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**SPEECH BY THE HONOURABLE JIM FLAHERTY, MINISTER OF FINANCE, AT A LUNCH HOSTED BY THE CANADIAN CLUB OF TORONTO**

I am very pleased to be here today. The Canadian Club of Toronto has a long and proud tradition. It is the premier forum for discussing the key issues facing the country.

Having had the privilege of speaking here in the past, I understand and appreciate that this is an outstanding national platform, and I thank you for the invitation to address you today at what is a rather difficult time globally. In Canada we are entering our pre-budget consultation period. Next week we will formally begin that process.

For context it's useful to take a moment to consider where we've come from.

Three years ago the world economy was in dire straits. It was a critical time. I remember being at the G-7 Finance Ministers and Central Bank Governors Meeting in Washington, D.C., on Friday, October 10, 2008, at a time of a quite serious crisis. We created a five-point plan at quite a critical time. As many of you will recall, Lehman Brothers had failed a month before and Bear Stearns before that. Some of the German regional banks had failed. There had been bank failures in the United Kingdom. It wasn't clear that the equity markets were even going to open on the following Monday.

The plan restored a degree of direction and confidence in the economy. In November 2008, the G-20, which is about 80 per cent of the world's GDP, made the decision that we would go ahead and create stimulus in our economies. Four per cent of GDP was what was agreed to. In Canada, we created the Economic Action Plan with the cooperation of the provinces, which was vital and which worked.

Canada has recovered all of the output and all of the jobs lost during the recession of 2008–2009. There are about 600,000 more Canadians working today than when the recession ended, one of the strongest records among the advanced economies. Close to 9 in 10 of these jobs that have been created since July 2009 have been full-time jobs in high-wage industries, with three quarters in the private sector.

When measured on the same basis as in the United States, our unemployment rate is about 2.5 percentage points lower than in the U.S. That has not been true for a generation.

This didn't just happen by accident. When we first became the government in early 2006, it was apparent that the American economy was going to get into some difficulty at some point given the fiscal situation there.

We prepared for the crisis of 2008–2009. We lowered taxes in every way we collect them—business taxes, consumption taxes—reducing the GST by 2 per cent—and income taxes.

We were quite aggressive in reducing tariffs and we've continued to do that.

We continued to pay down debt despite Opposition calls at the time, in a minority Parliament, to increase spending.

We also reduced red tape and we continued to promote free trade, not only through the tariff changes but also through free trade agreements. Prime Minister Harper's government has signed free trade agreements with 9 countries and we are in negotiations with an additional 50 countries, including India and the European Union.

Canada weathered the economic storm relatively well and the world has noticed.

- For the fourth year in a row, the World Economic Forum rates our banking system as the world's soundest.

- Five Canadian financial institutions were named to Bloomberg's list of the world's strongest banks, more than any other country.
- Both the IMF and the OECD forecast we will have among the strongest economic growth in the G-7 in the years ahead.
- *Forbes* magazine ranked Canada number one in its annual look at the best countries in the world to do business.
- And recently three credit rating agencies, Moody's, Fitch and Standard & Poor's, affirmed their top ratings for Canada.

That's all very good, but we are not immune to challenges that emanate from beyond our borders.

Again today, we are staring a crisis in the face.

Over the last few weeks, I've attended G-20 meetings in Cannes and APEC sessions in Honolulu, and I've met with Canada's major trading partners in Europe and Asia. During this period we have discussed lots of issues, but they all centre on the effects of the current volatility and uncertainty in the global economy and more importantly how to overcome it.

The most immediate issue of course is Europe, where concrete actions are still clearly needed to deal with the sovereign debt and banking sector crisis. This dire and pressing problem threatens not only Europe itself but all other countries. It threatens the strong, sustainable and balanced growth that G-20 countries have made their priority since the global downturn first began.

Ongoing uncertainty stemming from the European sovereign and banking crisis is leading to broader contagion outside Europe and in global credit markets.

If European authorities move aggressively and with decisiveness to address the crisis and restore financial market stability and confidence, the situation can be stabilized. To date such action has yet to be taken by the eurozone countries and the crisis remains far from resolved. That is why our government, in collaboration with our G-20 partners, continues to encourage Europe to take the necessary steps to finally put the crisis behind them and to do so in double time.

At the recent G-20 Summit in Cannes, G-20 leaders had many frank and in-depth discussions about the fragile outlook for the global economy—to be fair, Europe is not the only problem—and the steps that must be taken to address it.

One key measure highlighted in the G-20 communiqué at Cannes is the Cannes Action Plan for Jobs and Growth.

This is work done at the request of the leaders at the summit in Pittsburgh in early 2009. The plan, led by Canada and co-chaired by India, is a wide-ranging blueprint to address short-term vulnerabilities while strengthening the foundations for growth over the long term.

First, it stresses that all countries must implement credible plans for debt and deficit reduction. Second, it stresses that all countries must address global imbalances. The action plan has a commitment with respect to flexible currencies that goes farther than we have ever gotten before. And third, countries must restore market confidence.

The sovereign debt problems in Europe are mirrored in the fiscal challenges faced by some other advanced economies. For many of them, the scale of the problem is unprecedented in peacetime. These aren't abstract economic discussions. For the people in the countries affected, the continued crisis and the lack of political will to resolve it can have dire consequences.

In those countries, it will mean dramatically reduced services and dramatically increased taxes. It will mean continued unsustainable debt burdens that will be passed on to their children and grandchildren. It will mean, as we have already seen, social unrest and instability in those societies.

Households don't operate like this and neither should countries. When your credit card is maxed out, you don't go out and get another one and continue to accumulate interest at 18 per cent. Instead, you figure out a way to restrain your spending and you increase your payments to reduce your debt. You make difficult choices to put your family's finances on a structurally stronger footing by re-evaluating how much you spend and where.

Otherwise you lose control of your destiny, either to a credit counsellor who will unilaterally impose harsh remedial measures or, worse yet, to bankruptcy court. Canadians know this. It's how they run their household budgets. It's how they expect their governments to run their budgets. It's how we run ours.

In good times, in times of surplus, we paid down our debt. As a result, in bad times, in times of crisis, we had the room to respond as we needed to. Because we paid down substantial amounts of debt before the crisis of 2008–2009, we were able to keep our net debt-to-GDP ratio well below our G-7 counterparts while other nations were piling vast amounts of new debt on old debt.

The IMF projects Canada's net debt-to-GDP ratio for 2011 is 34.9 per cent. That's for all governments in Canada. In contrast, Germany is projected to be at 57.2 per cent, the United States at 72.6 per cent, the United Kingdom at 72.9 per cent, France at 81 per cent and Italy at 100 per cent. The G-7 average net debt-to-GDP ratio for this year is 80 per cent.

Now let me say a few words about Canada's situation and strengths.

The threats to our economic stability obviously did not originate within our shores. But the economic leadership that gave us the flexibility to weather those threats did. We intend to continue that leadership. We stand ready to respond again in a flexible and pragmatic manner if the economic challenges from beyond our shores begin to threaten jobs and our economy here in Canada.

We must always remember that we will only hold onto our advantages by continuing to pursue those strategies that made us so resilient in the first place—responsibility, discipline and determination.

We face repeated calls from some corners to betray those principles. If we listened to them, we would watch all that was made possible vanish. While we will act as necessary, we will always ensure that any government spending is targeted and effective. We will not, and taxpayers will not, tolerate wasting their money on inefficient, wasteful spending.

That's why the Next Phase of Canada's Economic Action Plan includes a clear and necessary goal to return to balanced budgets in the medium term, and an achievable strategy that will get us there.

Ensuring the money we spend is effective, ensuring we are eliminating wasteful spending, is common sense. It's what you do with your businesses. It's what Canadians do with their household budgets, especially in challenging economic times.

Government needs to apply that same responsible fiscal stewardship to what we do. We need to be always reviewing our spending and eliminating waste.

We need to keep Canada on a fiscally sustainable track. By sticking to our target of eliminating our deficit in the medium term and finding savings within government operations, we will follow through on our pledge to Canadians while focusing on what truly matters: jobs and economic growth.

This is a balanced approach that has served this country well. It protects our economy, protects Canadian jobs and protects the services we provide to our citizens.

It also reins in spending so we eliminate the deficit in the medium term, keeping our Canadian economic advantage now and for generations to come.

Here I am talking about all governments in Canada.

Since there is only one level of taxpayer, all governments must work together to ensure Canada's fiscal house is in order, to make clear plans to return to balanced budgets—those who have not— and to prepare for whatever economic crisis heads our way in the future.

Balanced budgets are not important for their own sake. They are important for what they make possible and what they avoid.

Reducing debt frees up tax dollars otherwise absorbed by interest costs. This can then be reinvested in the things that matter most to Canadians: health care, public services and lower taxes.

It keeps interest rates low, encouraging businesses to create jobs and invest in the future.

It signals that public services are sustainable over the long run.

Very importantly, it strengthens the country's ability to respond to economic shocks such as the recent global financial crisis and other challenges such as an aging population.

It preserves the gains made in Canada's low-tax plan, fostering the long-term growth that will continue to generate high-wage jobs for Canadians.

Some of you may be asking, "Given the uncertainty in the global economic outlook, should the government delay its plan to achieve balanced budgets?" The answer is simple. In uncertain times, the most important contribution the government can make to bolster confidence and growth in our country is to maintain a sound fiscal position.

What's more, I firmly believe government should always be looking to eliminate wasteful, ineffective spending. After all, it's all taxpayers' money. It's not government money. It's money we tax and take away from families, workers and businesses. If we are endlessly funding programs or initiatives that do nothing for the economy, if we are spending on redundant or extremely poorly performing programs, we owe it to Canadian taxpayers to ask why and stop wasting their money.

As we prepare for Budget 2012, I will say again that it is not the time for dangerous and risky new spending schemes that will increase deficits and raise taxes.

As we do every year, we will hear from various groups, including the Opposition, calling for more spending, more programs and bigger government.

But I want to be clear. Although we are prepared to be flexible and pragmatic should circumstances warrant, our plan is to stick to our plan.

We know that Canadian families are worried about their jobs and their financial security. That is why our top priority will be to continue creating jobs and growth.

From that starting point, I am pleased to announce that national consultations for Budget 2012 will begin early next month, that is at the end of next week. In the coming weeks, we will once again consult widely with Canadians on

shaping Canada's economic future. We want to learn the views of Canadians on economic priorities and how best they can be realized. We want to hear their ideas on how we can generate jobs and growth while keeping taxes low and returning to balanced budgets in the medium term.

I am reaching out to Canadians across the country to help make that happen. This process will continue into the New Year at several sites around the country and on the Internet at the Department of Finance website at [www.fin.gc.ca](http://www.fin.gc.ca). I also look forward to working with my provincial counterparts. We are going to meet about a week before Christmas in British Columbia.

We need the provinces to exercise the same prudent path as we are exercising in order to maintain the solid position of the Canadian economy in the world and to strive together to usher in a post-recovery era of fiscal discipline and fiscal responsibility.

We need to anticipate that there will be further economic challenges down the road. There certainly are challenges in Europe right now.

But global economic angst will not sidetrack us from our ultimate goal of balanced budgets.

Canada is better positioned than any other G-7 country. And the resilience we've demonstrated in our recent past will only boost our efforts to achieve a sustainable and prosperous recovery.

We will continue with our balanced approach, which focuses on economic growth and jobs, protects our economy, and reins in spending so that we can eliminate the deficit in the medium term, keeping our Canadian economic advantage now and in the future.

Our record of success under stress can serve as a model to others as the federal and provincial and territorial governments work together, in a coordinated effort, to restore growth and confidence.

Canada has been a leader throughout the response to the global economic downturn, and we will remain a leader.

If we strive for an enduring economic prosperity, not fleeting short-term political gratification, the reward will be a legacy we will be proud to leave our children and grandchildren.

Thank you for the invitation.