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SOURCE: PCO

DATE: JANUARY 28, 2010

REFERENCE/ RÉFÉRENCE: 2801DOC5

LOCATION/LIEU: DAVOS, SWITZERLAND

TIME/ HEURE: 17:30

LENGTH/DURÉE: 27:30 MINUTES

**PRIME MINISTER'S ADDRESS TO THE WORLD ECONOMIC
FORUM**

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(APPLAUSE)

RT. HON. STEPHEN HARPER (Prime Minister of Canada): Thank you very much, Professor. Merci mesdames et messieurs. It's great to be here in Davos and to have this opportunity to contribute to your discussions on some of the vital issues that are confronting the world today. Some of them are complex, and they may at time seem abstract, but for ordinary men and women everywhere, the substance of what we talk about here translates into simple realities, like a home, food on the table, or a better life for their children. So it's an important debate, one that we're delighted to be part of. I should also like to welcome some other members of our government, my government, that are here today, my friends and colleagues, Finance Minister Jim Flaherty is here, Minister of International Trade Peter Van Loan, of course, Ambassador Santi and also Governor of the Bank of Canada, Mark Carney. Welcome to all of you and to all the other Canadian delegates who are here today. (APPLAUSE) I'd also like, Professor, to take a moment to offer my personal congratulations to you on this, the 40th annual gathering of your creation, the World Economic Forum. You chose as its motto "Committed to improving the state of the world". I would observe that few who have set such a lofty goal have more reason to be pleased with their accomplishments. To have conceived of the need for such an institution of this required insight. To have established it took commitment, but to have then nurtured it as a podium from which business and political leaders could nudge public policy by addressing their peers from around the world, that is a formidable achievement, and Professor, this gathering salutes you. (APPLAUSE)

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Professor, while it has been a long time since the first meeting of this forum four decades ago, our circumstances today have something in common with the world in the years following 1971. Economies then were in turmoil, the institutions governing international finance were failing the test of crisis, and wherever one looked around the world, there was trouble; so it is today. The latest crisis hit as the world was grappling already with enormous challenges: large current account imbalances, aging populations in advanced countries, violence, terrorism, and of course the eternal problems of poverty and underdevelopment. There is always something, but we must never stop trying to improve the state of the world. Therefore, in June when Canada hosts the leaders of the G20 and the G8 in Toronto and Muskoka, respectively, our goal is to work with our partners towards practical and durable solutions. In the next few minutes, I want to share some of the principles that will guide the government of Canada, and hopefully the discussions at these summits under our theme “Recovery and new beginnings”.

Let me first talk about the G20 itself, which at Pittsburgh we officially designated as the world’s premiere forum for economic cooperation. In that role, the G20 will stand or fall on its ability to demonstrate in the months to come the same cooperative spirit it has shown over the past year. Now, I am hopeful. Beginning in Washington in November 2008, G20 leaders have responded to the systemic financial collapse and the global recession with quick, decisive and coordinated action. At the London summit in April 2009, these measures were expanded with a particular emphasis on the most vulnerable states, so that in Pittsburgh, the seeds of a new era of balanced, sustainable growth were planted. If I may be

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indulged in a personal recollection, what I saw at the Washington summit made an enormous impression on me. Nations whose interests have often been at odds, nations with different traditions of governance, rivals, even former enemies found themselves addressing common problems with a common will. In this globalized economy, they recognized that a flood engulfing one would soon swamp them all. So even though 20-some leaders all represented sovereign states, they agreed to common and synchronized actions to chart the same course towards calmer waters. Ideological differences were set aside, old enmities were not raised. I would say this: if you had arrived from another planet, you could never have guessed which nations had spent decades mired in hostility. Now, you might call it the fellowship of the lifeboat, but ladies and gentlemen, in that brief parting of the veil, I saw world leadership at its best, a glimpse of a hopeful future, one where we act together for the good of all, the world we have been trying to build since 1945, the world we want for our children and grandchildren. It shows it can be done if we act together, and we call this...I call this “enlightened sovereignty”. And I believe our understanding in Washington – just in Washington – allowed us to avoid the cataclysm that otherwise really would have come to pass. But an agreement to act is just a start. It is acting on the agreement that matters. So when the G20 resumes in Toronto, the discussion should be less about new agreements than accountability for existing ones, less about lofty promises than real results, less about narrow self-interest in sovereignty’s name than an expanded view of mutual interests in which there is room for all to grow and prosper. Enlightened sovereignty, then, the natural extension of enlightened self-interest.

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Pour être bref, le vrai test des progrès du G20 sera d'assurer qu'il crée et entretient parmi ses membres un sens des responsabilités partagées envers l'économie mondiale, une souveraineté éclairée, si vous voulez.

To be succinct, the real test of the G20 going forward is that it develops and sustains among its members a sense of shared responsibility toward the global economy. For while the market's awesome power to generate and widely distribute wealth is self-evident, we also know from history that markets do need governance. And so the new global economy, the G20, is today what we have.

Now, as we work through the final stages of the recession and embrace recovery, there are three critical areas where G20 actions have been and will remain vital: financial sector reform, stimulus programs, and global trade and growth strategies. Let me begin with reform of the financial sector, reform of financial sector regulation. This has been a focus since Washington, because after all, that sector's failures and the transmission of its contagion globally are widely acknowledged to have triggered the crisis. Now, as many of you know, and Professor, you were kind enough to mention once again, Canada was not a part of the problem. Canadian banks have maintained healthy leveraged ratios and largely avoided exposure to toxic assets. No major Canadian financial institution failed, and none required bailouts from the government. As a consequence, Canada now has one of the largest banking sectors in the world, and it is entirely, entirely in the private sector. I should just note that reputable observers have recognized this Canadian advantage. As you said, Professor, this year as last, your own eminent organization, the World Economic Forum and more recently Moody's

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Investor Service both ranked Canada's banks as the world's soundest. The International Monetary Fund has commented that, let me quote, that Canada's financial sector has shown, quote, "remarkable stability amid the global turbulence, thanks in good part to strong supervision and regulation," unquote. This is undoubtedly part of the reason why Canada took on the co-chairmanship of financial sector regulatory reform at the first G20 in Washington. Canada has maintained good active systems of prudent and measured regulation. Now, I should just be clear, we do not claim that our system is perfect. The lack of a single national securities regulator is an obvious hole. The vast majority of our provinces are now working with us to fill that gap. We've also been obliged to tighten the criteria for government mortgage insurance, so there are things we can and will do. But overall, the performance of this sector during the crisis showcased the effectiveness of Canada's approach. Through our G20 chairmanship this year, we want to urge the adoption of similar regulatory practices globally, and in this regard, I believe the Canadian system generally does two things that should guide future work in this area. First: we must promote national regulation sufficiently strong to avoid repetition of the kind of crisis we experienced last year. We also believe that such national systems should be subject to international peer review in order to enhance transparency and reduce risk to the global economy. Anything less would expose every economy to needless risk. In fact, if inadequate regulation is not addressed, I believe the consequences could actually be worse than before the crisis. If after a period of renewed stability institutions are able to return to the irresponsible practices that caused the crisis, what would they have learned? They would have learned a very bad lesson – that is, that reckless behaviour can be engaged in because national

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governments will ultimately backstop the consequences, and that, ladies and gentlemen, would be a very dangerous precedent. (APPLAUSE) Obviously then, financial sector regulation must be tackled and it must be adequate. But, second, Canada also believes that financial sector regulation must have the right purposes and must not be excessive. Now let me just say first of all that I understand why there are calls for such an approaches in some circles. In situations very different than Canada's, where big bank failures resulted in public bailouts, where the public endured the pain, yet those who caused it seemed to emerge unscathed, there is understandably public anger and demands for tough or even retaliatory action. In Canada, because our situation has been so different, we don't face such demands and public opinion is much more reflective about what is needed. Our approach to financial sector regulation in Canada, while historically much more activist than in many other countries, has not been to micromanage the affairs of a complex industry. Its purpose is to ensure transparency in the marketplace, help link risk, performance and reward, and encourage a culture of prudent behaviour focussed on the long term.

Soyons clair, via le G20, nous allons encourager une réglementation du secteur financier plus stricte, et une meilleure coordination entre les organismes de réglementation. Mais le Canada n'optera pas pour une réglementation excessive, arbitraire ou punitive de son secteur financier.

So let me be clear, through the G20 we will be encouraging strengthened financial sector regulation and improved coordination between regulators. But Canada will not go down the path of excessive, arbitrary or punitive regulation of its financial sector. Canada... (APPLAUSE) Canada has a well-regulated, free-market economy with a

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private financial sector of enormous strength. We intend to build on that advantage, we intend to see the financial sector in Canada grow, and we intend Canada's global position in that industry to get stronger yet in the future.

The second ongoing G20...policy debate and policy priority has been to drive globally-coordinated stimulus measures, both monetary and fiscal. We believe it is important to stay the course, but only for now. It remains my conviction that fiscal expansion, enhanced government spending and increased fiscal deficits were necessary during the recession. In fact, with rapidly falling output and employment and interest rates near zero, economic theory has been very clear: this was the only option. The temptation today to see hopeful signs of recovery everywhere in small things is understandable; so, then, would be the wish to declare recovery and abandon last year's commitments to these expensive public investments. We believe that would be a mistake. The truth is that despite the G20's good work during the last 15 months, the recovery is a mile wide, but only an inch deep, and job creation remains very tentative.

Mais, bien qu'il soit beaucoup trop tôt pour abandonner les programmes de relance, il n'est plus trop tôt pour commencer à planifier la prochaine phase pour commencer à réfléchir à des stratégies de sortie.

But, while it is absolutely too soon...excuse me. While it is absolutely too soon to abandon stimulus programs, it is no longer too early to start thinking about a strategy to exit them. Because we all know the long-term risks of prolonged government spending of this magnitude: renewed inflation, rising interest rates, crowding out of investment, prolonged sluggish economic performance. This view informs our economic planning in Canada. Canada will therefore complete its two-year economic action plan, its fiscal

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stimulus measures in support of the recovery, support of the economy. We shall faithfully meet all the promises we made at earlier G20 meetings. At the same time, our next budget will outline a path to reduce our deficit and return to balanced budgets in the medium term. We will, we will be doing this, I should add, we will be doing this – I want to talk about this Canadian advantage – we will be doing this from levels of deficit and debt that are, by comparison with other advanced industrialized economies, quite modest. We have the lowest level of indebtedness in the G7 by far, and when the recession ends, our relative levels of indebtedness will still be lower by an even wider margin. That is because Canada paid off debt aggressively during the growth years. Now, in passing, as an economist, I must observe that this recommendation of John Maynard Keynes is seldom acted upon as vigorously as his permission to borrow. I would say that in this regard, Keynesianism is a bit like communism: according to those who advocate it, neither has been properly attempted. (LAUGHTER) So thus governments borrow when times are difficult because they must, and then they borrow more when times are easy because they can. But instead, true Keynesians that we are accused of being, our government paid \$38 billion off Canada's national debt between 2006 and 2009. And that's, incidentally, is what allowed us to lower taxes in Canada. We believe it is important that taxes be low, and that tax reductions be sustainable. That way they become a permanent form of fiscal stimulus. In an environment of falling debt, we were able to lower taxes of all kinds. In fact, Canada has already the lowest rate on new business investment in the G7. Investors, take note: Canada is, and will remain, open for business.

Now finally, let us talk about global trade and growth strategies. I suspect every single person in this room, I suspect every single

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person in this room understands that the growth in global trade has been largely responsible for wealth creation worldwide in the past generation, and therefore enhancing trade and resisting protectionism is both essential to the world economy, and to the just cause of raising millions from poverty. The G20 has said this at every single meeting. Of course, there have been national actions, maybe too many, that detract from that goal. Even so, we have thus far avoided anything like the protectionism that turned the stock market crash of 1929 into a decade-long depression. In Canada, we have tried, continue to try to be leaders in promoting free trade and open markets. Our stimulus package, I should mention, did not raise tariffs, it lowered them, unilaterally, I might add. Since 2006, we have concluded free trade agreements with eight additional countries and we are engaged in six other negotiations, including with the European Union. We will continue to promote trade. We will continue to resist protectionism and to reduce and eliminate tariff barriers. However, at Pittsburgh last year, the G20 went beyond merely advocating for trade and against protectionism as a basis for promoting global growth. We established what we christened the “Framework for Strong, Sustainable and Balanced Growth”. Much of what the Framework prescribes takes us in the right direction. I speak especially of consensus at the macro level on the causes of the recession and the mutual commitment among G20 members to coordinate their policies. However, this is where G20 partners must truly embrace enlightened views of sovereign behaviour; otherwise we will pursue strategies inevitably that do not produce mutual advantage and therefore cannot be sustained, like, “Drop your tariffs, I’ll keep mine, or “Let your currency trade at market rates, we’ll keep ours undervalued.” We should know from the terrible experience in the 1930s that strategies that make it

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difficult for somebody to do business inevitably make it more difficult for everybody to do business. So I say, notions rooted... (APPLAUSE) So I say, notions rooted in a narrow view of sovereignty and national self-interest must be reconsidered. We cannot do business as though for one to have more, another must have less. That is not true, it is not just, and it cannot be the path we take. Our ambition, the necessary condition for success as the G20 moves forward, must be a shared belief that the rising tide of recovery must lift all boats, not just some. This is the exercise of sovereignty at its most enlightened. And I don't believe, by the way – let me just say this as an aside – I don't believe, by the way, that this is all about the structure of global institutions. It is more about a matter...it is more a matter of attitude. Some words of the former U.S. Secretary of State Cordell Hull seem apt. As you know, Hull was a driving force in the creation of postwar international institutions that are with us still: the UN, for example, and the World Bank. Accepting the Nobel Peace Prize in 1945 for his work, Hull had this to say about international institutions. I like this quote, because it's so similar to what my father told me for many, many years. "To be sure, no piece of social machinery, however well-constructed, can be effective unless there is back of it a will and a determination to make it work."

Peu importe les structures mondiales que nous concevons pour le mieux être mutuel, si on n'a pas les bonnes attitudes, elles ne vont pas fonctionner.

It doesn't matter what global structures we devise for our mutual betterment; if we don't have the right global attitudes, they will not work. Now ladies and gentlemen, with the G20 necessarily focused on the economy, there does remain, in our view, an important role for the G8 Group

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of Nations, the Group of Eight nations in non-economic matters, in promoting democracy, development, peace and security. In this troubled world, we clearly recognize how much else there is that requires international cooperation. Terrorism threatens all of us. Piracy has returned to strategic seaways. Climate change disproportionately threatens the peoples least capable of adapting to it. And although tensions between the older nuclear states have largely dissipated, the spread of nuclear weapons to new actors allows the world no relief from anxiety. These are all complex, daunting threats that cannot be met by any one country working alone. They require the close cooperation of friends and like-minded allies. On these, the G8 can show leadership.

As an example, let us close with something where progress is possible, if we are willing. It concerns the link between poverty and the appalling mortality among mothers and small children in the third world. Did you know that every year over half a million women die in pregnancy and nearly 9 million children die before their fifth birthday? The numbers should shock and grieve us. Far too many lives and futures are being lost. And to the world's shame, so many have been lost for want of relatively simple health solutions, all within reach of the international community. Often the keys of life are no more sophisticated than clean water, widely available vaccines, or the most basic treatment against infection. That so little has been done is tragic. It is not just about words on a page. It is real hunger, real suffering, real people dying. Canada takes its development commitments seriously, including those made at the G8. That's why, for example, we have doubled aid to Africa as promised, and we are on track with our commitment to double international assistance this year. So what is required to fight this

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particular problem of human misery? It is merely the same unity of purpose that we can find within ourselves readily enough when disaster strikes, as it recently did in Haiti, or as we can and do when the problem is one of trade, finance or the economy. We must find that unity of purpose.

Voilà pourquoi, en tant que président du G8, le Canada va défendre une initiative majeure pour améliorer la santé des femmes et des enfants dans les régions les plus vulnérables de la planète.

That is why, as president of the G8, Canada will champion a major initiative to improve the health of women and children in the world's most vulnerable regions. (APPLAUSE) There are indications that other members of the G8 share our concern and would be receptive to such a proposal. It is therefore time to mobilize for friends and partners to do something for those who can do little for themselves, to replace grand good intentions with substantive acts of human goodwill.

Now, in conclusion, ladies and gentlemen, the G20 and G8 meetings have tried to boil it all down, but as you can see, they do have before them a huge agenda, all to be addressed in an atmosphere of ongoing global economic and financial uncertainty. We must bring a sense of shared responsibility. We must be pragmatic, focused, and above all, encourage accountability. The G20 nations must fully deliver on the commitments they have made. The Group of Eight must live up to their promises. Accountability, I believe, ladies and gentlemen, is the prerequisite for progress. As host of the G8 and G20 meetings this June, Canada will use its leadership, its leadership role to focus on these challenges, and I look forward to collaborating closely with our international partners as we continue to support the economic recovery and chart new beginnings for humanity

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worldwide. Thank you very much for your attention. Merci beaucoup, et à la prochaine. (APPLAUSE)

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