

## National Business

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### Stay the course

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#### Canwest News Service

If a week is a long time in politics, then a year can feel like an eternity for the economy. Federal Finance Minister Jim Flaherty began 2009 unveiling a two-year, \$40-billion scheme aimed at saving the Canadian economy from a global crisis. By the end, he was expressing concern that the recovery in the Canadian housing market might be a tad too hot for comfort and was prepared to adjust mortgage rules if need be. And in case people forgot, he had to crank up deficit projections as the recession was deeper than expected and Ottawa stepped up with cash for the ailing automakers. Mr. Flaherty sat down with the Financial Post's Paul Vieira a few days before 2009 ended to talk about what lies ahead for the Canadian economy –expected to lead the G7 in growth in 2010 –in the coming decade.

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Q You have reminded us that Canada's fiscal situation is in far better shape than its industrialized peers. Still, it has rapidly deteriorated. Will you not be forced to table a more fulsome exit strategy to return to surplus, perhaps as early as in the next budget?

A I think we will put some guideposts out to show the way to a balanced budget. This budget is going to be about continuing the economic action plan—no big new spending programs, no big new tax measures –and then stay the course, get through the next year, make sure we have a firm recovery and the employment situation improves.

Q But are you not encouraged with recent economic data?

A Yes, domestic demand is good. But export demand is not so good. And the situation in the United States is serious in terms of the size of their deficit. That is a persisting concern.

Q How are you going to juggle this return to budget balance when the population is aging and will demand more from governments, such as health care?

A Health care is primarily a responsibility of the provinces, I am quite familiar with that. And provincial finance ministers are quite concerned about the rate of growth of health care spending in their jurisdictions and what steps can be taken about that.

Q While you may not raise taxes or cut big-ticket spending, are you not concerned some provinces may have to do just that –possibly holding back economic growth overall?

A They have some significant challenges on health care, for sure. In terms of the federal budget, we have said we will not cut transfers to the provinces, because I lived through that in the 1990s and it simply means hospitals are closed, nurses are laid off and schools are closed. What we need to do is look at our program spending, and the rate of the growth of that, and see what the rate of growth will be in the economy –and economists are all over the map on that. We will have to be careful on the spending side.

Q How concerned are you over the U.S. fiscal situation and the possible crimp on growth it could put on Canada?

A This is a concern. We want the U.S. economy to return to health. It is good for our economy. But we need also to see that once American governments, including the states, are through the crisis, that there be indications as to how they will manage this huge deficit, because it has consequences both within and outside of the United States.

Q There have been concerns expressed about levels of household debt. But isn't that going to be a fact of life as the country relies more on domestic demand to power economic growth?

A It is important for Canadians to realize that, inevitably, interest rates will rise. And we want to make sure [this] is taken into consideration by Canadians with respect to their mortgage obligations. It is not much more complicated than that. There is no evidence of an asset bubble in the real estate market in Canada, but we watch that and if we see in the coming

months that there is some evidence of that, then we have some tools that we could use.

Q Is there any concern about the Canadian economy becoming too much like the U.S. prior to the crisis, with such reliance on domestic demand?

A I don't see evidence of that right now. What I do see is very low interest rates, that people can borrow money cheaply to buy stuff, including houses and cars. That's rational behaviour.

Q While the focus has been on stimulus, Canada has other structural problems, most notably lagging productivity and the aging population. How are you going to tackle these key issues?

A This infrastructure spending we are doing now ...it will help us in the longer run by getting a lot of infrastructure in place earlier than otherwise would have happened. There are a lot of good things happening there. I am optimistic about our longer-term future in terms of being more productive.

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