

Shift Happens

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As those who have known me for many years may attest, I have spent a great deal of time and effort over the past three decades challenging the status quo, seeking to detect shifts in the political winds, shifts in business practices, shifts in the way the stock market will interpret the results. The ultimate goal has always been to improve the lot of Canadians and that of investors, large and small. The only thing I know for sure is that shift happens. Whereas cycles have a way of repeating, shifts tend to be progressive. Once in motion, they are likely to persist for an extended period of time. Those who foresee the changes and position themselves to go with the flow will prosper. Those who miss the opportunity to do so will inevitably come up short. Here are a number of shifts I see happening in the immediate to longer term.

POLITICS IS A TOUGH GAME

Many friends and acquaintances have often asked me why I never ran for public office, to which I have steadfastly offered that politics is a tough game, not one I have ever been particularly drawn to. I would much prefer to stand back from the fray and play the role of an informed critic, and not have to fight to be heard above the din of those content to just maintain the status quo.

That said, change for change's sake, more often than not, makes little sense. Jean Chrétien's anti-American posturing in support of the Kyoto Accord and decriminalizing the use of marijuana has proved to be little more than smoke and mirrors as far as most Canadians are concerned. Furthermore, history tells us that effective promotion of our interests and values occurs more readily when we use our influence in Washington by engaging the Americans, and less so when we seek to constrain or challenge them. Though taking public pot shots may yield short-term political gains at home, such actions tend to lead to substantial longer-term costs in terms of Canada-U.S. relations, and results in no benefit to us as regards changing their behaviour. We must also remember that the quality of the personal relationship between our prime minister and their president is a key factor in managing the cultural differences between the two countries, especially at times of crisis, when power in Washington is heavily concentrated in the White House. Then again, few Americans are likely to expend much in the way of "political capital" to extricate a Canadian trade problem from the jaws of congressional protectionism when the president needs votes on Capitol Hill for other, more pressing domestic or international issues.

Instead of being regarded as an enlightened leader, Chrétien's legacy is likely to be one of financial scandal, the repeated misuse of his position of influence, and the centralization of power in the PMO. Rather than ruling the cabinet, caucus and government with an iron fist, as he did, hopefully his successors will not be as beholden to polling results and encourage a shift towards engaging Parliament and the public in policy debates, allowing for new and more imaginative ideas to surface. Though there is no indication to date that Paul Martin is permitting this to happen, such a turn of events would do wonders for Canadians of all political persuasions.

MAJOR ISSUES OF THE DAY

Some have suggested that a completely free vote on the issue of gay marriage might signal such a shift. However, given as seven provinces and one territory have already extended civil privileges to homosexuals and the fact that politicians have rarely had the guts to invoke the notwithstanding clause, it is almost certain that the federal government will get and stay in step and legalize gay marriage, though a number of churches may still be reluctant to perform such a service. Even so, we should all realize that society has far greater problems to attend to. Of the approximately twenty-four million Canadians between the ages of eighteen and sixty-five, only about 750,000 are gay and fully 98 percent of them have so far chosen to ignore their new found legal right to marry. Given the array of alternatives to traditional marriage these days, only about 50 percent of the rest of us will ever tie the knot. Many children are nowadays born out of wedlock. A Canadian child's odds of reaching age eighteen in the same home as their father and mother are less than 50 percent.

As those in the know have suggested, the parliamentarians and religious orders may be using the gay marriage debate as a diversion for, since 1980, Canada has made policy choices that have resulted in instability in domestic partnerships amongst adults, and deteriorating home conditions for children, with all the attendant problems of poverty, illness, dependency and violence. So far an open and thoughtful discussion of these issues has been rendered impossible by a climate of denial. If and when it ever happens, Canadians at large will realize that the fuss about gay marriage has been blown out of proportion to the more pressing social problems our country must fess up to and address. Needless to say, wholesale changes are needed in the Divorce Act, particularly as it pertains to property rights and parental responsibility.

We should also be concerned about Canada's birthrate, which now hovers at about 1.5 per woman, the number of births having declined every year since the baby boom peaked in 1959. A must shift in attitude would be to acknowledge that we have a problem, and for politicians to accept that our abysmal birth and family formation rates are important topics worthy of closer attention.

Unfortunately, daycare benefits are not the answer, as they have shown to have an inverse correlation with fertility rates, and demonstrated a similar relationship to marriage rates. Simply put, the more a country spends to support families and children, the fewer of both it gets. The U.S., which accepts these facts of life, and offers fewer benefits, has a dramatically higher birthrate than either Europe or Canada. All of which suggests that we need to reassess the federal government's plans for a national daycare programme. While it may be politically expedient, it is not the way to resolve our dilemma. Matching U.S. tax rates is more likely to do the trick, providing couples with the financial wherewithal to make the decision to marry and have children.

Neither is immigration the answer to the pending population catastrophe. As it now stands, Canada has the most open policy in the world, newcomers accounting for more than half the growth in total population during the 1990s. This is an imperfect way to get around our demographic challenge, as there is a limit to the number of the more educated people we can ever hope to attract. To say nothing of the devilish time we are having assimilating those we do. Which is not the case in the U.S., where the influx is much smaller in relative terms. As has been suggested, immigration is to natural population growth what wine is to food: enriching as a supplement, dangerous as a substitute!

When it comes to health care, more money will not solve the many problems with the present system. As I and many others who are far more astute would offer, while the federal government should contribute the funding for administration, the provinces must have the flexibility to run their own show without being micromanaged from Ottawa, allowing for the use of alternative private health care delivery. I am not in any way, shape or form advocating the so-called U.S. “for profit” model. Rather, private delivery of publically financed services, a staple of systems elsewhere in the world, would give the patient a choice and is, by design, a far more proficient way of getting a bigger bang for our buck. With enough will, realism and policy savvy, wait lists can be shortened, doctor shortages lessened, and out-of-control budgets brought back into balance. The authorities must also realize that taking money in taxes and returning it to subordinated levels of government, as in the health accord, is welfare-state redistribution, not decentralization as it claims.

WE MUST IMPROVE OUR PRODUCTIVITY

As many studies have shown, Canadians are only 84 percent as productive as are the Americans, a gap we can no longer afford or claim does not exist. There is going to have to be a major shift in focus and tax policies if we are ever to skate back on side. The loonie has gained about 25 percent on the greenback in the past two years. The major banks are forecasting another 3 percent rise in 2005, the primary factor cited by many of our exporters as to why they are having a more difficult time these days, versus the cakewalk they enjoyed when the loonie was bouncing about U.S.\$0.62 just a few years ago.

Whereas we Canadians have allowed our politicians and bureaucrats to become all powerful, the Americans have taken a different route. By reducing taxes and encouraging entrepreneurs to invest in capital equipment, advanced technologies and employee training, they have become far more competitive. Such is never going to happen here until our governments’ take is dramatically reduced, from about 50, down to something like 35 percent of GDP. Rather than debate what, or what not, to do with the budget surplus of \$8 to 9 billion, which is but a drop in the bucket in relation to total government expenditures, steps must be taken to eliminate superfluous programmes. We must also be much smarter when it comes to addressing the costs of social security, education, and the military, as I have no doubt the Americans will be, thanks to the multi-trillion dollar tax cuts enacted in the U.S. in the past number of years.

Given the revelations of the Gomery Commission into corruption in high places, it would seem advisable to suggest that governments could also do with a good measure of better governance. Rather than wheel and deal behind closed doors, there must be more accountability and transparency. After all, it is our money they are spending, never their’s, as some misguided politicians and many bureaucrats still seem to think.

A case in point is Bombardier Inc., the failing “national champion” and the pride of

“Québec Inc.,” which is about to get an additional \$380 million, of a proposed \$1 billion of blind-faith federal government money to be spent to prop up the Canadian aerospace sector, to go along with a \$700 million loan guarantee from the province of Québec. Few of those in positions of influence, or so it would seem, have ever taken a moment to question whether or not it makes good economic sense for us to try and compete with the likes of Boeing, Airbus and Embraer, each and all of which are also highly subsidized entities. If they did, they might come to quite a different conclusion.

To me, the prime minister and the premier of Québec have no real understanding of free markets. Nor do they seem to appreciate or care that coddled corporations that grow fat and whiny, on a steady diet of government handouts, inevitably wind up loaded down with politically driven obligations that make them ever less competitive than they might otherwise be. Furthermore, governments that attempt to support old technologies, subsidize new ones, or guarantee high-paying jobs and future development, only succeed in damaging the whole economic system in the process. Simply put, if the pursuit is worthwhile, capable entrepreneurs will figure out a way of doing so profitably, without dragging governments into the fray, without wasting vast sums of taxpayers’ money. In this regard, let us never forget that governments have trouble picking winners. Losers, on the other hand, have no trouble picking governments, and getting their snouts firmly buried in the public trough. The shareholders have concluded that Bombardier Inc. is a lousy investment. Canadian taxpayers should not be forced to take their place. It is time the governments butt out. The measly 3 percent repayment on money “loaned” out under the Technology Partnerships Canada programme is proof enough of what I speak.

SHIFTING INTO ECONOMIC HIGH GEAR

Canadians have to get over the notion that rich people are undeserving of their good fortune and should, therefore, pay a greater percentage of their income and capital gains in taxes. As I see it, there are very few truly idle rich individuals, or families for that matter. Most are either scurrying about hiring people and creating more wealth, or spending time with advisors and investing their money wisely. They are certainly far more productive than the detractors. In order to stay abreast of the Chinese and others who are building state-of-the-art manufacturing facilities, the U.S. has decided that investors pay but a 15 percent tax on capital gains and dividends. Eventually, these and the estate tax may be eliminated in favour of a consumption tax, something like our GST. Rather than continue to hold to the silly idea that governments are better at creating high-paying jobs than a string of successful entrepreneurs plying their trade, we should do all in our power to encourage investors to back the more successful CEOs and not have the taxpayers subsidize the ne’er-do-wells, which is like pouring good money down the drain. If this shift should come to pass, we would stand a much better chance of making up the difference in relative productivity and standard of living, which have lagged that of our neighbours to the south by ever increasing percentage points since 1979. If not, we likely never will.

In the U.S., liberalism is a symbol for excess, for hedonism, for bad policy, for expensive government, for giveaway programmes that turn many American voters off. The good news is that it is also beginning to do so in Canada, and none too soon for our own good. On the other hand, Americans must understand that sound tax and monetary policies ought to be coupled with spending discipline and free trade consistency, in order to

produce good jobs paying good wages. I believe George Bush has got the message and is about to take the necessary steps.

REGAINING OUR SENSE OF PRIDE

When I was a young boy, World War II was the everyday concern of my parents, their friends and acquaintances, our armed forces fighting day and night to defeat the evil enemy. Canada was a proud nation in those days and justifiably so. We were highly regarded the world over. The many cenotaphs across our land pay tribute to those who lost their lives so that we could live in peace. Unfortunately, we have failed to fully recognize the many thousands of other dear souls who were injured or maimed in defending our best interests.

Adam Ferguson's *Essay on the History of Civil Society*, published in 1768, provides a number of other interesting lessons. For example, a collective sense of honour, integrity and valour are often destroyed by a self-centered, commercialize society. These are strengths that no country, no matter how sophisticated or advanced, can afford to do without. Though never the equal of a professional army in peacetime, a citizen militia is a good way to keep alive the traditions of physical courage and martial spirit, that teaches self-sacrifice, discipline and loyalty, instilling confidence in a nation's people, the key to gaining and maintaining a high level of self pride. Unfortunately, we have allowed our military and militia forces to become little more than an embarrassment to us all. I believe it is high time we took steps to boost national defense spending in order to do our part to combat terrorism, and provide properly equipped and well-trained peacekeepers when called upon do to so.

The good news is that things are not likely to get much worse. Yes, the few remaining second-hand submarines may sink and the few remaining dilapidated helicopters may crash. But, then again, maybe the powers that be will soon see the light of a new day and realize that we will never reach our potential if we continue to limit our defense spending to a mere pittance. Though I would never suggest that we go overboard as the American's do, being the world's true guardian, if we would accept full responsibility for our own actions, and prioritize government spending, we might well make up for lost time, and regain our sense of pride in Canada and ourselves. If we fail in our quest, the tailspin will persist and absolutely no one left standing will gain.

In recent times, Canadian political leaders have been bent on differentiating our foreign policy from that of our historic ally, the United States. The rhetoric has been about creating new norms of international law, protecting the weak and oppressed, and promoting human security throughout the world. Yet we have reduced the resources available to realize our visionary aspirations, and distanced ourselves from Washington's orbit. Rather than continue to adhere to a foreign policy that seems to have metamorphosed from doing good to feeling good, we need to get our political relations with the U.S. back on a more secure footing. We must strive to create a comprehensive structure, a community of law, under which the free flow of goods, services and people can be guaranteed, all protectionist mechanisms between our two countries abolished, and the security of the continent and freedom of movement ensured. If we decline to participate in the U.S.-proposed missile defense project, the negative implication for our economic interests and well-being are inescapable.

By ceasing to talk about our “superior values” we could bring an end to our long spasms of bipolar alternation between utopianism and realism, thereby promoting our national interest, while regaining the respect of the United States and the world community!

A SHIFT IN THE POLLS

Given the Liberal government’s insignificant legislative record and an agenda that is as thin as gruel, I very much doubt Paul Martin will ever again preside over a majority in the House of Commons. Bailing out the ever underwater aerospace, dairy and textile industries, even offering to assist in resolving the National Hockey League lockout, is not the way to iron out Canada’s most pressing problems. The only good news as far as the Liberals are concerned has been Stephen Harper’s apparent disinterest in becoming prime minister, or so the left-leaning members of the media would have us all believe. These are the same people who got so excited about John Kerry, and in the end blamed the religious right for his defeat. As I see it, the Democrats came a cropper because their candidate failed to connect with the core beliefs of the electorate. Changing his stance on issues from week to week also played to President George Bush’s credit. However, the real crux has been the deep and powerful shift in voter sentiment. In the U.S., it is a case of moving further to the right. In Canada, we are gravitating from the left to the right of centre.

History tells us that there have been acknowledged changes in the affairs of men and women, with long periods of intellectual and political evolution. So it is not inconceivable that at some point in the future Canadian and American cultures will move toward each other, instead of drifting steadily apart as they have for the past while. I believe we are in the process of doing so in a political sense. As it now stands, their president is seen to be very decisive, his beliefs vindicated by a three and a half million vote majority victory, the largest ever in U.S. history, despite the best ever funded opposition party campaign, after the most stridently pro-Democratic coverage by the mainstream media, including the principle TV networks, and endorsement by the world’s cultural and opinion elites. By comparison, our decision-averse prime minister is but a dithering waffler, whose positions alternate between vacuous and variable, depending on the public opinion poll results of the day. In contrast, Stephen Harper is considered to be very firm in his beliefs, thus scary according to the third estate! His challenge is to prove otherwise. The upcoming Conservative Party convention in Montreal in March 2005 will provide just such an opportunity for him to do so. At the moment, there are signs he is in the throes of attempting to create a broad coalition of Blue Tories, Red Tories, fiscal conservatives, social conservatives, classic liberals, libertarians and, yes, soft Québec nationalists. Which could potentially last longer and be more successful than Brian Mulroney’s many political alliances, that fell apart soon after he resigned as prime minister. For their part, the voters should realize that, as President Ronald Reagan and Prime Minister Margaret Thatcher were to prove, successful conservatives do not shift toward the political centre. They shift the mainstream of political thought towards the right!

For the record, the U.S. turnout rate in the most recent election soared six points to 60 percent, the highest participation rate in thirty-six years. Ours went down three points to 61 percent, one of the lowest ever. I would expect our count to pick up the next time we go to vote, providing the government does not fall for a year or two, thus giving the Conservatives plenty of time to get their ducks in line. That said, a snap election would inevitably result in another minority government. The next time through the turnstiles

Stephen Harper stands a better chance of coming out ahead if he states his case clearly, and describes how his platform is distinctively better than anything the Liberals have to offer, promises never to include a spur of the moment state visit to madman Moammar Gadhafi and “other important people” as an excuse for flying his family to Morocco for a Christmas holiday on a federal government jet, allows his fine sense of humour to shine through, and is not distracted by sucker punches thrown his way by the opposition parties, or redneck cannons on his own deck!

In the most recent federal election the Liberals gained a minority government with 37 percent of the public vote, a far cry from the 48 percent approval rating before the sponsorship scandal came to light. The Conservatives weighed in at 30 percent, the NDP at 16 percent, and the Bloc at 49 percent in Québec. It takes a 40 percent or higher count across the country to gain a majority in the House of Commons. While Stephen Harper has a lot of ground to make up if he ever hopes to rule the roost, he and we should also realize that for forty-two of the past fifty-six years, the prime ministers have come from Québec. That is about 90 percent of the time from a province with but 25 percent of the country’s population. As staggering as these statistics are, no one really talks about them. It is politically incorrect to do so. Of note, Québec’s political culture tends to be more left-of-centre, more statist, more influenced by European strains than anywhere else in Canada. With its disproportional political weight, it has tended to serve as a bulwark against competing conservative principles.

Many Canadians feel they have paid a dear price for bilingualism, for the endless constitutional and referendum fights, for the Liberal’s shameless catering to their Québec political base. While Westerners have every reason to be bitter, so too do many Québécois, who have suffered enormous economic loss, who have had to bid a goodly number of their children adieu as they moved west or to the U.S. or elsewhere in search of good-paying jobs, who are barely willing to put up with their own people running the show in Ottawa these days. Though it would be safe to suggest that they have seldom been beholden to a political leader from another province, that is not to say that such is impossible. Whatever the case, they have an uncanny way of making sure their representatives sit on the majority side in the House of Commons. As such, if the advance polls suggest that the Conservatives are leading in Ontario and the West, it is quite conceivable that they would change allegiance and go with the polls for fear of backing the wrong silks in what is essentially a two-horse race. Though this may be a tall order for Stephen Harper to deliver, there are a great number of people from across the country pulling for him, fed up as they are about the way the Liberals have mismanaged our country’s affairs over the past many number of years. As such, I believe a shift to the small “c,” socially conservative party will come to pass and have a very positive long-term impact on cash flow and earnings multiples, the cost of capital and the stock market averages, to the benefit of all Canadians!

While there remain a lot of ands, ifs and buts to tie down, I do believe shift happens. I hope you do too!