Speech by the Honourable Jim Flaherty
Minister of Finance
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Introduction

Good day, ladies and gentlemen. I am very pleased to be back in Dublin.

I'd like to begin by thanking the Bank of Montreal for their kindness in hosting this event and the members of the Ireland Canada Business Association for the invitation to join you today.

For me, coming to Ireland is a treat, a sort of homecoming. I've made many friends here, and I always look forward to visiting this lovely country.

In addition to my personal affinity for Ireland, our two countries share much in common.

From the Irish immigrants who helped build Canada, to strong business relationships today, our two countries have a longstanding relationship that continues to provide mutual benefits.

Unfortunately, we also share some major challenges.

A little over a year ago, I spoke to your Association. At that time I noted that, for Canada and Ireland – and, indeed, all nations – our work was not finished. More specifically, I said that we were not out of the woods yet.

Unfortunately, a year later, that observation seems like an understatement. The woods are darker and deeper than we thought then.

The pervasive force of global uncertainty is a major inhibitor to growth, and it demonstrates the fundamental need for close cooperation in a global context.

So, today I would like to focus on two issues.

First, I'd like to look back at the global recession, and briefly review how Canada and Ireland have responded to this crisis.

And secondly, I'd like to emphasize, as I have this weekend during the meeting of G-20 finance ministers in Paris, the urgent need for action by Europe to address their economic crisis and cooperation among the G-20 countries to design and implement a program that will achieve strong, sustainable, and balanced growth.

To begin, let me turn the clock back three years.

I am certain everyone in this room has a particularly vivid memory from the fall of 2008, when we were faced with the possibility of imminent economic catastrophe.

As Canada's Finance Minister since 2006, I experienced this crisis at every stage—its very beginnings and its darkest times.

I particularly recall a Friday in October 2008, the G-7 Finance Ministers and Central Bank Governors met in the Cash Room of the Treasury in Washington.

- Lehman Brothers had failed in September.
- Bear Stearns had failed in the spring.
- Credit markets were frozen, and
- Some British banks and German regional banks had failed.

There were serious concerns that the markets would not open on the following Monday.

Given the dire nature of the times, instead of issuing a traditional communiqué, we agreed that we needed an unmistakable affirmation of our intent and resolve to restore confidence. The result was a five-point plan, which made it very clear that we would not allow any more systemically important financial institutions to fail.

Through our actions to backstop the banking system, inject liquidity into the financial system and implement stimulus programs to replace lost demand, we showed decisive and much-needed leadership.

Unfortunately, events during the past summer have made it clear that global economic challenges are by no means behind us. Once again, we need strong, united and decisive leadership from Europe and the G-20 countries.

What started as a sovereign debt crisis in smaller countries in Europe in the spring of 2010 has now spread to larger European countries, causing extreme stress in the European financial sector and threatening global growth.

This is the world's most immediate and pressing problem. It threatens Europe, and it threatens the strong, sustainable, and balanced growth that G-20 countries have made their priority. It is threatening to bring the world to the verge of another recession.

In September, I delivered that message to my G-7 counterparts in Marseille and later in October to my G-20 counterparts in Washington. I repeated a similar message earlier this month in New York.

Over the weekend in Paris, I once again reiterated Canada's position.

Sadly, time is running out and the message still needs to be repeated. A definitive solution that could have been delivered before the G-20 meeting this weekend in Paris has been promised by the Cannes summit. Quite frankly, Europe's response over the past year has been disappointing.

To be clear, this crisis could have been contained. Instead, it was allowed to grow.

This crisis has now claimed Dexia and placed Europe's banking sector in jeopardy. Is this not a sufficiently signal that action is needed now? What will it take for Europe to take decisive action and put an end to this crisis, once and for all?

The good news is that this crisis can still be contained and reversed, if nations summon the determination to do so. The bad news is that this crisis has already cost way too much.

Too much time has been wasted. Too many opportunities have been missed. Unless decisive action is taken urgently, our nations will once again be forced to respond to a full-blown global crisis, albeit this time without the full arsenal of policy weapons at our disposal.

Both Europe and the G-20 have important roles to play in restoring market confidence and protecting the fragile global recovery.

That includes Ireland and its valuable contributions to Euro–area decision-making.

To be sure, the choices Europe must make are not easy, but governments are elected to make difficult choices. It is in difficult times that strong government decision making is essential.

A slow response to the recent crisis has allowed it to spread, but political will, decisiveness and a clear plan can resolve it, if we act now.

We have been clear in stating Canada's view that Europe must act on several fronts.

First of all, it must take immediate and decisive action to resolve sovereign debt and banking system issues. This must be sufficient to overwhelm the problem and restore market confidence, and include bank recapitalization to cut the chains of contagion.

Secondly, it must implement plans for debt and deficit reduction that are clear, credible and fearless. Politicians must explain to voters that debt and deficits are the problem and that restraint is necessary to avoid another serious global recession.

And finally, it must decide whether it will support Greece unequivocally either through enlarged support or through an adequate restructuring, or face the natural consequences of not supporting Greece. Half-measures are not an option.

This is a time for elected governments, heads of state and ministers of finance to rise to the opportunity and show true leadership. Leadership requires not only discussions and announcements, but concrete actions and consistency.

Political will and decisiveness alone will not be sufficient. The plan European leaders agree upon to solve the crisis must be concrete and must be clearly communicated to all. The lack of clarity in Europe's plans so far has only exacerbated the ongoing instability.

Clarity is essential to the markets. If the markets understand that Europe has a clear and comprehensive plan and will implement this plan decisively, the markets will support Europe on its path to recovery. Vague announcements are not a substitute for a clear and comprehensive plan.

I urge Ireland to add its strong voice in supporting these crucial initiatives.

The details of the ultimate solution to Europe's debt crisis is a matter for European leaders to decide. Most importantly, Europe has the capacity to solve the current crisis.

However, if this crisis is left unaddressed, it will eventually become too big for Europe to solve. This is why immediate action is needed. Delays will only make necessary choices more difficult, and this crisis more costly.

I understand that normal parliamentary processes in Europe take time. However, extraordinary circumstances call for extraordinary actions. Today, more than ever, the greatest level of flexibility is needed to address the unique circumstances of this crisis.

I hope that European policy makers will take strong, decisive, and clear action now. I am confident that if they do, Europe will recover from this crisis as a stronger continent and a more important global player.

At the same time, the G-20 has a role to play.

In this context, Canada's federal government has called for credible, medium-term fiscal consolidation plans in countries with large fiscal deficits, and we made it a focus of the G-20 leaders' summit in Toronto last year. We believe that such plans have to be pragmatic and flexible. Canada is prepared to do this should the global economy falter significantly more than expected.

We have also stressed that emerging market economies, particularly those with fixed exchange rates, have an important role to play in rebalancing global demand by putting in place measures to allow their exchange rates to appreciate.

This is not some vague, technical exercise. It is critical to achieve greater exchange rate flexibility now, when it is most needed, or risk falling back into protectionist policies that ultimately help no one.

At the height of the global financial crisis, the G-20 showed the international community that leaders could work together to deal with global instability. This forum must once again send a clear signal to the world that it is ready to take the strong actions necessary to maintain future growth and stability for all.

As Canadian Prime Minister Stephen Harper stressed last week, the focus of the G-20 should be on:

- Clear and concrete medium-term debt and deficit reduction plans — the commitments G-20 nations made in Toronto last year — to put public finances on a credible and sustainable track;
- Meaningful action from some large surplus countries – like China – to adopt more flexible exchange rates;
- Ambitious and timely implementation of much-needed structural reforms to boost economic growth and create jobs;

- An unequivocal commitment to the full and timely implementation of the financial sector reform agenda agreed to in previous Summits, to ensure the ongoing stability of the global financial system; and
- A continued commitment to resist trade protectionist measures, and to open trade and investment by advancing the multilateral trade agenda.

Politicians in these countries must explain to their voters that restraint is not merely designed to please the EU and the IMF—it is necessary to save their countries from fiscal ruin.

So, I've been advocating quite a list of actions and priorities for attacking a host of crucial challenges. Some of you may be thinking, well that's all very well, but what's Canada doing to strengthen economic recovery?

That's a fair question. So let me take just a few minutes to give you some highlights of our initiatives and of the difficult choices that we have had to make along the way.

Like Ireland, Canada has been actively tackling our challenges, with encouraging results.

In the wake of the 2008 crisis, we introduced our Economic Action Plan. The plan provided about four per cent of GDP towards fiscal stimulus designed to protect and create jobs and fuel growth in the face of severe economic and financial headwinds.

While Canada's economy was hit by the global turmoil, Canada's economic and fiscal fundamentals remained solid and sustainable under stress.

For example, we are the only G-7 country that has recovered more than all of the output and all of the jobs lost during the downturn.

In addition, our financial system remains solid, with well-run companies based on sound risk management. It is supported by an effective regulatory and supervisory framework.

In the same spirit of careful fiscal management, our Government built in initiatives as part of our Economic Action Plan to achieve substantial savings for taxpayers through greater efficiency and effectiveness in government.

Once it is fully implemented three years from now, our deficit reduction action plan will achieve at least $4 billion in annual savings, or five per cent of the $80 billion in program spending being reviewed. This will allow the Government to return to budget balance in the medium term.

It is not surprising, then, that, our strengths have been recognized internationally.

Earlier this month, Forbes ranked Canada as the top global destination for business, describing our country as "an affluent, high-tech industrial society in the trillion dollar class." I was also very pleased to see that Forbes ranked Ireland fourth.

For the fourth year in a row, the World Economic Forum rated Canada's banking system as the best in the world. More recently, five Canadian financial institutions were named to Bloomberg's list of the world's strongest banks, more than any other country.

The IMF Fiscal Monitor released last month forecast that Canada will continue to have by far the lowest total government net debt-to-GDP ratio in the entire G-7, 33.3 per cent in 2016 compared to the G-7 average of 92.9 per cent.

In July, Moody's renewed Canada's triple-A credit rating based on Canada's—and I quote—"economic resiliency, very high government financial strength, and a low susceptibility to event risk."

More recently, that same top rating was affirmed by Fitch, with a stable outlook, citing a "culture of conservative policymaking" that allowed Canada to weather the global recession and recover faster than other nations.

So, on the world stage, the Canadian economy is coping relatively well. Nevertheless, we still have many challenges to meet.

The same is true here in Ireland, where the effects of the global economic crisis have been severe.

Your country faced severe hardship during the global financial crisis, suffering a housing price collapse and a serious domestic financial crisis.

However, since that time, Ireland's decisive and effective initiatives should be an inspiration to other countries.

Your self-reliance and sound fiscal measures have shown remarkable results.

Ireland led Europe in taking the necessary, courageous decisions towards fiscal consolidation.

When I was here in August last year, I defended Irish government policies, noting that it takes time for government policies to take hold and to have positive effects.

I am pleased to see that the Irish economy is beginning to show signs of stabilizing and that market sentiment towards Ireland has been improving.

Last month, the IMF found that strong implementation of the Irish recovery program has continued, with fiscal consolidation on track to meet your program targets for this year and with the implementation of wide-ranging financial sector reforms.

And just a week ago, the Wall Street Journal's Michael Hasenstab praised Ireland's strong economic fundamentals and two key competitive advantages: a skilled labour force and a business-friendly regulatory and tax environment.

He noted that Ireland was Europe's second-fastest growing economy in the second quarter of this year.

Even more important, Hasenstab said – and I quote – "Austerity is bitter medicine to swallow, but Ireland's citizens understand there was no easy way out of their predicament, and that their short-term sacrifices are laying the groundwork for sustainable growth in the future."

I'd like to buy that man a pint.

All the same, your economy still faces significant external challenges from uncertainties in the Euro Area and weakening growth in many of Ireland's major trading partners.

I know that many of you are rightly concerned that all the hard work you have put towards meeting the IMF program targets will be jeopardized if the Euro Area crisis escalates.

In particular, increasing European financial sector stresses could destabilize the Irish banking system, and a continued marked slowdown in growth in European partners could make program targets difficult to reach going forward.

As the Wall Street Journal article observed, though Ireland's path forward will be demanding, it also offers a road map for other governments that face large debt burdens.

And that is another good reason for cooperative action to meet the challenges of a Europe under threat.

Conclusion

After all, we have done it before, and it worked.

As Canadian Prime Minister Stephen Harper has noted, in the fall of 2008 the world was confronted with the worst global economic crisis since the Great Depression of the 1930s—and the world came together to overcome it.

Strong and decisive leadership re-started an international financial system that had seized up, and historic policy coordination among G-20 countries put the global economy on a fragile road to recovery.

Unfortunately, this time the policy response to our shared challenges has not been as prompt and coordinated as it needed to be. This slow response has resulted in missed opportunities, with each one increasing the cost and difficulty of resolving the crisis.

In a global economy we are all in this together.

We didn't get into this crisis overnight and we won't get out of it overnight.

But we can no longer afford any more missed opportunities.

The efforts made so far are significant and must be commended, but more is needed.

This is not an easy task. The challenges are great, but our will to overcome them is greater.

The Irish have shown the world what's at stake and how best to respond.

- It's about concrete actions and staying the course, even when it's painful.
- It's understanding that global institutions and multilateral relations are based on collaboration, which requires self-reliance by every partner.

- And finally, it's realizing that harsh medicine may be difficult to swallow, but it can lead to quicker and more effective recovery.

Three years ago we sent a clear signal to the world that the G-20 was ready and willing to take the strong actions necessary to maintain future growth and stability for all.

We must demonstrate that we are capable of doing so again…for the sake of Ireland, Canada and, indeed, the whole world.

Thank you.