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extérieur

89/22

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NOTES FOR AN ADDRESS

BY THE MINISTER FOR INTERNATIONAL TRADE

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TO THE CONFERENCE ON GLOBAL DISEQUILIBRIUM

- MCGILL UNIVERSITY -

MONTREAL

May 17, 1989.

Canada

Ladies and Gentlemen:

It gives me great pleasure to be able to join you today, to welcome so many distinguished visitors to Montreal and to salute the opening of the new Petty Centre for Economic Research.

I would be remiss if I did not take this opportunity to say a few words about George Petty. To say the least, George Petty is an extraordinary man. He is a man who has earned his success through hard work and a willingness to take risks. He is a builder and a leader -- living proof that one man can make a difference. And he is a man of strong opinions; an individual who is always willing to put his money where his mouth is -- witness this Research Centre and Conference.

Like George, I too have been known on occasion to speak my mind. I have learned from experience that indiscretion is indeed the bitter part of valour. But I have an occasional tendency to swim against the stream, and to date, it has fortunately not been a politically fatal affliction.

On the assumption that there will be a great deal of frank discussion over the next few days, I would like to frame my own remarks in that spirit.

The topic of this Conference is global disequilibrium -- otherwise known as instability. And you have assembled an impressive list of economic and financial experts to discuss some truly profound issues.

I am not an economist, though I have tremendous respect for the profession. Without your advice, how else could I explain tomorrow why the things I predicted yesterday didn't happen today?

No, I am just a lowly lawyer and politician, with some front line experience in public finance and international trade matters gained during 2 decades in public life. My world is not the world of the rational, economic man; but the often irrational world of the political animal. It is a world where decisions are assessed on their local - not global - impact; where the focus is more often on the trivial and the understandable -- not the profound and complex; and where the rational political response does not always accord with the laws of the dismal science. In short, it's a world where most people think imbalance means you've had one too many and structural adjustment means your basement is settling.

I mention such iron laws of politics intentionally. They are central to the theme of global instability. While some instability may be the inevitable result of fast-paced technological change, a great deal of today's disequilibrium is surely not preordained. Rather, we are all living with the consequences of conscious political action and inaction -- a modern day version of the human foibles noted centuries ago by Thomas Hobbes, when he observed "Men heap together the mistakes of their lives and create a monster they call destiny."

That is why I would suggest that the key question facing us is this: Will the world's political leaders act to manage global change, and correct today's imbalances, or will they be so constrained by domestic politics as to let change manage us, through a dramatic correction in global financial markets? (Because) it is this political choice which will determine whether change in the 1990's means opportunity or danger in the global economy.

In Canada, my colleagues and I have chosen the former route. Hence, our decision to tackle a number of politically controversial issues, including:

- a Canada-U.S. Free Trade Agreement;
- a concerted attempt to reduce our annual budgetary deficit, through both program cuts and tax increases; and
- a visible, consumption tax to replace our antiquated, hidden manufacturer's sales tax.

In each case, we have decided to challenge conventional political wisdom and rush in where our predecessors feared to tread -- implementing policies which have been described as courageous -- a word which sends chills up the spines of most politicians.

Now I don't want to claim that we are superior beings to those who have come before.

There is a very pragmatic reason for the course of action we have chosen.

Any unpopularity caused by these ounces of prevention would pale beside the public reaction to the pounds of cure which would be required in the absence of action.

It is, in fact, this fundamental change in the rational political response to current problems which should give us all hope for the future. For the political imperative to act sooner, rather than later or act later, rather than never, is not unique to Canada. It is a function of the pace of change.

I would suggest that today's politicians are really no different than their predecessors. As in times gone by, there is a constant temptation to defer difficult decisions -- to never worry about the future until it is the present. But in this wired world, we modern politicians must face a most inconvenient reality -- the future is simply getting here a lot faster. If it is not the world of Thomas Hobbes, it is certainly the world of Hobson's choice -- a world in which the responsible course of action becomes the political thing to do -- considering the alternative. And I still have sufficient faith in the self-preservation of politicians the world over to believe that unpopular actions will therefore be taken to lessen imbalances avant le deluge.

Over the next few days, you will be discussing a variety of policy reforms which might set aright today's imbalances. Some of the discussions will focus on highly ambitious institutional reforms. As a practising politician, let me focus on two sets of very real and very current negotiations within existing institutions, the outcomes of which are central to global prospects in the 1990's, and whose outcomes depend entirely on realpolitik -- not political theory.

The first is the current budget negotiation in Washington between the Congress and Bush Administration. And the second is the Uruguay Round of multilateral trade negotiations.

As we all know, American fiscal policy lies at the heart of current global imbalances.

For my part, I simply cannot believe that U.S. leaders will allow their deficit impasse to go beyond this summer.

The risks they would be running in the absence of action would simply be too great.

Not only that, I firmly believe that a credible U.S. fiscal plan would create the conditions for sustained North American expansion into the 1990's -- growth which would reflect well on those seeking public approval.

As our budgetary document "Canada's Economic Projects in the 1990's" states, it is our belief that a lower deficit would allow interest rates to fall. Lower interest rates would then help American business increase its productive capacity, thereby offsetting lower consumer spending, while also lowering the cost of servicing U.S. external debt.

In short, we believe that a credible, medium term U.S. fiscal plan would allow for a significant correction of the current account imbalance of the United States which is at the centre of global disequilibrium. It would start us all on the way back.

Such an outcome is clearly in the national interest of the United States, as well as our own. And it is surely in the interest of global stability.

In isolating this American impasse, let me make it clear that I do not wish to downplay Canada's own fiscal problems. We too have a serious fiscal problem, in relative terms. But it is the simple truth that we are not the world's key currency, with a central role in the global economy. Global markets simply do not move on the basis of Canadian economic and financial developments. Furthermore, I would suggest we are moving to solve our problem through concrete measures -- measures which we project could bring our financial requirements into balance by 1992-93.

We are indeed a part of the North American fiscal problem. But we are attempting to become part of the solution.

If North American fiscal policy is one key piece of the global puzzle, a second forum where success is critical is the GATT.

As we all know, progress in the current Uruguay Round of multilateral negotiations is also essential if we are to correct global imbalances in the 1990's. I would suggest we are playing what Canadian hockey fans would call a "four point game". Win, and we close the gap between where we are and where we would like to be. Lose, and we fall further behind than ever.

But let us not deceive ourselves. Here too, tangible progress is not going to be easy, given the domestic political concerns at play.

The diverse interests of the ninety-plus nations at the table make agreement difficult, at the best of times.

The easier issues have been dealt with in previous negotiating rounds.

The old, outstanding issues of agriculture and textiles remain politically difficult, to say the least.

And the new issues of services, investment and intellectual property rights move the discussions away from the concept of most-favoured nation into the more sensitive subject of national treatment.

But if we do succeed, there will be a number of beneficial consequences for the global economy.

If we can move agricultural systems from a reliance on production incentives to income security, as endorsed by the O.E.C.D. nations, prices will rise for many agricultural commodities which are critical to the financial future of debtor nations. And North American budgetary deficits could fall even further as the need for competitive subsidies subsides.

If we can reach agreement on rules for services and investment, we could complement the Brady Debt Plan by creating the potential for further debt-equity swaps and greater direct investment in less developed countries -- investment which could then increase LDC opportunities to earn much-needed foreign exchange.

And perhaps most important of all, if we can achieve tangible progress in multilateral rules, we can strengthen the links between the three mega-economies of North America, the European Community and a Japan-centred Asia Pacific. We can ensure that the Canada-U.S. Free Trade Agreement and Europe's 1992 exercise are forces for greater global trade -- not regional segmentation.

That objective, in fact, shaped the terms of our Free Trade Agreement. It is an agreement which not only builds on multilateral standards in a number of sectors -- it is an agreement which we hope can be a precedent for future global liberalization.

Will we actually make progress in the Uruguay Round? I believe we will, for the very same reason that I have confidence progress will be made in North American budget negotiations -- the fear of failure. (Because)

the possibility of a breakdown in the multilateral system should strike fear in the hearts of all policy makers in all countries. And as Coleridge once noted, "fear gives sudden instincts of skill".

In short, we must create a more open world economy, if we are to correct current imbalances before we topple over.

I recognize that some may find distasteful my focus on politics. But I believe that any discussion of the profound global issues of the day which ignore the political dynamics of nation states are interesting but, unfortunately, somewhat irrelevant.

It is relatively easy to agree on what should be done in a rational world -- reduced North American fiscal deficits and more open trade would be a pretty good start. But the problems would not even exist in the first place if that was the world we actually lived in.

For better or for worse, factors such as the political consequences of a U.S. tax increase, or the political clout of Bavarian, French or Japanese farmers, must be taken into account if we are to devise a practical formula for global progress and stability. Such domestic considerations are obstacles to progress which are all too real. They are what I believe economists call the "exogenous variables" which destroy the best laid forecasts and plans of mice and men. They simply cannot be assumed away.

Yet, it is equally true that politicians cannot ignore the impersonal and inexorable economic forces at work in the world.

That is why conferences such as this one are so important. (Because) only by understanding what should be done can politicians weave their way through the minefields of domestic politics to fuse the real with the ideal; and to practice the art of the possible.

That is the role of this Conference and this Research Centre -- to lead the way to greater public understanding and to create the conditions for optimal political choices. I therefore wish you well; and look forward to your deliberations.