

The Economic Club of New York

306th Meeting
77th Year

The Honorable Brian Mulroney
Prime Minister of Canada

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Questioners: Jack Welch
Chairman and Chief Executive Officer
General Electric

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Introduction

Chairman F. Ross Johnson

Welcome ladies and gentlemen to the 306th meeting of the Economic Club of New York which is now in its 77th year. Mr. Prime Minister, ladies and gentlemen, the ordinary introduction for a personality at these functions contains the normal – a brief biography, a litany of accomplishments and voila, the speaker. But there is nothing ordinary about this evening's distinguished guest. It isn't often that a former chief executive officer of a multimillion dollar industrial company is elected the leader of his nation – and that should give most of you people here on the dais an unexplainable tingling feeling – (Laughter) – nor does it come, at least for me to have a close personal friend sitting here as leader of the country in which I have my roots.

Brian and I have shared many occasions and friends, and from these experiences I can attest to his ingrained desire to learn the facts firsthand – which we did in such troubled spots as Paris, Palm Beach, and Venice. Brian and I were also simultaneously honored with doctorates by St. Francis Xavier University and had a knish in Nova Scotia, which must cast some doubt, at least on the part of those who have seen us in action as to the viability of such an award. Brian has also shown a determination to discuss the problems and opportunities of Canada almost around the clock – 4 a.m. as well as 4 p.m. In fact, it sounded better at 4 a.m.

But seriously, when asked what his new policies with regard to the United States would be, he

simply stated he favors and I quote, “superb relationships with the United States, but that does not mean dependency.”

Back in 1982, after five successful years as chief executive officer of the Iron Ore Company of Canada, a leading business publication asked, could Brian Mulroney run the country like he runs the Iron Ore Company? The country should be so lucky. Brian then showed the depth of his courage and convictions when he and his marvelous wife Mila abandoned all that they had worked so long to achieve to run for the leadership of the Conservative Party of Canada. It was not a lock. It was a decision of considerable risk, and Brian was by no means the favorite. He won it on the fourth vote. And I believe that it would be more than appropriate to introduce now in the audience the other half of Canada’s dynamic duo, Mila Mulroney. Mila, would you stand up. (Applause)

Brian went on from that victory to win the seat in Parliament. And in September of 1983 was officially installed as Leader of Her Majesty’s Loyal Opposition. From there he led his party in September of this year to a plurality of popular votes in all of Canada’s ten provinces making it a truly national party for the first time in 20 years, a victory of epic proportions.

Ladies and gentlemen, we are truly fortunate in having Brian make his initial public appearance in America here at the Economic Club of New York. It gives me great personal pleasure to present a friend in the truest sense of the word, Brian Mulroney, the Prime Minister of Canada.

(Applause)

The Honorable Brian Mulroney

Prime Minister of Canada

Mr. Chairman, my old friend Ross, whom I thank for his kind invitation and kind words tonight, and ladies and gentlemen, you know, until recently anyway, the name Mulroney was not very well known in Canada. It was much more prominent in New York City. There was an Edward Pierce Mulroney who began here as a patrolman in 1910 or thereabouts. He became Police Commissioner. And in the early 1930s he became Chairman of the New York State Alcoholic Beverage Control Commission. (Laughter) And I think that that's the ultimate in trust placing a Mulroney in charge of the booze during prohibition. (Laughter) It says a lot about The Big Apple.

And, of course, my association with the United States goes back to my boyhood. I was born and raised in a little town in northeastern Quebec, Lake Como, where the paper mill where my dad worked as a electrician made paper for the Chicago Tribune and the New York Daily News. And Colonel McCormick, who was the owner, used to come up and see us. And I was given \$50 to sing "Dearie," his favorite song in English and French every time he came. I was about nine or ten. So I'd sing the song, they'd give me the money. I'd bring it home and give it to my mother. And it was in that way that the Mulroneys became the first Canadian family to benefit directly

from American foreign aid. (Applause)

It's a great pleasure to be invited to speak to the Economic Club of New York. And Ross and friends, I'm honored by your invitation. I'd like to stress at the outset that as Prime Minister of Canada, I place the highest priority on establishing good relations between the United States and Canada. (Applause)

President Kennedy once described the relationship between our two countries in this way. Geography, he said, made us neighbors. History has made us friends. Economics has made us partners. And necessity has made us allies. My government has just embarked on a new direction; one which I believe will instill in Canadians a new sense of national purpose, a direction which will restore Canada as a more dynamic force in the international community, a direction which will put our economy firmly on the road to economic renewal.

And tonight I want to talk to you briefly about that new direction and share with you some of the goals and the hopes and the dreams that we in Canada have set for ourselves. It is my fundamental belief that the challenge to our two countries is to improve and strengthen the mutual benefits from our roles as friends and partners. To this end, we must minimize friction, remove needless irritants, and maintain a healthy and vigorous relationship based on mutual understanding, constant and open communications, and a respect for our mutual needs and interests.

In 1983, there was a National Convention of my party at which, as Ross said, Mila and I went out and worked pretty hard. I sought and won the party leadership. During the campaign that preceded the convention, and in my speech to that convention that night in June of 1983, I said that if elected leader I'd pledge to reestablish that special relationship of trust which must always exist between Canada and our greatest friend, neighbor, and ally, the United States of America. (Applause) Three months ago there was a general election in which I repeatedly stated my intention as head of the new government to restore harmony and cooperation with the U.S. Last month, when Parliament reconvened, the speech from the throne underlined not only the importance of this relationship to Canada's security and prosperity, it pointed out in the speech read by the Governor General that the source of our relationship lies in shared values and wellsprings of trust between two peoples.

In the minds of some Canadians, such statements, I recognize, are tantamount to servility. Simple acts of friendship are ridiculed because they are instantly equated with a loss of sovereignty. But I tell you that, by and large, Canadians are unimpressed and unmoved by these reactions. The statements that I have made, and the statements that have been made by the new government of Canada, were overwhelmingly endorsed by the people of Canada who with maturity and strength have made it known that they wish the Canadian-U.S. relationship to be a privileged one as befits true friends and trusted allies. (Applause)

Our purpose is noble. Our course is clear. Two sovereign democracies sharing the same continent have much that will benefit each other, and even more that will enhance the cause of a durable peace in the world. Because of your enormous size and influence, the government of Canada must always be vigilant to ensure the protection of our integrity and our interests. This government shall enhance Canada's sovereignty and independence at all times and in all circumstances. We shall do so with strength and with resolve in a manner free from malice, in the certain knowledge that a stronger Canada can contribute to a more equitable world.

(Speaking in French)...

I have had two excellent meetings with President Reagan. (Applause) A lot of people from New Hampshire here tonight. (Laughter) I've had two excellent meetings with President Reagan who has shown a great warmth for Canada and a deep understanding of our problems. He has quite properly pointed out the enormous benefits that accrue to both sides from a sound association and has committed his administration to resolving many of those matters that trouble us both. Many U.S. citizens are aware of the similarities between our two countries – a common heritage of individual liberty, shared democratic values of freedom and justice, vast commercial links, and immense geography spanning a continent with an open and undefended border.

Today the most noteworthy measure of our relationship is in our economic ties – in investment, in trade, and in technology flows. After all, almost one-fifth of your exports go to Canada.

Canada is the largest trading partner by far of the United States. The U.S. is the largest market

for Canadian goods, services, and investment.

In 1983, total trade between Canada and the U.S. exceeded \$90 billion U.S. dollars. That amount exceeds by more than \$27 billion U.S., trade with Japan. In 1984, Canada - U.S. trade is likely to exceed \$110 billion. In fact, your trade with Canada exceeds total American trade with Germany, France, and Great Britain by almost \$34 billion in 1983. How do you like them apples?

(Laughter)

To put the matter in a different context, Canada is the leading partner of the United States, the leading trading partner of the United States. And your second leading partner is not Germany or France or Japan, but Ontario, a province of Canada. (Applause) And that will give you an indication why the restoration of good and sound relationships — a couple of people from Ontario here too – I never go anywhere without some people from Toronto. And that will give you an idea why the restoration of good and sound relationships between us is clearly a top priority.

This relationship spanning 170 years of uninterrupted peace, billions in two-way trade and investment, and reciprocal investments covering a multitude of subjects is incontrovertible evidence to the world of a vibrant and mutually productive relationship. To all those who seek a definition of peaceful association between nations, I say look no further. It is unlikely that you shall find a better illustration than the simple story of friendship and prosperity that has marked

the evolution of Canada and the United States over the decades. (Applause) (Speaking in French)...

So how do we manage our bilateral affairs given the enormity of our interests? I have suggested several initiatives both to President Reagan and to his Cabinet colleagues. I think that the most important of these is the yearly meetings with the President of the United States and the Prime Minister of Canada, a process already begun. For my part, I visited President Reagan in Washington very shortly after my election as Prime Minister. And I am pleased to announce tonight that President Reagan has accepted my invitation to make a working visit to Canada in March of 1985. (Applause) (Speaking in French)...

Second, regular meetings of senior ministers to be held alternately in the U.S. and in Canada. And third, we favor an accelerated rhythm of bilateral parliamentary and congressional meetings in order to cover a wider topic of, range of interests, to our two countries from steel imports to acid rain. And fourth, our provincial governments can and should meet more frequently with their geographical counterparts in the state governments.

In addition, there have been various proposals for new and improved institutional mechanisms for investigation, analysis, and resolution of bilateral disputes possibly modeled on the IJC. These are worthy of study. This does not suggest for Canada, or I suppose for the U.S., an exclusive or narrow focus of our involvement in international affairs. Indeed in trade

liberalization as in defense disarmament and international development, we attach great importance to our role in sound multilateral institutions. We believe these institutions offer us the best opportunity to exert as we have over the years a constructive Canadian influence on the international scene.

There have been changes, Mr. Chairman, in Canada over the last decade. Canadians have come through a difficult period in their history. Canadians, in the mid-1980s, have a renewed sense of confidence in themselves as a nation. People across the country are persuaded that our future, the magnificence of, the promise of our future lies in working together. They used the power of the vote to express a strong desire in September for an end to confrontational politics in our dealings with each other in Canada. They voted for a start of a new era of cooperation and conciliation.

Canadians, for example, wanted the offshore impasse in Newfoundland and Labrador regarding oil and gas resolved. It is being resolved now. Canadians wanted Western Canada which had been excluded from the decision making process for two decades – Canadians wanted Western Canada to have a full voice in confederation and they have it now. And last Thursday I had a significant meeting with Premier Levesque in Quebec City. The people of Quebec overwhelmingly supported our program of national reconciliation and economic renewal in last September's election. And let me tell you, there is a new mood there. The people of Quebec are seeking to ensure that they now assume a full and unequivocal role in the affairs of Canada, and I am going to cooperate to ensure that that role is achieved. (Applause) (Speaking in French)...

I want to tell you something about the financial state of Canada as we found it after September 4th. We found that the projected Federal deficit for the current fiscal year was \$34.5 billion. We found that even assuming reasonable growth; the yearly deficit would remain between \$34 billion and \$38 billion between now and the end of the decade adding to an already staggering national debt load.

Perhaps I could put it in other terms. In 1967, when we celebrated our 100th birthday, our national debt represented \$4,000 for every Canadian family. Seventeen years later, today, the national debt represents \$24,000 for every family. And by 1990, only five years from now, if we don't take action now, the national debt will be the equivalent of every Canadian family owing \$54,000.

And we inherited also an economy that had relegated to the unemployment rolls close to a million and a half Canadians. There is no human tragedy more debilitating than that of a person unable to find gainful employment in a country as wealthy as ours. My government considers the creation of jobs as its top priority. For us it is a moral imperative.

I need not dwell at any length on the policies that created this situation in Canada. Mila told me to be a gentleman (Laughter) and not to refer to the past. Simply put, at a time when the world economy was becoming more interdependent and open, Canada turned inward and

interventionist. In 1974, we started down this costly path with the FIRA, the Foreign Investment Review Agency. And in 1981 we continued this approach with the National Energy Program. Such a direction ignored the basic lesson of our history, namely that free and unfettered access to world markets has been a boon to strong and dynamic economic growth in Canada. It was indicative of the misguided belief that regulations by politicians and bureaucrats were superior to the decisions of individuals and firms competing in the global marketplace.

At the same time that Canada was turning inward economically, we were also giving other signals that led our friends and allies to question our commitment to the international agenda. Our support for the NATO Alliance dropped to an embarrassingly low level to the point where only Luxembourg was contributing more...less, I'm sorry, on a per capita basis than Canada. We wound up with more cooks than gunners in the Canadian armed forces.

So these are some of the reasons why the new government is so committed to rebuilding Canada's image in the world – our image as a free, tolerant, and independent nation, as a reliable trading partner, as a good place to invest and do business, as a people committed to the entrepreneurial spirit, and as a nation that honors its commitments to its friends and allies.

Our new government has embarked on a fundamental change in our economic direction. Our strategy consists of four challenges for this government and for the Canadian people. Our first and most immediate challenge is to restore fiscal responsibility to the Federal government.

Rising deficits have been recorded in each of the last ten years and the legacy of these deficits is that our national debt is growing much faster than the economy is growing itself. Growth itself won't solve the structural imbalance between government revenues and expenditures. Restoring fiscal flexibility will require difficult decisions and we have begun that process. After only two months in office, we were able to announce expenditure savings and revenue enhancement measures of over \$4 billion on an annual budget of \$100 billion. It's a beginning.

The second part of our strategy for economic renewal is that we intend to redefine the role of government itself. Traditionally, government in Canada has had a much activist role at home than here in the United States. From railway building to television broadcasting to hydro development, government involvement in Canada has been a necessity for us – a necessity required by our history. And it's been on the whole a positive factor in our national life.

Today's reality, however, is that government in Canada has become too big. It intrudes too much on the marketplace. It inhibits and distorts entrepreneurial activity. Some industries are over-regulated and some are overprotected. In the past, government has built up an intricate web of regulations and subsidies and other forms of intervention which have become a major obstacle to adjustment and growth in the private sector. Getting the economy back on course means that we must adopt an approach that rewards entrepreneurship and risk-taking and facilitates adjustment of the changing realities of new markets and new technologies.

The third part of our strategy is we must adopt policies that foster higher investment, greater innovation, and increased international competitiveness. Investment combines directly to the growth of output and employment and is central to ensuring that Canadian business responds rapidly to the requirements of new technology and opportunities.

And finally, the changes we are proposing are fundamental to the economic, social, and political structures of our society. National consensus, getting along together, building a country together, sharing each other's dreams and hopes and aspirations – this is something that a country must be able to do. And our new government believes with hope and concern that we can and will achieve that consensus with the provinces, with labor, the private sector, and others whose efforts energize and contribute so much to our society.

Let me touch, but briefly, on three areas of our strategy for economic renewal which impact directly on the lives of all of you and our relationships with the United States in trade, foreign investment, and energy. Trade, Mr. Chairman, is our life's blood. Our objective is to strengthen Canada's stature as a first-class world trader. We intend to take a careful look at all Federal government programs and policies to determine how industry can gain and secure access to markets. Protectionism is our mutual adversary. The long-term upshot of protectionist tendencies in the U.S., Canada, and elsewhere would be to move against the trend to liberalization of access to national markets.

In the short term, restrictions on trade reduce real growth prospects in both the industrialized and the developing countries. The implications for the latter are even more profound and we as privileged citizens must remember those who depend on us so much and selfish policies exclusively could have serious ramifications for international financial markets. I know that the president is committed to keeping trade channels open and I share that commitment.

Central to Canada's trade policies is a commitment to an open, multilateral trade regime. We will continue to support a multilateral system and trade liberalization. We will work through multilateral organizations to keep the world trading system open. Protectionism poses a serious threat to world recovery and to international stability. It must be opposed both in your Congress and in our Parliament. The government has given notice of its intention to address these issues and their implications for Canada in documents to be made public over the coming weeks and months.

Canadians have some important, even historic, policy choices to make in the future and these choices will be the subject matter of public discussion led by the government of Canada. The maturity and the self-confidence of our country make it possible for us now to confront issues in a realistic manner and to examine options that a few years ago produced emotional reflexes that made rational discussion difficult.

Nowhere is this more true than on the subject of our bilateral relations with the United States of

America. The U.S. has been and will be the dominant market for our exports. By 1987, some 80% of Canadian exports to the U.S. will be duty-free. Yet there remain some significant tariff barriers and a growing array of non-tariff measures which impede bilateral trade including U.S. “Buy American” restrictions. Proposals for attacking these barriers have included sectoral free trade arrangements, a variety of private sector recommendations for trade enhancement, and secure market access. I exclude none of these from consideration.

Our desire to examine all approaches for closer economic cooperation with our major partner stems, in my judgment, from a prudent and pragmatic analysis of both how and where interests vital to Canada’s economic development can best be served. We seek trading arrangements which provide fair but also secure access to U.S. markets, unfettered by initiatives, aimed at problems caused by other countries, but which inadvertently after they get through Congress or committees impact negatively on Canadian companies. They hurt us when they’re set out to impede someone else. And I’ll comment, not on the first part, but we don’t like being hurt at all, and you can understand that.

Our status as a North American nation is a source of strength. We’re mature enough, I hope, as a nation, and confident enough in ourselves to recognize this reality and to take pride in an amicable relation with a neighbor as powerful as the United States of America.

The message to prospective foreign investors in Canada is the same message we send to our

trading partners around the world. A world economy more open and interdependent is in Canada's interest and in the interest of every nation. We want an environment conducive to dynamic growth in trade, investment, and development, on a global basis.

Our immediate contribution, and I hope there will be others, but our immediate contribution to the creation of this climate is to change the Foreign Investment Review Agency. (Applause) My government has just introduced legislation, the specific purpose of which is to close down the old agency and to put in place a new body called Investment Canada whose mandate will be to encourage and facilitate investment in Canada. (Applause) Only those foreign investment proposals that are of major national significance will be reviewed. The new act will eliminate from review, with very few exceptions, all investment to establish new business in Canada. Investment Canada will be governed by two fundamental operational objectives. First, to facilitate investment in Canada and, second, to limit government intervention in the foreign investment area. Our message is clear – here and around the world, Canada is open for business again. (Applause)

The government of Canada is there to assist and not to harass the private sector in creating the new wealth and the new jobs that Canada needs. You have the assurance of the government that Investment Canada will be administered in a fair and an objective way.

I'd like to say a few words about the directions we'll be taking in the energy sector. Many

Americans are unaware of the importance of Canada's energy sector to your economy. Canada is the largest exporter of energy to the U.S. We supply virtually 100% of your natural gas and electricity imports. We are your largest supplier of uranium. We are your second largest source of oil at a rate of 580,000 barrels a day, ahead of any OPEC country. A healthy energy sector is essential to economic renewal. Energy investment accounts for 30% of total business investment in Canada. The spinoffs for the rest of the economy from a healthy and expanding energy sector are enormous and obvious to all of us.

As many of you are aware, the goals of the National Energy Program are commendable. Its methods and its results clearly are not. Simply put, the NEP has failed to meet its three stated objectives of fairness, security of supply, and Canadianization. Our immediate objective is to build a dynamic and growing energy sector. We want to reassure investors that Canada's energy sector offers outstanding opportunities to do business. We believe in the discipline of the marketplace. We are undertaking now the consultations necessary to remove controls on oil prices in Canada. The same philosophy is being applied to our energy exports.

Since November 1, for example, natural gas has begun moving south at market-oriented prices, set by the buyers and sellers and not by the government. There are already signs that after several years of decline, our export volumes are reestablishing their historic market share. The value of natural gas sold to the U.S. in '85 may be a billion higher than it would have been under the old government set pricing system. The market approach works.

We intend to make changes in the famous “back-in,” the Crown Interest Provision which reserves 25% of all of the interests in the Canada lands for the government. Canada was not built by expropriating retroactively other people’s property. This practice is odious and the new government shall not be involved with it. (Applause)

Finally, in view of the major changes in the energy price outlook, we will be undertaking a comprehensive review of Federal energy taxation. Our objective will be to ensure that appropriate investment incentives are provided in the taxation system. Canadianization remains a proper objective for all of us in Canada, but the system must be fair, and it shall be, to all those who invest in the growth of our economy. There shall be one game, building Canada, and one set of rules. These shall not be changed after the game has started to the detriment of any of the players. (Applause)

Canada is confronted with serious problems but brilliant prospects. Someone once said that young men have visions and old men dream dreams. And I think that we’re entitled to both of them. Both are worthy of respect. Canada surpasses almost all other nations in the resources with which nature has endowed us. Our riches are not ours to dissipate and mismanage. They are in a sense a special trust and they place a special obligation on those who are chosen to govern our nation. We must strive to achieve a standard of living that is second to none in the world, and we must share that prosperity with others who need our assistance. We owe it to our citizens to

ensure opportunity and fairness and justice for all. And we must attempt to see these principles respected elsewhere in the world. We owe it to our friends and our allies to carry Canada's fair share in providing for our collective safety and security at all times.

In short, Mr. Chairman and friends, Canadians have an obligation to help, in perhaps a modest but substantial way, to make the world a better and safer place, not least we owe it to ourselves to honor excellence and to pursue it relentlessly. Canada must stand for the best in all fields of human endeavor. And we must be uncompromising in the pursuit of values that are the moral foundation of all great nations. That is my dream for my country – a Canada, fair and generous, tolerant and just – and I invite you to join with me in making it a reality. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN F. ROSS JOHNSON: Thank you Mr. Prime Minister. Now in the tradition of the Economic Club of New York, and recognizing the international character of the meeting tonight, we have gone far and wide to bring to you two prominent interlocutors, members of the club. We have gone all the way to Morristown, New Jersey for Mr. Edward Hennessy and out to Fairfield, Connecticut for Mr. Jack Welch. Noting Brian's multilingual skills, Mr. Hennessy will ask his questions in Latin and Mr. Welch will speak in Greek. Could we have the first question, Mr. Welch.

JACK WELCH: Thank you Ross. This is an all-Irish crowd I guess tonight. Mr. Prime Minister, my first question will come really from plagiarizing a question I heard last night from Roone Arledge which I think the audience might like to hear your response to. With your economic goals and proximity to the U.S. market, and with so much anti-American feeling in so many parts of the world, is there a way that you as a leader of a U.S. neighbor can serve as an honest broker to voice a more pro-U.S. stance to the rest of the world without damaging Canada's own interests?

THE HONORABLE BRIAN MULRONEY: Well, I had an occasion to say to President Reagan one day that if I were the President of the United States, and I got up in the morning and I looked around – the burning of embassies here, and desecrating American flags there, and doing all kinds of acts of violence – and then I'd look up at Canada, and I'd say, thank God for Canada. What can I do for Canada today? (Laughter) You know you're pretty lucky to have a neighbor like us, I'll tell you that. You know there hasn't been a shot fired in anger, as you know, since 1812. (Laughter) It really wasn't much of a war at all. We captured Detroit. (Laughter) Took a look at it, gave it back. (Laughter) Anybody from Michigan? I apologize. But we have a splendid relationship, and we should have at all times. And I think that Canada, while maintaining and pursuing a great independent foreign policy and a degree of objectivity at all times, protecting its sovereignty, can, can make a case for the United States at key times. I think, for example, that Former Prime Minister Pearson who was one of the great statesmen – not of my party, but a great statesmen – one of our greatest, if not our greatest – operated from a very independent

premise. But one of the important predicates of his foreign policy was his genuine friendship for America. Canada spoke independently and I think thoughtfully and with a very generous attitude throughout the world, but gained respect and, I think, affection in the United States because Mr. Pearson never felt that he had to persuade people by diminishing his friendship with the United States. He always spoke up proudly of that important link and I propose to do exactly the same thing.

EDWARD HENNESSY, JR.: Mr. Prime Minister, I'd like to make this comment that what you said here tonight is indeed a breath of fresh air. The question I'd like to ask, given Canada's reliance on the United States as a customer for its products, does your government see any benefits in a stronger bilateral free trade partnership with the U.S. as opposed to a broader multilateral agreement within the GATT?

THE HONORABLE BRIAN MULRONEY: Well, we think that we have to keep intensifying our efforts in GATT and through multilateral organizations. All of them tie together. I can tell you it's not by accident. I'm honored to have with me tonight at the platform Stephen Lewis, our Ambassador to the United Nations, Alan Gotlieb, our Ambassador to Washington, and Doug Roche, our Disarmament Ambassador as an indication of our commitment to multilateral institutions and how importantly they're going to impact on any bilateral arrangements we make with the United States or others. I think the answer; the first step has to be in the bilateral area and examining ways where the United States and Canada can cause barriers and irritants to be

diminished in given sectors. And I think we can move from there in a pretty thoughtful way to a more unimpeded view of world trade, but remembering at all times our obligations to others who are not so privileged. But I'd say initially, take the sectoral steps, and then perhaps move on to others.

JACK WELCH: I'd like to ask you, Mr. Prime Minister, about the competitiveness regarding non-U.S. trade? You've already recognized the urgent need for the Canadian industry to adapt to a more competitive world. You've taken the action on FIRA. What other programs might your administration take to make Canadian industry more competitive on a global nature and allow those of us that have major affiliates there to participate more effectively on the world scene rather than across the border?

THE HONORABLE BRIAN MULRONEY: I think we have some problems that are essentially Canadian – under-capitalization of a lot of Canadian industry. Our balance sheets are weak because of that. I think another important, other important sector of, where only we can deal with it, is in the area of productivity enhancement. Our productivity, by and large, since the end of World War II grew at a rate of about 2 ½ % a year until 1969 or 1970. Then it came to a dead halt. Since 1970 we've been going downhill and operating in the red which means quite simply that, I think we recognize, certainly the government recognizes, that people are not going to buy our products because of the color of our eyes or the cut of our _____. They're going to buy them because they're our products, because they're of good quality, and at internationally competitive

prices which is the only reason they should buy them. Our productivity has declined, and we are seriously in arrears in regard to our OECD competitors. That's an internal problem. That reflects a lack of investment. It reflects improper attitudes, managerial attitudes with regard to the treatment of labor. It reflects a lack of appreciation perhaps of the importance of productivity to our entire process. We're trying to engage dialogue with organized labor, with the provincial governments, and with other interveners in our society. Because I've come to the conclusion, and I think the government has, that we cannot continue willy-nilly down this pretty selfish path of ours. Canada can do such outstanding things if it's united and if we're working towards common goals which will benefit all in our society. Let's develop a larger pie and then share it. Our tendency in the past was to eat the pie...(Laughter)...before we even owned it. Let's make a better one and a bigger one so that we can share it more equitably with all Canadians who contribute to it. (Applause)

EDWARD HENNESSY, JR.: Mr. Prime Minister, some of us are very concerned about recent reports of a possible break-away by the Canadian wing of the UAW over U.S. -- Canadian wage differentials. As far as some of us are concerned, this would be rather shortsighted and damaging to Canada if your country is to be competitive in the worldwide automotive industry. And my question is what can the Canadian government do to prevent the unions in Canada from pricing themselves out of the world market?

THE HONORABLE BRIAN MULRONEY: Well, I don't think that we can, with regard to the

UAW (CHANGED AUDIO SIDES)... as Canadians workers to do that. I think they ought to do that. They may want to reflect upon the market that they're trying to sell into and the competitive positions that have been eroded over the years. We know what will happen to Canadian products if we can't sell into various markets. And I can tell you that, without certainly knowing him intimately, but Bob White, who is the UAW Canadian Director, is quite an outstanding labor leader. He provides, I think, a remarkably sane leadership. He may be called upon to take that decision in the interest of his view of Canada and the national interest of his workers, in which case I would applaud him. But you're quite right in regard to wage rates which is another matter, which then would cause, could very well cause some problems if we were terribly out of line and could not sell. That is part of the productivity enhancement program that I think we're trying to address on a national and cooperative level.

JACK WELCH: Mr. Prime Minister, Canada shares many of our current problems, except for one significant difference – a very high unemployment rate. Given your strong mandate, not unlike that of our president, how will you deal with the huge budget deficit against the background of 11 percent-plus unemployment?

THE HONORABLE BRIAN MULRONEY: For a second there I thought you were asking me how I was going to deal with the American deficit. (Laughter)

JACK WELCH: Well, you can handle that too I think.

THE HONORABLE BRIAN MULRONEY: Well, we have, you know, 11.3% unemployment, and compared with your 7.2%, I believe, if we had your unemployment record I think there would be probably in the neighborhood of 500,000 Canadians back to work tomorrow morning. America has done a much better job than us in creating jobs, particularly in the small and medium business sector where we have neglected it. What we're trying to do is pay down our debt. We're trying to do something that is going to cause collective cardiac arrest in Ottawa. We think that we should try and live within our means. (Applause) Because we think that if we don't have to borrow 30 or 40 cents on every dollar to pay the interest on a spiraling debt, that we won't be crowding out the private sector and they'll be able to get money at cheaper cost and interest rates will go down and they'll invest and create some jobs. That's what we're trying to do. (Applause) And we're going to try and live within our means in a modest way to do that, because job creation is what it's all about. You know I'm not hung up on deficits per se. I think that our obligation is to look after people who need jobs. You know I come from a big family of hourly-rated people. And that's important to never forget that our obligation is to provide employment opportunities. But when a deficit has grown scandalously over 15 years, in good years and bad, mostly good, then there's a psychological problem. And the problem in Ottawa is that the Federal government was the only agent in the entire country that was never expected to pay its bills. The honeymoon was going to go on forever. Well, of course, it didn't – no more with Ottawa than anywhere else. And we're now down to the hard business of trying to restructure our public expenditures in a way that will allow us to indicate to the private sector,

and to you, that we're serious about paying down our debt so that we can attract capital at lower costs, so that we can create jobs for the million and a half families who need them in Canada.

Thank you. (Applause)

EDWARD HENNESSY, JR.: Mr. Prime Minister, your government has talked about establishing proper incentives for investment, both Canadian and foreign. What is the nature of some of these incentives?

THE HONORABLE BRIAN MULRONEY: Well, we are going through a process – I'm not trying to be coy – but we're going through a process of consultation with labor and management and the provinces. We have a First Ministers' Conference on the 14th. If you don't believe that I am serious about consulting with the Premiers, I want you to know we have a First Ministers' - Premiers' Conference in Regina, Saskatchewan on the 14th of February. (Applause) How do you like that? So, Ross is from Winnipeg, so he knows all about that. What we're going to try and do is get the benefit of their input as we'll try and get the benefit of labor's input at a National Economic Summit which will be held in March, which will then be followed by one final First Ministers' Conference, then followed by a National Budget in April. And it's at that time that we'll lay out the kinds of incentives and inducements to the private sector that we hope will enhance that entrepreneurial genius. I believe, and my party believes, that Canada was not built by bureaucrats, that it was built by people who went out and dreamed dreams and took risks, and the motivation for that is the prospect of reward. And we believe in that. We believe in

enhancing that genius of the private sector. We plan on working with them as a government, creating a climate where it can flourish because that's the way Canada is going to regain economic growth. (Applause)

JACK WELCH: Mr. Prime Minister, Canadian manufacturers incur relatively high labor costs, although their productivity suffers from the fact that in most cases outside the automotive industry we're dealing in small scale operations. And yet we must compete in world markets against high-tech developed nations on the one hand and low-wage LDCs on the other. ____ and with a tremendous tie to the automotive industry, what other industries in Canada can truly become global industries from a manufacturing standpoint?

THE HONORABLE BRIAN MULRONEY: Oh, I think transportation, telecommunications, agriculture, mining. Some of these, we're already in a position of considerable leadership in some of them and I think that we can do infinitely better than we've done. But, you know, your point about the automobile productivity factor is so true. I see here Bob Anderson and Carl Nichols who were associates of mine in the past, in the Iron Ore Company. I remember we once looked at it. We had a situation where, I think these figures are just about dead-on, about 1981 or 1982, to give you an idea of the kind of problem that we have, not entirely different from yours in the United States. But we were running an operation in Labrador City which is way up in Labrador West. And if you can imagine the cargo, say a cargo of 20,000 tons, of low grade iron ore. You bring it down from Labrador City, ship it down 266 miles on the railway, and there you

segregate it. You send 10,000 tons 750 miles down the St. Lawrence Seaway to Southwestern Ontario where it's made into steel, then a Chevrolet Citation. And then it's shipped back 750 miles up to Seven Islands, put on a flat car, and it goes 266 miles north to Labrador City. And there you sell your Citation. The other half of the segregated cargo goes 14,800 miles to Japan. It's made into steel. A Toyota Corolla emerges. It goes 14,800 miles back to Seven Islands, put on a flat car, and you sell the Toyota Corolla for \$1,890 less than _____. And the Japanese are delighted. They're making a fortune. There's the problem. It's the old story of productivity meaning jobs. And it very much means jobs to our...and I think there's a degree of, I suppose of all of us becoming more conscious and more mature in our assessment of the challenges. And everyone from the manufacturers to trade union leaders to politicians, all realize a little more now that nobody is going to serve us out anything. We've got to get out there and compete and this means keeping our costs down, keeping the quality up, and keeping ourselves competitive. And I think we can do that in a large number of key industries with Canadian expertise and excellence around the world. And we're certainly going to try and do that. But the key to it is going to be productivity. (Applause)

CHAIRMAN F. ROSS JOHNSON: We will have our last question from Mr. Hennessy.

EDWARD HENNESSY, JR.: Mr. Prime Minister, the scope of your victory in September and that of President Reagan last month means that you already have something in common. Beyond that, both countries look to 1985 with some economic misgivings. Would you care to give us

your projections for the Canadian economy in 1985?

THE HONORABLE BRIAN MULRONEY: My mother always told me that the last question would kill you.

EDWARD HENNESSY, JR.: I didn't mean to do that.

THE HONORABLE BRIAN MULRONEY: I'm confident we're going to have, we've got a hell of an inheritance to deal with – it's going to be difficult. But I think that we're capable of putting in place policies that will attract capital, of establishing a new climate of harmony with the provinces and with labor and with the private sector, perhaps even defining achievable targets for us as a country and a reasonable manner in which we can share the benefits of some of that achievement. And I think that if we can do that, we'll have ups and downs over the terms of our mandate to be sure. But I believe, and not in any quixotic way, I genuinely believe in the strength and the magnificence of Canada, what we can do as friends and neighbors, partners and allies, and what we can do by ourselves in cooperation with our friends. And I believe that part of that magnificence is the achievement of great goals for our people and a modest contribution to a better association to better mankind. Thank you all. (Applause)

CHAIRMAN F. ROSS JOHNSON: Ladies and gentlemen, as we come to the end of this program, out of respect to the Prime Minister, and particularly the Secret Service, we'd

appreciate it if you could remain seated for a few minutes until he can leave. Mr. Prime Minister, there's a tradition in the club, a presentation that we give in the form of a Big Apple. Lew Rudin works on these. He did this one this afternoon but there's another in the package. And on behalf of everybody here in the club, Brian, our sincerest thanks for a wonderful evening. The meeting is now adjourned. Would you please stay seated for a couple of minutes.

END OF MEETING.