is our effort to stimulate and sustain economic activity during a time of world economic crisis. But it is also our aim to use this crisis to advance work on our long-term economic objectives. As an ancient Chinese proverb puts it, "a crisis is an opportunity riding a dangerous wind".

And for Canada, this crisis does offer opportunity. It is an opportunity to build on our natural strengths and comparative advantages, to overhaul our national economic infrastructure, to invest in skills training and new technologies and ultimately, it is an opportunity to position ourselves so that when the recovery comes, we're among the first to catch the wave.

Our Economic Action Plan for 2009 focuses on some key elements, totalling roughly US\$50 billion in additional stimulus over the next two years.

There are, broadly speaking, the following sets of initiatives: support for workers and tax payers; support for the housing sector; infrastructure to create jobs; support for businesses and communities; improved access to financing, and maintaining fiscal discipline.

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**What contribution can the G20 make to helping solve the current global economic crisis?**

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If there has been a silver lining to the global economic crisis, it has been the desire of governments thus far to come together in pursuit of common solutions. We can come to some consensus among the diverse governments of the world – many of whom have had long-standing and intractable conflicts and the Government of Canada was very pleased with the positions taken at the G20 Washington Summit.

There is a common understanding of the macro-economic measures necessary to respond to a slowing global economy. There is an action plan for better national regulation of financial institutions and markets, with transparent international assessments of countries' financial sectors and there is an endorsement

of free and open economic policies, with an explicit rejection of the temptations of protectionism.

These positions are close to those of Canada. First, they reflect Canada's economic values: open trade and free markets governed by prudent policy and sound regulation. We have long avoided the extremes of either protectionist economics on the one hand or ungoverned markets on the other that, whatever their appeal, invariably lead to heartbreak for businesses, consumers and workers alike. Second, they reflect Canada's position in the world today, particularly our relative strength among developed economies.

It is becoming apparent that financial and monetary actions may not be sufficient to deal with the present crisis. Already, governments around the world have been responding with large budgetary actions, and we will see many more.

China has announced a half trillion dollar package to bolster domestic spending. The United Kingdom and

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the United States, though already deeply in deficit, are moving ahead with additional fiscal stimulus. In short, world governments have resolved that they will undertake whatever financial, monitoring and budgetary measures are necessary to cope with the crisis. This is also the position of the Government of Canada.

We will undertake whatever short-term fiscal measures are necessary to be part of a global economic solution to a global economic problem. We will do so while ensuring that our country's fundamental strengths and competitive advantages are still in place when the turmoil subsides.

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**The G20 members are committed to improving the global financial architecture. How is Canada responding in this respect?**

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We have moved quickly on reforms to financial regulation proposed by the Financial Stability Forum and will be acting similarly on the work plan that accompanied the G20 declaration. Our goal here is to improve regulation, not necessarily increase regulation. In fact, we are urging our provinces to work with us to eliminate duplication and create a common regulator in the securities area.

We have also had to take unprecedented action to get credit flowing in our financial system. We have done this by purchasing government-insured mortgages and providing guarantees to inter-bank lending.

But – and this is important – these have been commercial operations in the financial sector, not government subsidies or equity participation. And let me stress that as necessary as such actions may be in some countries, there should be a plan to unwind this direct participation by governments in the banking business in the longer term. Better government regulation of financial institutions, not financial institutions run by government, is the solution.

On the monetary policy side, our central bank has acted, sometimes in concert with others around the world, to lower interest rates, inject liquidity and pursue expansionary monetary policy. In fact, we have brought in legislation to facilitate some of these interventions by the Bank of Canada.

At the same time, we believe it is necessary for monetary policy to maintain inflation targets. We must avoid deflation today, just as we must guard against a rapid escalation in inflation once the world economy begins to recover.

Likewise, we believe in a flexible exchange rate. This is sometimes painful, but it has kept our economic sectors adjusting and avoiding permanent imbalances in the domestic economy. Since some of the current world economic problems began with large global

imbalances, we would urge more flexible exchange rates worldwide in the longer term.

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**There is a natural tendency towards protectionism, in times of economic crisis. What is your position on this?**

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We must continue to commit ourselves to an open and freer trade system and be vigilant against the rise of protectionism. When it comes to Canada's support of free and open economies and markets, our view is based on the success of our North American economic partnership. We took a close and trusting relationship with the United States and transformed it into the most successful commercial partnership in the world.

We must remember, notwithstanding our current difficulties, the prosperity generated around the world in the last part of the 20th century and the beginning of the 21st has been unprecedented in history. Removing protectionist barriers and easing trade restrictions helped to usher in this extraordinary era. In these times of economic instability, we cannot turn back. Now is the time for opening doors, not for erecting walls.

It is worth remembering what led to the Great Depression of the 1930s. It was not caused by a stock market crash. That was only the beginning. Policymakers pursued four sets of actions that defined that terrible decade. They allowed a rapid contraction of the banking system. They allowed widespread deflation as a consequence. They undertook to balance the books at all costs – raising taxes and contracting government economic activity at the one time when fiscal stimulus was absolutely essential. And, finally, they erected protectionist barriers in a short-sighted attempt to preserve jobs.

And at a time when some are questioning the wisdom of the prevalent economic system – the more open, trade-oriented global market economy – perhaps the success of the Canadian approach can inform the world. **F**

### The Economic Action Plan

- *Support for workers and tax payers*
- *Support for the housing sector*
- *Infrastructure investment to create jobs*
- *Support for business and communities*
- *Improved access to financing*
- *Maintaining fiscal discipline*

**We will undertake whatever short-term fiscal measures are necessary to be part of a global economic solution to a global economic problem**