

Economic Crisis – Impacts and Policy Options

**Speaking Notes for
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President and CEO
The Canadian Chamber of Commerce**

**Government Relations Institute of Canada and Public
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Thank you, and good morning. I am delighted to take part in this Speaker Series co-hosted by the Government Relations Institute and the Public Affairs Association. I am pleased to join Peggy and Steven on the panel.

The financial crisis that started in the United States in the late summer of 2007 mushroomed in the fall of 2008 as credit markets froze in the wake of the Lehman Brother's failure. Financial markets are so integrated globally, that ripples travel fast. The credit crunch spread globally, confidence plummeted and the world found itself in a full-blown recession. The downturn that ensued is unprecedented in terms of both its severity and high degree of synchronicity. Sixty five percent of the world's countries are now in recession.

Many of the events we have been witnessing have few, if any, precedents making it particularly difficult to formulate public policies and knowing how effective they will be in addressing the crisis.

The recession has enveloped virtually every sector of the Canadian economy. The slide continues to be more acute in the goods sector,

particularly manufacturing where real output has reverted back to 1998 levels. The previously immune service sector, that encompasses about 70 percent of Canada's economy has also lost momentum but to a lesser extent.

Unlike the early 1990s recession when the contraction in activity was heavily geared to Central Canada's manufacturing base, this time around all provinces are experiencing a downturn in activity. For years, Western Canada had enjoyed a substantial advantage over the rest of Canada when it came to GDP growth. The gaping West vs the Rest of Canada regional disparity is now behind us.

The impacts of the recession are broad-based. First, in addition to the enormous strains put on families whose breadwinners have lost their jobs, millions of Canadians have watched their retirement savings melt away or have had to put off their plans for retirement. Falling home prices have also left many Canadians feeling less wealthy. As a result, Canadians are more cautious in their spending habits.

Second, thousands of businesses have been forced to close their doors or cut back on staff, exacting a heavy toll from our productive capacity and removing a significant part of our accumulated knowledge base. Many are reluctant to undertake new projects in the absence of a substantial improvement in the outlook for sales and profitability, and many are focusing investment on essential repairs and replacement of existing equipment.

Even if they are not looking for credit to help them expand or buy new equipment, they may need it badly just to pay their ongoing expenses and keep the doors open during the recession. However, many of the traditional sources of financing (i.e. equity, bonds and commercial paper) have dried up. While core financial institutions continue to prop up credit growth, in the first quarter of 2009, 44 percent of Canadian businesses reported facing tighter terms and conditions for obtaining financing compared to the previous three months (Bank of Canada Business Outlook Survey).

Third, governments that had been focused on paying down their accumulated debt have been forced back into deficit. The pressure on

municipal budgets is particularly severe. Growing unemployment and demands for social services, coupled with falling property values and lower tax revenues are squeezing local governments across Canada.

The federal government will provide about \$40 billion in fiscal stimulus over 2009 and 2010 to support the economy. When this is combined with funds from expected partnerships with provincial and territorial governments, total stimulus rises to \$52 billion over the next two years, or 3.2 percent of GDP.

For its part, the Bank of Canada cut interest rates early and often in this cycle compared to the past two downturns, and has taken unprecedented steps to provide short-term liquidity to the Canadian financial system.

Handling short-term issues well and doing what we can to speed recovery is critical, but the issues that will have the greatest impact on the competitiveness of our nation are long-term and structural. They include building the most skilled and competitive workforce in the world; making critical investments in infrastructure that will improve our efficiency; diversifying trade; eliminating internal barriers to trade and

mobility; reconciling our need for secure and affordable energy with our desire for a clean and healthy environment; significantly improving both our scientific and technological capacities; doing a much better job of moving our research breakthroughs out of the laboratory and into the marketplace; and reversing the productivity gap that continues to widen between Canadian businesses and our international competition. I believe it is critical that we not lose sight of these longer-term issues.

The recession was not of our making and cannot be fully resolved here in Canada. What we do in concert with other countries will likely have a far greater impact than what we do by ourselves.

In times of financial uncertainty, it is critically important that we reject protectionism and not turn inward. According to the World Bank, since November 2008, several countries (including seventeen of the G-20) have implemented 47 measures whose effect is to restrict trade at the expense of other countries after pledging to do exactly the opposite only four months earlier.

There are reports that many American states and municipalities are denying Canadian companies a chance to bid on infrastructure projects. While it is undeniably true that excluding Canadian bidders will drive up prices and lead to inferior projects, when logic collides with politics, it's logic that loses. It's not surprising to hear increasing calls for our provinces and municipalities to have local councils adopt "Buy Canadian" policies that would limit the ability of foreign suppliers to compete for contracts. The reaction to "protect our own" is only natural, but it can also be self-defeating in the long run. By seeking to shut our markets, we put at risk the very businesses and jobs in our communities that depend upon global access. Our country's future prosperity will depend on staying open to the world and keeping the world open to us.

In times of crisis, leadership and courage are both needed most and hardest to find. If we are wise enough to seize it, we can help to restore hope and opportunity both here at home and around the globe.

I look forward to answer any questions you may have.