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PRIME MINISTER'S INTERVIEW WITH BLOOMBERG

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For Internal Information and Research Purposes only

REPORTER: Mr. Prime Minister.

RT. HON. STEPHEN HARPER (Prime Minister of Canada): Hi.

REPORTER: Andrew (inaudible).

RT. HON. STEPHEN HARPER: Hi Andrew.

REPORTER: How are you?

REPORTER: Mr. Prime Minister, (inaudible)...

RT. HON. STEPHEN HARPER: Good to see you.

REPORTER: Ken Fireman. How are you? Nice to meet you.

RT. HON. STEPHEN HARPER: Yeah. So they sent you down from Ottawa?

REPORTER: They sent me down from Ottawa.

RT. HON. STEPHEN HARPER: No better man in Washington than you?

REPORTER: Well, I (inaudible) last time, so...

RT. HON. STEPHEN HARPER: That's good.

REPORTER: Kevin's our managing editor for government, worldwide (inaudible)...

RT. HON. STEPHEN HARPER: They get the smartest man in the Canadian Press Gallery.

REPORTER: I'm glad to hear that.

RT. HON. STEPHEN HARPER: It's true.

REPORTER: Thank you.

RT. HON. STEPHEN HARPER: So, shall we get going?

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REPORTER: Yeah, absolutely.

RT. HON. STEPHEN HARPER: I'll sit here, and...

REPORTER: Already seen you on TV, and it sounds... looks like you had a pretty busy day.

RT. HON. STEPHEN HARPER: Yeah, keeping busy. So you two are based here.

REPORTER: I'm based in Ottawa.

RT. HON. STEPHEN HARPER: You're based in Ottawa.

REPORTER: Andrew is team leader for all of the eco-government coverage for the Americas, ex-US. So he deals with Latin America as well as Canada...

RT. HON. STEPHEN HARPER: How big is your staff in Canada?

REPORTER: We're the biggest foreign news agency in Ottawa. We're six. So we're not...

RT. HON. STEPHEN HARPER: No, you're (inaudible).

REPORTER: Yeah. We have...we've...we're really committed to Canada, and we've expanded, and as this crisis has shown, a lot of people are looking at Canada, you know, how it got through the crisis and how its banks did. So a lot of reader interest right now.

RT. HON. STEPHEN HARPER: Well, we should begin?

REPORTER: Yes. Prime Minister, thank you for taking the time to do this.

RT. HON. STEPHEN HARPER: Glad to be here.

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REPORTER: You're headed to London next week to meet global leaders to discuss the financial crisis. What do you believe the G20 can actually deliver at the meeting?

RT. HON. STEPHEN HARPER: Well, as I said, I think there are two things that are critical to this meeting, the first being that it focus on the immediate economic challenges. I know that sounds trite, but at all of these international summits, there's a tendency to widen the agenda, and obviously the agenda can't be too narrow, but the agenda must focus on the financial crisis and on restarting global growth. The second most important thing is we come up with a consensus on some of those major issues. We're pushing for four things, the priority, number one priority of fixing the financial system in the United States and globally, of obviously instituting a new system of global regulation. As you know, we're co-chairing a working group on that with India. We think we're making progress on coordinating further macroeconomic policy response, and doing it obviously in a way that keeps the forces of protectionism at bay, and hopefully even moves us toward greater global trade. So, you know, if we get consensus around those things and an action plan flowing from it, I think that will be great. I mean, I think if we look at the last G20 in Washington, a number of things were agreed to there, and a fair bit has been done since the Washington summit to coordinate action and to lead us forward. Obviously, you know, I think if anything, the recession itself at the present time is deepening, but there is more stability in the financial sector than we had back in November, although we haven't turned the corner yet.

REPORTER: The G20 working group that Canada co-chaired, one of the recommendations is that countries incorporate some type of

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system-wide approach to regulation. How will that work in Canada, and who will take the lead in such an institution?

RT. HON. STEPHEN HARPER: Well, in fairness, we haven't dealt with that issue directly. Obviously current financial regulations are handled principally by the Superintendent for Financial Institutions. There's nothing...I've received no advice that would suggest to me that wouldn't be an appropriate model. It's been a successful office. One of the successes is, though, you know, in Canada, is that we're pretty good at not siloing all of these responsibilities. The Department of Finance, the Bank of Canada, the Superintendent of Financial Institutions, these organizations all do tend to work very closely in oversight of the financial system. Obviously the additional challenge we have in Canada, which complicates things, is our drive to move us towards a national securities regulation. That will obviously be for securities a different regulator than we'll be having for institutions that are clearly under federal jurisdiction.

REPORTER: Do you expect some type of consensus to come out of the G20 on financial regulation? Is that where you see (inaudible) ...?

RT. HON. STEPHEN HARPER: I hope so. I hope so. I think we've got a good report. We have reason to believe that there'll be a fair degree of consensus around it. If you look at what Secretary Geithner said this week, and I'm not getting myself into specifics of the proposal, because I wouldn't claim to be an expert, but if you look at the broad framework of it, it's very similar to the principles in our report. And I think we've come down, you know, we said this in Washington and we've stuck to the line; I think where we've come down on national versus international is the only place we can

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come down. We've said Canada's experience is a clear indication that a national system of financial regulation could work. There's no reason why it can't, but in a global economy, I do think we require not international regulation, and certainly not loss of sovereignty, but we do require international peer review so that there could be some comfort with the soundness of financial instruments that are traded. And on top of that, as I said, you know, we've always subjected our own system to international assessment and have found that to be very useful. So I'm hoping, and I certainly see indications the Americans are moving in that direction. I think European calls to go, you know, much farther with global regulation is just a...it's a non-starter for the United States and many of the emerging economies as well.

REPORTER: So do you think the Europeans will move towards a more, sort of happy medium, I think I've heard you...?

RT. HON. STEPHEN HARPER: Well, I hope so. I mean, look, the Europeans have a different experience, as you know. They view a lot of their success in the post-war world being due to the willingness to essentially surrender sovereignty to a supranational organization, the European Union. They view that as critical to a lot of their success, and don't view it as threatening; view it as positive. You know, I just think it's not a replicable experience, and we can achieve...we can achieve the same objectives without going that far. I mean, my comments...I'll be making the same comments to leaders I made on this when we discussed it before. The last thing we want to see happen at an international summit is it descend into what I call the version of the Canadian constitutional debate, whereas instead of...instead of identifying the policies that need to be put in place to deal with

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the situation, we identify the...we start arguing about the institutional structure to identify the policies, to address the situation. We know from our own experience that if you can't get consensus on the policy, you're not going to get consensus on an overlaying institutional structure to impose it.

REPORTER: You've said that it's premature to talk about an additional stimulus in Canada.

RT. HON. STEPHEN HARPER: (Inaudible).

REPORTER: But at the same time, your budget was written in January. The economy has deteriorated since then. You're suggesting that it could get worse. Do you feel confident that there is enough stimulus in your January budget?

RT. HON. STEPHEN HARPER: I said it's...I think it's too soon to make that assessment. Certainly private sector forecasts have deteriorated in the last two months. May deteriorate further. On the other hand, as you know, the fiscal stimulus we put in place, which is a coordinated effort with other levels of government, was much larger than had been recommended. We're also of the view, I mean, you have to remember we're also strongly of the view that fiscal stimulus alone will not turn the situation around. The purpose of fiscal stimulus in our judgement is to stabilize and sustain activity. It's not going to kick-start growth in and of itself. So I think if one thinks that one can just continually add stimulus and that somehow alone will overcome the problem, that assumption is false. To overcome the problem, fundamentally we need the global financial system to be fixed. We need the global recession to turn around and obviously that then will help our export sector, which is where our, as you know, our recession is being driven from our export sector, not domestically. Doesn't rule out further stimulus, but

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as I said, the...you know, our fiscal year only starts on April first. Would be awfully premature to start adding more stimulus before we even put the first traunch into the economy.

REPORTER: The fact that Canadian recession is an external, demand-driven phenomenon. It's not caused by a collapsing domestic (inaudible). Is that...are you suggesting that limits what Canadian policymakers can do, including the Bank of Canada?

RT. HON. STEPHEN HARPER: Well, it obviously limits what Canadian policymakers can do. I mean, that's why we're, you know, we're such an active participant and advocate of this global process, and one of the reasons why I'm down here communicating globally. It's a global economy with a global problem, and it only has a global solution. There are things we can do in Canada to mitigate, to position ourselves well for an eventual recovery, but we cannot, through our own actions, cause a recovery to take hold. We can, as I say, sustain economic activity, limit damage, help to mitigate the effects on individuals or communities, but we can't fundamentally change the nature of global demand. And particularly, we obviously can't fix the financial system. I mean, the proof in that is that if this were a problem in Canada, it would be resolved, because we don't have a financial system problem. The measures we've taken have been more than adequate to address even the contagion that we've experienced in our financial system, but it certainly hasn't fixed the recession.

REPORTER: The Bank of Canada has said it's studying the possibility of using quantitative (inaudible), more or less monetizing government debt. Would you encourage that...?

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RT. HON. STEPHEN HARPER: Right, which the US is already doing.

REPORTER: As the US and the UK is doing. Would you encourage that, or would you consider those limits on what Canada can do, include constraints on...

RT. HON. STEPHEN HARPER: I think the period we're in, Theo, suggests that policymakers, including monetary authorities, have to look at all options, have to keep all options on the table. You know, we've... there's been a lot of monetary stimulus, as you know. It has not yet had the desired effect. And I don't think it's inappropriate for the monetary policy authorities, for the Bank of Canada to look at what else can be done. I'm very confident that the Bank of Canada will proceed with adequate caution. I think we have a very good record, as you know, one of the best in the world, not just on banking, but on monetary policy of avoiding both high inflation and deflation. Everything I'm seeing from the Bank of Canada indicates that they will use these instruments very judiciously. You may want to ask me the question – I don't know whether you're going there – whether I would be concerned if the bank did that, or given what other have done, the Fed. Am I concerned that the monetizing the debt, as you call it, that's going on now, am I concerned that could lead to inflation? Well, you know, I guess my answer to the questions like that would be theoretically, I am, but you know what I compare it to? I compare it to a house on fire. And the fire department comes and they're pouring water on your house, and you go and you say, "Isn't all this going to flood the basement?" Yeah, probably going to flood the basement, but the immediate challenge is to put the fire out, and we absolutely must... policymakers around the world, both monetary authorities and governments,

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must do everything necessary to stop the precipitous decline in output and employment. We must stop that, and we must stop deep deflationary pressures. They must be stopped, and that is the immediate challenge. We'll worry about the other challenge later. But we're in a good position in Canada. I don't think the bank needs to overreach, and I don't think the leadership of the bank is such that it will overreach if it uses any of those instruments.

REPORTER: You made it clear that protectionism is a time bomb, potentially a time bomb...

RT. HON. STEPHEN HARPER: Biggest single risk.

REPORTER: ...for the world economy.

RT. HON. STEPHEN HARPER: Biggest single risk.

REPORTER: Does that include non-tariff protectionism, like bank bailout protectionism, competitive currency devaluation, protectionism, financial protectionism, labour market (inaudible) protection, are those sorts of protectionisms concerns for you?

RT. HON. STEPHEN HARPER: No protectionism is good, but some are obviously more threatening than others. Without getting into trying to rank all of those, look, you ask me about beggar-thy-neighbour devaluations. I think it's clear the global economy would function better if we had, all major economies had market set exchange rates. I think that's true, but does that mean that in and of itself, non-market exchange rates are the equivalent to traditional trade protectionism as a threat? I don't think so. But protectionism is very dangerous. Protectionism in this sense, particularly protectionism in the guise of national macroeconomic policy stabilization action, whether it's, you know, in the financial sector or in terms of government spending and purchases, extremely dangerous. Because we have

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a global problem, and the problem may beginning in...you know, be attributed more and more to some countries than others, but it's global because the economy is global. If we engage in nationalist, nationalistic solutions or protectionistic solutions, which are often the same, what you are doing is you're not fixing the problem of the global economy. You're trying to fix the problem of the national economy, at the expense of the possible unwinding of globalized economic activity. That, as a...as a phenomenon, that as a, as a net impact on the system can only be negative as a whole. And that is why we do need not just the avoidance of protectionism, but a sufficient degree of coordination of national macroeconomic policies.

REPORTER: What about bailouts? What about industry bailouts? Is that protectionism in your view?

RT. HON. STEPHEN HARPER: Well, it could be protectionism, depending on how it's done. You know, for example let's take the auto sector that we're dealing with. We are obviously moving in with a series of loans and deep consultation with the industry to try and prevent a collapse of the traditional Detroit three. I think we're doing that for good under the current circumstances, for good macroeconomic stabilization reasons. We are very conscious, as we're doing it in Canada not to do it in a way that would be...that would put non-North American manufacturers at a competitive disadvantage. So it's not in and of itself, I'm not saying...but it certainly could have risks if it were done with that other objective in mind.

REPORTER: Any sense of what the US administration will announce tomorrow when you're in...

RT. HON. STEPHEN HARPER: I have some sense, yeah, and I think, without sharing it, I think as I said earlier, I'm very confident

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that the United States government is...has its sights firmly on the objective of a restructuring, where the tough decisions are made such that restructuring will be successful.

REPORTER: Will it be more money with heavy conditionality?

RT. HON. STEPHEN HARPER: I'll let the United States government announce their own plans and our plans will obviously be very close in nature. But I think they do understand that...that if one were to pursue a restructuring without making...without making the stakeholders make all the tough decisions, then the restructuring could well fail, and you'd have to do it over again, and I think they are determined to avoid that scenario.

REPORTER: Thank you, Prime Minister. Thank you very much for your time.

RT. HON. STEPHEN HARPER: Great, thanks. Covered everything? Good.

REPORTER: Prime Minister, it's always a pleasure.

RT. HON. STEPHEN HARPER: Good!

REPORTER: Good afternoon. Thank you.

RT. HON. STEPHEN HARPER: Yeah, thanks guys.

REPORTER: Thank you.

RT. HON. STEPHEN HARPER: Nice to meet you.

REPORTER: Nice to meet you.

REPORTER: So, good, hey...

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