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SOURCE: PCO

DATE: MARCH 7, 2008

REFERENCE/ RÉFÉRENCE:0703DOC1

LOCATION/LIEU: TORONTO, ON

TIME/ HEURE: N/A

LENGTH/DURÉE: 26:00 MINUTES

PRIME MINISTER'S SPEECH AT ECONOMIC CLUB OF TORONTO

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RT. HON. STEPHEN HARPER (Prime Minister of Canada): Merci beaucoup. Thank you very much. Thank you very much. Merci beaucoup mesdames et messieurs. Bon après-midi. Good afternoon ladies and gentlemen. First of all thank you Andrew for your kind introduction. I did also...last year I was able to spend some time with Governor Schwarzenegger, found his handshake very strong. I didn't test him on it. (LAUGHTER) I have to tell you, though, the first time I met Governor Schwarzenegger, I have to tell you the story. I was down in Mexico City. Governor Schwarzenegger and I were attending the inauguration of President...new president Calderon of Mexico, and some of you may recall from that, it was quite an event. There was kind of open brawling in the Mexican Congress as they tried to swear in President Calderon, and I was there with Governor Schwarzenegger and former president George Herbert Walker Bush. And all during this, President Bush kept yelling, "We've got send Arnie down there to straighten that out!" (LAUGHTER) It was one of those things you'll always remember. (LAUGHTER)

Any case, greetings today to President Adler and to all members and guests of the Economic Club of Toronto, sponsors as well, thank you very much for the invitation to speak today. If you don't mind, I'd also like to extend greetings and also an introduction to my own colleagues who are with us today, including Senator and Minister Marjory LeBreton who is here. (APPLAUSE) I understand Secretary of State Jason Kenney is here. Where is he? (APPLAUSE) Member of Parliament Wajid Khan. (APPLAUSE) And I'm also told that my friend from Queen's Park, the leader of the Opposition John Tory is here today as well. (APPLAUSE)

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Ladies and gentlemen it's always a pleasure for me to be back in Toronto, and I am pleased to have this opportunity to speak to the Economic Club so soon after the passage of our government's third budget. Now, I think as you know in the lead-up to the budget, there was quite a bit of speculation that it might trigger an election. The NDP and the Bloc were resolutely opposed to everything in the budget, prior to even seeing it, and the Liberal Party, as you know, had done a fair share of sabre rattling in the preceding weeks. But on the day of the vote, the various howls of outrage became whimpers of abstention. Now, why was this? Political gamesmanship aside, I believe the reasons for the passage of our third budget are really quite straightforward.

Parce que malgré cette période d'incertitude économique, l'économie canadienne est forte. Et parce que malgré les difficiles choix budgétaires que ces périodes nécessitent, le gouvernement a choisi une orientation claire et équilibrée, largement soutenue par les Canadiens et les Canadiennes.

The budget passed in the end because despite these uncertain economic times, the Canadian economy is strong. And because despite the tough budgetary choices such times require, the government has chosen a clear and balanced direction that is widely supported by Canadians. In fact, we have charted a consistent course on economic and fiscal policy since the day we took office.

Nous avons dit que nous ferions des réductions fiscales sensées, réduirions la dette publique et garderions les dépenses sous contrôle et axées sur les résultats. Et dans chacun de nos budgets, c'est exactement ce que nous avons fait.

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We said from the beginning we would make affordable tax reductions, reduce the public debt and keep spending under control and focused on results. In each of our budgets, that is precisely what we have done. This approach reflects our clear conviction, our conviction as Conservatives that low taxes, less debt and controlled and effective spending at the national level are a big part of the key to long-run success of our economy, of any economy, and that is our goal. The growth and prosperity of the Canadian economy, for the benefit of working Canadian families now and into the future. It also happens to be, if you think for a moment, it happens to be how hardworking families themselves plan for success, spending on priorities, keeping their debt levels down and making investments in the future for themselves and their children.

En gros, nos allocations budgétaires sur cinq ans, de 2006 à 2010, se répartissent comme suit: la moitié des nos actions budgétaires discrétionnaires sont des réductions de taxes et d'impôts, et le reste est également réparti entre le remboursement de la dette et de nouvelles dépenses. C'est un plan efficace, cohérent et équilibré qui fonctionne.

Now roughly speaking, our budget allocations for the five years between 2006, when we took office, and 2010 break down like this: half of all of our discretionary fiscal action has gone to tax reduction, and the remainder evenly split between debt pay-down and new spending. It is a realistic, consistent and balanced approach, and it is working. Canada's economic fundamentals are strong. At a time of growing uncertainty in the global economy, we are in the best financial and economic position of any country in the G7. (APPLAUSE) Look at the facts. We can't advertise these enough. Those of you particularly who are in international business. Inflation

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and interest rates remain low and stable, personal disposable income has been rising steadily, net employment has increased – net employment has increased by over three quarters of a million jobs since our government took office, including as reported today, 43 000 jobs last month alone. (APPLAUSE) The national unemployment rate remains under six percent, the lowest it's been since 1975. But as Minister Flaherty observed in his budget speech, Canada is not an island and our export-driven economy is expected to grow more slowly over the next two years. We said this last fall. We noted that the economic downturn in the US, the tighter credit market, global financial volatility, the falling American dollar, all of these things pose some serious challenges for us. Some sectors in the country are already facing the consequences of this or of long-term adjustment pressures. And though overall inflation remains low, rising costs of some goods and in some parts of the country are squeezing the budgets of some Canadian families. Now, ladies and gentlemen, there are a couple of ways to cope with these challenges. One is to throw money at them as the opposition parties demanded in the weeks leading up to the budget, and as I suspect they will continue to do going forward, to suggest that every problem demands an immediate response, an immediate short-term, high cost intervention or subsidization. We didn't do that in the budget and we are not about to do that going forward into the next year. (APPLAUSE)

Si nous faisons tout ce que l'opposition demande, nous devrions augmenter le fardeau fiscal ou tomber en déficit ou les deux, et sérieusement en une nuit. Ce serait mauvais pour l'économie canadienne, mauvais maintenant, avec des conséquences encore pires dans l'avenir.

To do everything the opposition demands – you know, our Official Opposition has demanded no less than \$100 billion in various

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government initiatives. Now, you know, I was in opposition myself. I understand, you need to criticize the government, you want to get out and make some commitments. But to do something like that as a global policy would require us to raise taxes or run a deficit or both in a big way overnight. That would be wrong for the Canadian economy. It would be wrong now, and it would have worse consequences in the future. (APPLAUSE) History has proven over and over again that a balanced approach to fiscal policy based on low taxes, lowering the debt burden and disciplined spending creates a sturdy foundation for a strong, successful economy. And broader economic policies must be shaped around building strong long-term fundamentals, fundamentals that are forward-looking, not bailouts of today's problems. We've tried to take this general approach since coming to office. Our first budget in 2006 established the broad direction of our government and delivered on a series of specific campaign commitments. It delivered almost \$20 billion in tax reductions, more than the previous four budget combined, as well as important initiatives, like the universal childcare benefit. It restrained the rate of growth of spending and institutionalized finally something that had gone missing for a number of years, institutionalized a process for identifying and eliminating wasteful or low-priority spending. And it launched Canada on the path to debt freedom by committing billions to paying down the national mortgage and setting some debt burden targets going forward. Our second budget, 2007, was even more focused on longer-term objectives. It cut taxes and reduced debt even more aggressively and kept spending focused on direct benefits for Canadian taxpayers and their families. It unveiled our infrastructure plan, our plan to undertake...we are undertaking the largest investment in national infrastructure in this country in over half a century. It tackled... (APPLAUSE)

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It tackled the fiscal imbalance to ensure long-term, principled-based revenue arrangements with the provinces, sufficient to give them similar flexibility on things like infrastructure and social service priorities. As well, we invested heavily in post-secondary education and training and in science and technology research and development. In fact, as was mentioned earlier at the reception, we have created an S&T strategy, which I think all of you know is key to maintaining Canada's competitive edge going forward. And of course, I should mention as well we were already seized last year with some of the sectoral challenges that we face. Most importantly, we helped manufacturers improve their competitiveness by allowing them to accelerate write-offs as capital investment and new machinery and equipment. Canada can maintain a competitive manufacturing sector. But to do so in the modern global economy will require that sector to move to the higher, more capital-intensive end of the industry. And that is what we are trying to help business achieve.

Le budget 2008 maintient le cap, réduit les taxes et les impôts et se concentrait sur de nouvelles dépenses tout en maintenant l'équilibre budgétaire. Mais nous avons fait quelque chose d'inhabituel cette année: nous avons annoncé et adopté certaines de nos plus importantes mesures budgétaires, une série de réductions fiscales et la Fiducie pour le développement communautaire bien avant le dépôt du budget.

Budget 2008 stays the course, lowering taxes and focusing new spending while keeping the budget balanced. But we did something unusual this year: we announced and passed some of our most important budgetary actions well before budget day. Why? Well, because since last August, we have been increasingly worried about the ongoing consequences of the global financial volatility that began with the sub-prime

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mortgage meltdown in the United States. Given our strong fiscal position, we decided to take action in the fall, to take the action in the fall – some of the action – that we had planned for the spring. Most importantly, months before Washington did anything, we took action to stimulate the Canadian economy with \$60 billion worth of tax relief for individuals, families and businesses. (APPLAUSE) Cutting the GST to five percent, dropping the lowest personal income tax rate, raising the basic personal exemption were key measures. And I should say on this, you know, I know that some of my...some of my friends in the economics profession, I'm reminded today I am an economist, because one of our sponsors is the Canadian Institute of Chartered Accountants. I said hello to several of their members backstage. I always have to tell this story. I think some of you know that my father was a chartered accountant and both of my brothers are chartered accountants, and I was under a lot of family pressure when I was young to become a chartered accountant, but concluded – I became an economist and politician – concluded I didn't have the charisma to be an accountant. (LAUGHTER, APPLAUSE)

Well, let me just talk about this for a second, because I know there's been some criticism in economist circles, we'll call it that, about the fact that we did some of these measures, that we cut the GST in particular to five percent, and also cut the lowest income tax rate and the basic personal exemption. Let me be clear why we did that. These are not tax cuts just for the sake of being fair to everyone, although they are. These are not just done with the intention of fulfilling campaign commitments, although we always try and fulfill those campaign commitments. But they also are serving to reinforce domestic demand in this country, which has been critical in maintaining the strength of the Canadian economy as the export sector and our

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export sector to the United States has begun to weaken. But more important to Canada's long-term economic strength, admittedly, was our move to lower the general corporate tax rate by two and a half points on January first of this year and all the way to 15 percent by January first 2012. (APPLAUSE) The way we are headed, we will soon have the lowest rate of business income taxation anywhere in the G7 group of countries. Now...(APPLAUSE) If I can digress for a moment, I'd like to emphasize how important it is for provincial governments to do their part also for the business taxation and investment climate. We've challenged them to remove capital taxes, to reduce the costs of the traditional layered sales tax and to lower their own corporate tax rates to ten percent so that Canada's combined federal-provincial corporate income tax rate will be no more than 25 percent by 2012. This can be a powerful selling point for Canadian companies competing for foreign investment. I'm pleased to see Manitoba get on with eliminating its capital tax. I'm pleased to see Prince Edward Island looking at harmonizing its sales tax with the GST. And I'm very pleased to see British Columbia moving clearly toward the goals we set for corporate taxation in that province's most recent budget. These moves help the economy in those provinces and help it nationally. But they help no part of the economy more strongly than manufacturing. Make no mistake, the diversity and the resiliency of the national economy depends on a healthy manufacturing sector, just as it depends on services and commodities. Tax reform and reduction is part of securing our manufacturing base. In fact, it is an indispensable part of what needs to be done for manufacturing and I encourage all of you to put pressure on all governments to undertake these steps because they are necessary for our economy. (APPLAUSE) Of course, these tax reforms and reductions are not the only thing that's required. Before

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the budget, as I mentioned, we also announced the Community Development Trust. The Trust is designed to help communities and workers in areas highly dependent on struggling industries to help them adjust to current economic challenges. I first announced this program at a strong secondary forestry manufacturer, Marwood Limited in Tracyville, New Brunswick. Now, some people were surprised that I didn't announce this program at a mill that had shut down. The choice was deliberate. The program is not a bailout for failing businesses; that would be a mistake. Instead of bailouts for businesses, we are providing funds to the provinces to be used for workers and communities to seek new opportunities through initiatives like job training, local diversification, infrastructure improvements and new approaches in traditional sectors. February's budget builds on these initiatives. It includes a three-year extension of the accelerated capital cost allowance for manufacturing, and it does so on a declining basis, because we need new investment in this sector and we want the incentive for that investment to be sooner rather than later. We're providing assistance to help build markets for forestry in light of the decline of the US housing sector. We're providing even more support for scientific research development and post-secondary education. And we're dealing directly with the challenges in the auto sector with our new Automotive Innovation Fund, a fund that will support the development of cleaner, greener and more fuel-efficient vehicles. This is an example of how we are trying to look forward, not back, to make prudent, strategic investments in a way that will take advantage of the inevitable adjustment and the opportunities that will result.

Je devrais aussi mentionner que le budget de cette année poursuit la mise en application d'un système de gestion des dépenses

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exhaustives. Lors de la première ronde, nous avons examiné 17 bureaucraties fédérales et identifié des économies possibles de près de 400 million \$.

I should also mention that this year's budget continued the implementation of our comprehensive expenditure management system. This was something not widely covered. In the first round, we reviewed 17 federal bureaucracies and identified almost \$400 million worth of savings. This year's budget also addresses some of the particular needs of the greater Toronto area, a significant portion of the National Public Transit Capital Trust, will support transit expansion in Ontario and the GTA. Toronto will be the site of one of five national pilot projects undertaken by the new Mental Health Commission to deal with the problem of homelessness, and our Police Officers Recruitment Fund will help regional police forces higher additional front-line officers who can target local crime and make communities safer.

Tout ça étant dit, je crois que l'élément central du budget de cette année, et comme l'a dit le ministre Flaherty, est le compte d'épargne libre d'impôts, le seul véhicule d'épargne personnel majeur depuis la création des RÉER il y a 50 ans.

But having said all that, I do believe that the centrepiece of this year's budget is, as Minister Flaherty has said, the introduction of the tax free savings account, the single most important personal savings vehicle since the introduction of the RRSP half a century ago. For the first time ever, Canadians will be able to earn tax-free income on their investments. This will encourage Canadians to set aside more of their hard-earned income, because these earnings will be safe from the taxman forever. (APPLAUSE) Not only will the savings be there for proverbial rainy days, but because the money can be withdrawn at any time without tax penalty, without any loss to lifetime

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savings room, the savings and earnings can be used flexibly to buy a new car, a home renovation, a trip of a lifetime or anything else. Obviously this is an important benefit for individuals and families. But I ask you for a moment to think about how important this is from a long-term, macroeconomic perspective. The powerful incentive to create a growing pool of national savings. Compare that with the situation south of the border with a credit market buckling under the weight of an overextending housing sector. All the incentive there has been to borrow against equity on real estate holdings, leading to a housing market bubble that burst with nothing to fall back on except foreclosure and bankruptcy. By contrast, the tax-free savings accounts will create a new pool of investment capital that can be used to grow our economy and create new jobs. It will start out small, just as the RRSPs did, but a generation from now I predict that this country will see the difference: much higher personal savings rates and much lower rates of government taxation on investment, and as a direct result, I predict the Canadian economy of our children will be even stronger than it is in our time; much stronger in fact. (APPLAUSE) Now some of you are thinking that's pretty optimistic at this point in time, but I believe we should as a country be aiming far and aiming high.

Je crois au potentiel économique beaucoup plus grand du Canada et je crois que si les gouvernements allègent le fardeau fiscal des Canadiens et des Canadiennes, les libèrent du fardeau de la dette et dépensent leurs dollars d'impôts pour des choses qui amélioreront vraiment leurs vies, il n'y a aucune limite à ce que notre pays peut accomplir.

I believe in Canada's much bigger economic potential, and I believe that if governments lift the tax load off Canadians, free them

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from debt burden and focus the spending of their tax dollars on things that actually make their lives better, then there is truly no limit to what our country can achieve. Now, ladies and gentlemen, as Minister Flaherty said in last month's budget, Canada has reached a fork in the road. Indeed, as I said several months ago, we have been heading into a period of economic uncertainty and slower growth. It's happened before and it will happen again. But the fork in the road is whether under these circumstances we will make choices that will exacerbate the problem for the sake of the short-term, or whether we will make choices that allow us to exploit the potential in our future. Some will suggest, as they already are, that we go back to the old ways in defiance of reason and experience. They will suggest higher taxes, higher spending, higher debt, business bailouts, or even a return to protectionist trade policies. I don't believe that's what Canada needs and I don't believe that's what Canadians want. They want lower taxes, less debt and carefully targeted assistance that helps workers, families and communities and businesses build a better future in the global economy. They want prudent fiscal discipline during uncertain economic times, not reckless spending promises. They want economic leadership that, yes, anticipates and responds to short-term challenges, but plans for long-term prosperity. And if we stay the course of lower taxes, lower debt and prudent spending, Canada will come out of the current international downturn stronger, better and more prosperous than ever before. I want to thank you all for the invitation today. Merci beaucoup et à la prochaine.

(APPLAUSE)

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