

## Get Off the Pot

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## Get Off the Pot

A new economic world is emerging and Canada seems primed to take on a wallflower role. When compared to the assertiveness of China, India, Brazil, and Russia, we are but fence-sitters, living off the avails of the country's abundant natural resources. Our cozy world is fast becoming obsolete, our cult of middleness beginning to take its toll. We are without a worldwide consumer hallmark setting an example to others aspiring to escape the taint of ubiquity. With the possible exception of Research in Motion's BlackBerry, we have steadfastly remained brandless. The idea we are a significant adversary, able to do battle with ferocious competition, is mostly a myth. With the loonie trading at par with the greenback, and the United States likely to buy less from us than before, we can no longer afford to have most of our eggs in one basket. Finding and developing new markets is essential.

### **WHERE ARE OUR PIED PIPERS?**

It was George Bernard Shaw's contention that a promising public service career beckons for those who know little but think they understand everything. The process of learning the craft of good judgment takes time, and few government officials ever achieve a passing grade. Academics, particularly political scientists, are as useless as pulled teeth! So it is small wonder Canada lacks inspirational leadership. Though colourful and passionate when standing tall on the stump, all too many members of provincial legislatures and parliament turn into little more than silly putty once in office, bouncing awkwardly from one self-serving poll to the next. Only a handful have the smarts or backbone to address the electorate face to face, and prevail. The prime minister has not abided by the principles for which his party was elected. Given any number of gaffes, the minister of finance's onanistic self-regard is unwarranted. Rather than admitting to their shortcomings, they plod ever downward, digging a deeper hole as they go. Instead of devising a strategy that will better position domestic companies to compete against the Americans and globally, they persist in getting in the way. The idea that corporate tax rates should be kept relatively low to encourage investment and job formation seems to be beyond their scope of comprehension. Nor do they appear to understand that competitive capital gain and dividend tax rates would spur investors to assume more risk, critical to financing the wealth begetters of the future, those able and willing to make substantial donations to worthy causes.

Meeting expectations is a critical aspect of our daily lives. Governments, like corporations and income trusts, must manage their financial affairs in an expeditious manner or suffer severe consequences. Since 1999, the cost of the federal bureaucracy has increased by an astounding 50 percent, 14 percent in the last two budgets alone. Rather than eliminate redundant programmes and pay down the national debt, which they promised to do, the Conservatives are finding new ways to spend the ever-increasing amount of money the government collects. Surplus denials, “tax fairness,” and relief rhetoric have become tedious. Coupled with Stephen Harper’s penchant for control, and his refusal to allow cabinet members to strut their stuff and enhance the party’s appeal, it is not surprising the voters are unwilling to give him the convincing majority he so desperately seeks.

Whereas all-star hockey players learn to cope with competition, many of our senior executives are scared stiff to go into a corner and fight for the puck, preferring, instead, to pass it to someone else and head for the bench. A case in point is China. Thanks to the missionary endeavours of Dr. Norman Bethune, we once played prominent diplomatic and economic roles. Despite seemingly endless debates about what to do to make up for lost market share, our exports have not kept pace with imports. Nowadays, the Chinese prefer to purchase commodities from African and Latin American producers, while we have no choice but to buy their high-quality, low-cost goods. Their principal focus of the past thirty years has been to expand commercial and military might, knowing every other form of power will eventually fall into place. There have been no concessions based on nostalgia, not even the issue of human rights, a touchy subject for most Canadians. We have done just the opposite, reflected in their superior rate of growth in GDP and position in the pecking order of the world’s most respected nations. We have no one but ourselves to blame, our political and corporate guardians less than adequate by any measure. The recent loss of up to 300,000 manufacturing jobs, primarily in Quebec and Ontario, is but the tale of labour leaders, government interference, and high corporate taxes. Despite the bitching, everyone should realize that nobody is ever in business to provide as many jobs as possible, only as few as necessary. As success is never guaranteed, all suggestions of saving jobs or assuring their security is nonsensical. Let us also not forget that Canada is experiencing the lowest unemployment rate in thirty-plus years. Many of the new jobs being created pay more than those which were lost, the very reason why income tax revenues are increasing by leaps and bounds. It is time the complainers put their crying towels away and got in step with the facts.

#### **HOME-RUN HITTERS ARE HARD TO FIND**

Every free market is exposed to takeovers. It is part and parcel of doing business these days. According to Citicorp, the merger and acquisition frenzy has a way to go before it reaches the record set in 1999–2000, being 10.7 – compared to 12.7 percent – of global market capitalization seven years ago. Were it to measure up, the tally would have to rise from US\$2.7 trillion in the first half, to \$6.5 trillion by year end 2007. Many of the investors who reap large gains are more than likely to reinvest the cash to the benefit of the up-and-coming hotshots in need of additional capital. It is vital we champion those who have the confidence to try and compete worldwide.

As to the claim that the purchase of an iconic Canadian company by others is not to our advantage, few amongst us have thought the equation through to its rightful

conclusion. Had Inco Ltd. and Falconbridge Ltd. banged their nickel-hardened heads together, which they could have done years ago, would the combined company have survived the current wave of buying by foreign interests? The fact is, we will never know. Had Alcan Inc. and Alcoa Inc. not been split apart by the US anti-trust authorities back in 1928, might the combined company have become a home-run hitter? Maybe, but the financial performance of the sum-of-the-parts has seldom produced above-average results, so I doubt it. Rio Tinto PLC's subsequent "bite the bullet" bid for Alcan was based on the stronger-for-longer commodity price theory. For the sake of its shareholders and those who own Canadian natural resource stocks, let us hope management's prognostication proves right. One thing for sure is that the acquirers believe they have the wherewithal to realize a superior return on the capital employed.

Bell Canada was brought to my attention as a "sure-bet" investment opportunity as far back as 1965. In 1974, my first letter announcing the launching of Rapport Capital Formation Strategists Inc. was addressed to the chairman and CEO. It noted the loss of more registered shareholders in the preceding decade than any other Canadian company had every had. This was an indication of serious problems of investor perception needing to be addressed. Though several subsequent and related chief executive officers have been elected to the Canadian Business Hall of Fame, the plan of attack has remained inconsistent. Management has failed to gain a solid reputation, attract, develop, and motivate quality people. Its relationship with the media and its customers is still iffy. Despite the takeover bid, neither the value of the shares nor the dividends have kept pace with those of its competitors, and now the bondholders are taking a pasting because of the probable demise of the company's credit rating. There is no reason why the senior executives, or Alcan's, deserve a change-of-control bonus. The money should go to the long-suffering investors. A lesson many other boards of directors would be wise to act upon before the private equiteers strike again. Be this the last slice of "belloney" for many years to come!

#### **FESSING UP TO REALITY**

Canadians are complacent, unwilling to take chances for fear of failure. As a consequence, we punch well below our weight. Inadequate research and a lack of innovation explains our mediocracy. Creating wealth depends on increasing productivity. New capital investment is imperative in the face of an aging population, which threatens our prosperity while putting additional demands on social programmes. The federal and provincial governments must stop littering the system with a plethora of concessions to specific sectors, because it confuses matters without improving economic performance. Leaving it up to politicians to pick winners from losers has never worked in the past, and is bound to fail in the future. They simply do not have the *savoir faire* to be successful entrepreneurs. If they had, they would be. And they are not!

Regulation is like putting a bridle on a horse: it allows politicians with nothing to lose to control the speed and direction of change, and prevents those with ambition to set the pace. It gives the lazy and incompetent an excuse for their lack of drive and underperformance. Countries which put roadblocks in the way of progress will be the losers in terms of economic development. Our banking system is a perfect example of what not to do. In 1997, the Royal Bank of Scotland was half the size of the Royal Bank of Canada. Now it is more than twice as large, far more sophisticated, and able to provide

advice and services wherever a customer wishes to operate, anywhere in the world. Its earnings have also kept up and, given a far better balance of loans, the chances of being caught offside is much lower. Riven by regional jealousies, our entrepreneurs remain burdened by inter-provincial trade restraints and a patchwork of thirteen separate securities commissions, all a blot on our international-credibility copybook. It is passed the time when we can rightfully blame others for our made-in-Canada stupidity. Instead of applying the brakes to change, governments should encourage corporations to get with it, by upgrading the efficiency of their facilities and looking afield to expand. Otherwise they stand little chance of remaining competitive, subject to being acquired at what in the end will prove to be a bargain price by those willing to do what needs to be done to grow and prosper.

In addition, expansion here and elsewhere will result in employment gains and an increase in tax revenues. If it takes debt-dumping and double-dipping of interest expenses to do the trick, it is still a better option than wasting many billions of dollars in subsidies to keep otherwise marginally successful companies afloat. A case in point is the recent deal made between the Quebec government and Alcan, whereby the company will receive the equivalent of \$274,000 per job per year over the next thirty-five years in the hope of safeguarding 740 positions at the new two-billion dollar smelter to be built in Arvida, a key reason why Alcoa, and subsequently Rio Tinto, decided to jump aboard the interest-free loan, tax-break, and cheap-hydroelectric-power bandwagon. Despite its generosity, the provincial Liberal Party was unable to hold on to its majority in the subsequent election, none of its candidates successful in the Saguenay region. What do you suppose its next campaign goodies will cost the taxpayers? While you wait, try to tally the funds their Ontario counterparts have promised to spend in the hope of staying in office.

#### **PAYING FOR COMPETENCE**

The disparity between the rich and poor in Canada is growing. The middle class is shrinking and the needy are getting nowhere fast. The gap from top to bottom in household income has increased to \$20,000 per year. High-achieving women, aiming to get ahead in life, are the driving force. They tend to marry influential men, and power couples make a considerable amount of money. Economists refer to it as assortative mating, the children given many opportunities out of reach for others. In time, the phenomenon becomes entrenched. Regrettably none of the government policy prescriptions seem to make up for the difference. Rather than increase the tax rate charged the rich to supplement the poor, the authorities wasting a great deal of the money arranging to do so, there would be much in the way of new wealth created for everyone if the successful amongst us were encouraged to expand the scope of their endeavours, hiring and promoting additional employees, and paying them well in cash and kind. A more promising scenario than having those who are struggling just to get by do little else than sit on a park bench waiting receipt of their next welfare cheque.

The magnanimous compensation paid Wall and Bay Street all-stars in recent years has triggered a demand to increase the take of private-sector executives, civil servants, and politicians. There is every chance the consultants will go along with the gig, assuring themselves of a continuing stream of advisory fees. Not a one has ever suggested there be cutbacks, the savings shared by underlings. Nor has there been any mention made of the relative worth of each grouping, its contribution to containing costs, gaining new

customers, increasing margins, earnings, share or income trust unit prices. Obviously the bureaucrats fail on all accounts, reason why so few have been hired away by the private sector.

Some misguided souls have alleged that highly paid corporate leaders create a disproportionate share of wealth and play a pivotal role in spawning new ventures. If that were so, why are Canada's largest employers shedding thousands of jobs? How much of their success is due to smart management decisions? How much because of better times? What happens when luck runs out? Will the CEO's compensation be reduced, as the payout to investors might well be? As noted earlier, comparative improvement in productivity is a key consideration. Difficult to measure, but no more so than figuring out what a chief executive officer should get. It is time the best interests of the shareholders and unitholders be considered first, not second, or third.

### **PREPARING CANADA FOR THE FUTURE**

If our offspring are to be counted upon to pull Canada out of the directionless drift we have put it in and get it back on the road to glory, they and new Canadians need to know about its history, traditions and values, appreciate its strengths, and comprehend its failings. They must learn to differentiate between the roles played by government and private enterprise. They should be taught proper etiquette and the finer points of effective communication, and about how to manage their personal financial affairs. Doing so will encourage an increasing number of capable individuals to set an example for future generations to follow. That, in and of itself, will be a significant victory for all Canadians.

When compared to the rest of the world, reports have shown we fare relatively well in dealing with the problems of poverty. We do poorly in attracting and retaining successful entrepreneurs, and specialists able to develop our competitive edge. In striving to realize our prosperity potential, skills-training programmes should be offered, and scholarships granted to the less-fortunate who deserve and wish to go to university. Such is the most cost-effective and efficient method to improve their base of know-how, positioned to gain wisdom over time. Building great companies is not just good business. It is also good citizenship. Competitiveness means more than making our home and native land attractive to its citizens and investors. In this highly integrated world, anticipating problems and devising the right solutions is critical, and demands a thorough understanding of global trends. What pushes them. What the implications are for Canada and Canadians. We have got to be willing and prepared to address new challenges and cope with the ramifications. We must strengthen our commitment to research and train executives to think outside the box. All of which takes money, and that is where we have come up short in the past. We cannot do so from now on. It is time we stopped deluding ourselves and got off the pot!