

Should Canada help with a European bailout?

By Mark Gollom, [CBC News](#) Posted: Aug 16, 2012

German Chancellor Angela Merkel's visit with Prime Minister Stephen Harper has reignited the issue of Canada's refusal to contribute money to a bailout fund through the International Monetary Fund to help troubled European economies.

On Wednesday, when asked again whether Canada would reconsider, Finance Minister Jim Flaherty told reporters that "not enough has been done" and that European countries "need to do much more."

"We have been clear for several years that not only should the European countries take overwhelming, concerted action to take control of the situation," Flaherty said, "but also that the European countries themselves have more than adequate resources to do so."

Greece, Ireland and Portugal have all agreed to bailout packages to help out their public finances. In June, Spain agreed to a bailout loan to prop up its ailing banking system.

Some have wondered whether it is time for Canada to rethink its position.

"The argument is: 'Why should we bail out the Europeans? They got themselves into the mess, they have to sort it out one way or another. So what's Canada got to do with it? It's a European issue.' And that's a valid argument," Matthias Kipping, professor of policy and chair of business history at Schulich School of Business in Toronto, told CBC News.

"At the same time, we're talking about a global economy which is highly interconnected."

Kipping said a similar attitude was prevalent with the subprime

mortgage crisis in the U.S, where many mistakenly believed it was a problem confined to "rural U.S." But if the euro zone defaults, or if one country in Europe defaults, that will lead to a similar situation and will cause credit to dry up, which will ultimately affect everybody.

"On the one hand you say, 'Well, I'm not going to burden Canadian taxpayers with the possible risk of the Europeans defaulting on this' but at the same time, it's in the interest of your own economy. You want to make sure that this doesn't blow up in your face because it will blow up in everybody's face."

Kipping praised the federal government for taking a tough stance with Europe but said for Canada's own self interest it may be time to relent.

"Yes, Canada should, but with conditions. I think it was good to send the message that you can't keep asking for money but when push comes to shove, you don't want this to blow up."

Canada could take a 'big haircut'

Walid Hejazi, associate professor of international business at University of Toronto's Rotman School of Management, said Canadian taxpayers could lose if the government contributes to an IMF fund.

"If Europe collapses, then yes there's a significant chance we'll take a big haircut. But chances are the money goes to the IMF and it gets loaned out to these countries and comes back over time."

However, Hejazi points out that the country would receive a lower return or no return on that money. For example, supposing Canada loaned the IMF \$1 billion — would the organization return \$1 billion in two years or \$1 billion plus interest?

"It's very likely the case we'll be getting a lower return than we would if we put this money into the financial system. So that's one loss that we get. But the second loss is you're exposing Canadian money to a higher risk environment," Hejazi said.

"But the benefit that you get is if it helps to stabilize the European

economies and return them to a healthy environment, then the return to Canadians will be higher. It won't come in terms of interest but it comes in terms of a more robust European economy that will spill over to benefit Canada."

Western University economics professor Kul Bhatia said he agreed with the government's decision to stay out of the euro crisis, saying Europe has to make fundamental changes and any Canadian contribution would have a minimum impact.

"This is such a huge problem that Canada's participation could not possibly have been substantive. Nobody in Canada could have stood up and said 'We'd love to bail you out.' Because the amount of resources required for making a dent in this problem was just way beyond anything Canada could have done. Therefore, it became more symbolic."

Canada-EU free trade would help ease crisis

Jason Langrish, executive director of Canada Europe Roundtable for Business, also said he agrees with the government's approach, adding that the IMF was never intended to be a body for assisting advanced industrial economies.

He said more pressure should be placed on Germany, which has greatly benefited from a low currency, causing a boom in exports and a low unemployment rate. As well, the euro has allowed German businesses to freely trade their goods and services across a continent of 500 million people without worrying about fluctuations in exchange rates, Langrish said.

"If Germany has done so well and other countries within the European Union have done so well then they have to take the bad with the good. All the money that they've made — some of that is going to have to go back into stabilizing the regions in which they sell their products and may not be doing so well right now."

Langrish said that instead of Ottawa doling out money, a rapid conclusion of the Canada-EU trade agreement would do far more to push forward structural reforms within Europe, increase productivity and competitiveness than any cheque that Canada could ever cut.

He said a 2008 report projected that such a trade agreement would result in an \$18 billion a year gain for the EU.

"This debate over whether Canada should give money to the European Union is largely a political debate. But in terms of really putting the economy on solid footing, the Canada-EU agreement is going to do a lot more for Europe and for the bilateral relationship than any sort of political arrangement that's hammered out between Canada and Germany and EU, which is really a short term solution."