

Dithering Heights

ALSO BY EDMOND G. EBERTS

Reflections of a Bay Street Cowboy

No Free Lunch

Parables of Golf

A Caddie's Lament

Dithering Heights

Edmond G. Eberts

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Design & production: *eber*HAUS [boar@videotron.ca]

To order additional copies please contact:

RAPPORT Capital Formation Strategists Inc.

703, 141 Adelaide Street West

Toronto, Ontario M5H 3L5

Telephone: 416-366-9264

Toll free: 800-363-8134

Fax: 416-366-1855

E-mail: rappport@rappport.ca

www.rappport.ca

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Contents

Foreword	vii
Preface	ix
What should Canada's priorities be? (1982)	1
Eh Canada! Wake up before it's too late (1999)	8
Let's get it right! (2002)	35

Foreword

It has come to my attention over the past few years that a man I have never met, and hopefully never will, has been casting aspersions on the track record of the Canadian government and its various leaders of the past twenty-five or so years. I find this lack of respect to be out of line and uncalled for by anyone who claims to be a proud citizen of this great country.

As the majority of voters know full well, my party has done all in its power to improve the well-being of average Canadians. Rather than stand by and have companies go out of business or effect substantial layoffs, we have provided subsidies to ensure that they weather the storm. So what if the Canadian dollar continues to decline, it's good for exports. All the while, Canada remains a haven for refugees and those seeking to improve their way of life. The brain drain is, in fact, a brain gain!

Our educational institutions are strong. Our health-care programmes are the envy of the free world. The CBC is a beacon we can all be very proud of. In sum, the federal and provincial governments are doing a very good job of managing the country's affairs.

It is time the bad-mouthing critics be silenced.

JOHNNY CROUTON
OTTAWA, CANADA

Preface

When I graduated from university, I was but another wide-eyed and bushy-tailed optimist. Thanks to the insistence of a few learned mentors, I was encouraged to read a lot, travel afar and get on with the task at hand. In doing so, I gained many pearls of wisdom and came to understand just how the real movers and shakers went about making the world their oyster. In the process, I took it upon myself to gather together an array of files and I have subsequently written extensively on a variety of topics that are near and dear to a host of corporate clients, personal friends and acquaintances alike.

Reflections of a Bay Street Cowboy (1999) is a selection of the more significant investor-related strategies researched, developed and implemented on behalf of the more than 450 corporate CEOs we have advised since I founded RAPPORT in 1974. I am proud to say that most have stood the test of time. *No Free Lunch* (2000) summarizes my *Off-the-Record Exchange of Constructive Ideas* year-end luncheon addresses, covering the period 1991–2000. Its aim was, and is, to provide corporate leaders and others with a reasoned assessment of the political and economic comings and goings, to evaluate the outlook for the stock market and to discuss ways to take advantage of the emerging trends. Both titles can be viewed (or downloaded) by logging on to www.rapport.ca and clicking on the “Our thoughts” tab.

Those interested in the greater meaning of life’s ultimate game may wish to acquire *Parables of Golf* (1995) and *A Caddie’s Lament and other*

thoughts from the bunker (2001). Net proceeds from these two testaments go to support junior golf and caddie programmes.

Dithering Heights is a collection of three essays. The first, *What should Canada's priorities be?* (1982), is a review and critique of the prevailing conventional wisdom of twenty years ago. It also includes answers to the capital formation crisis of that time that are just as applicable today. *Eh Canada! Wake up before it's too late* (1999) duly considers the country's strengths and weaknesses and makes recommendations as to how we might better position ourselves to face the challenges and take advantage of the opportunities of the new millennium. It has been the focus of many a podium presentation and late-night discussions from coast to coast! *Let's get it right!* (2002) suggests that rather than stand aside and allow our once-great country to fall by the wayside and be absorbed by the United States, steps can be taken to get Canada back on the right track, heading in the right direction and firing on all cylinders.

In terms of benchmarks, the relative underperformance of the Canadian loonie and the Toronto Stock Exchange 300 Composite Index, vis-à-vis that of the United States greenback and the Standard & Poor's 500, speaks volumes about the failure of our country and its people to compete. In my opinion, and that of many millions of other Canadians, it is high time we all come to our senses and work on electing wiser politicians, appointing astute bureaucrats and promoting adept corporate chief executive officers, for the collective record of the past while has been anything but impressive. In sum, we must stop dithering and pay a whole lot more attention to what really needs to be done to make up for lost time!

*Excellence and competitiveness aren't incompatible
with honesty and integrity.*

JACK WELSH, PAST CHAIRMAN AND CEO

GENERAL ELECTRIC COMPANY

What should Canada's priorities be? (1982)

In 1982, the Second Annual *Chimo* Magazine Round Table asked sixteen of Canada's top business leaders to present their proposals on how to restore our belief in Canada as the land of the future. RAPPORT assumed the position of the Canadian investor in summarizing these proposals and took the liberty to include answers to the capital formation crisis.

Say it isn't so

The most unpalatable truth about the current high interest rates is that gross interest payments have risen more than twice as fast as the gross national product since 1976. Unfortunately, numbers like these have lost the power to shock in a society that has come to equate indebtedness with shrewdness, thrift and liquidity with senility!

Politicians, and the entrenched bureaucracy at provincial and federal levels, have in the past decade taken Canada from its ranking as the third or fourth richest country in the world down to its present status as the thirteenth or fourteenth. They have brought the Canadian economy to its knees.

Faith in the future has turned into expectation for the present, and expectation has become entitlement. *I deserve it; I want it now*, has become a dominating public attitude.

Let's remember too that increased taxes are only one way to reduce the deficit. Reduced government spending is another; and reduced

spending should involve not only cutbacks in government participation, but in the number of players.

The need for productivity

However much the politicians and the public may avoid coming to grips with the real issue, those of us whose concern for the economy does not spring from the need to cadge votes and tiptoe through the electoral tulips have long understood a fundamental reality. Productivity is the factor that determines the standard of living for our society, and by extension, for those who live within it at every level. It is the ultimate benchmark by which we can measure our entitlement as consumers, as well as determining prices we can command abroad in the world marketplace, where we compete as a nation with other nations.

The only way we can improve, or even maintain, our standard of living is through productivity. We must stop thinking we can legislate prosperity by the stroke of a government pen, that it will come without effort. While some of society's basic needs must be met by governments, Canada cannot afford further shrinkage of the market sector of the economy, and more growth in the non-commercial sector. The tax multipliers resulting from improved productivity and employment are so significant that they would have to outweigh by a wide margin the cost of providing the required incentives to achieve those ends.

The need for research and development

We need an economic strategy that will accelerate the pace of innovation. Its ultimate goal must be to renew economic growth and re-establish financial stability and competitiveness in international markets.

By any measure, Canada is not keeping pace in expenditures for research and development. Canada must realize that high technology is not only as valuable a resource as crude oil, but that it is renewable! We must be pragmatic about the investment of research dollars. Policies on

science and technology need to be more closely integrated with tax and fiscal policies in order to form a coherent economic development strategy.

Entitled Canadianization

We are entitled, and indeed obligated, to put Canada's interests first. But we are not entitled to do so by discriminating against the legitimate interests of others. The notion that foreign investment in Canada is prima facie bad investment, and that we therefore have the right to discriminate against it, even on a retroactive basis, flies in the face of economic realism and enlightened internationalism. It is damaging to Canada's reputation abroad, and is fomenting wasteful bickering at home, when we should be pulling together. It is not a sign of weakness to handle the interests of others with courtesy and sensitivity.

Free enterprise economics

The politician has to get elected; the businessman has to show a profit. Entrepreneurial, free enterprise economics and a humanitarian social environment are not mutually exclusive. Profit is critical; people are essential. We must not only understand attitudes and expectations, we must also include these in our overall business considerations.

Canada's investment needs for this decade have been estimated at about \$1 trillion. Where will all this capital come from? If past trends prevail, 75 percent will come from internally generated cash flow. It becomes obvious that if Canada's investment needs are unprecedented in this decade, our needs for profits will be likewise.

Inflation has made equity financing more difficult and bond financing virtually impossible. Corporations have turned more and more to short-term debt financing. Debt-equity ratios have been rising, interest-coverage ratios have deteriorated. Interest expenses as a percentage of earnings have increased from 20 percent in 1979 to 58 percent in the third quarter of 1981!

Renewed government initiatives

Canada's new sovereignty deserves to be accompanied by a rekindling of our drive and initiative as a people. As Canadians we should:

- strengthen the country's export drive and eliminate the balance of payments deficit, so that we can withstand international monetary pressures more readily.
- create a larger national pool of skills and create more long-term jobs with a high productivity potential, especially in the export and import-replacement areas, so as to offset the prolonged economic slowdown which will follow on high interest rates and higher energy prices.
- generate an improved government revenue position through higher levels of economic growth and productivity rather than through higher taxes.
- keep government spending under control so that we maximize private sector growth and use scarce fiscal resources efficiently.
- boost productivity in the public sector to ensure that we are making the best possible use of their human and fiscal resources.
- move ahead quickly toward the national goal of crude oil self-sufficiency, reduce the balance of payments burden of such imports and create high-productivity jobs.
- improve our national transportation systems so that we can cut energy costs and move goods and services more effectively into the export sector.
- deregulate our economy wherever practicable.

These are some of the broader goals we should be setting if we are to regain our economic momentum.

The RAPPORT answer to the capital formation crisis

If we are ever to reverse the staggering economic consequences of uncontrolled inflation, obsolete facilities and equipment, declining research and product development, an increasingly disadvantageous

competitive position with other industrial countries, and falling productivity, we must develop the concept of ownership, including participation of the average Canadian.

In the case of individual investors, additional incentives must be offered. The Quebec Stock Savings Plan (QSSP) might well serve as the model. The purchase of treasury issues of voting equity would help to build the relative financial strength of many Canadian industries and companies and allow for improvements in productivity. The QSSP-type tax incentives make the purchase of new voting equity issues relatively more attractive than the purchase of the outstanding shares being sold by another investor.

Dividend tax credits must be extended. Stock dividends and dividend reinvestment plans (DRPs) should be income tax free. Many institutional investors are not subject to paying taxes. However, many an investment manager is under the corporate-executive gun to perform on a quarter-by-quarter measurement basis, thereby precluding any possible longer-term commitment to the concept of ownership. Dividend reinvestment plans, offered at 95 percent of market value, have attracted some ongoing commitment to the purchase of new equity but additional incentives need to be developed.

In the case of pension funds, the best way for the employees to develop a sense of ownership would be to require that 10 percent of all contributions be invested in voting treasury shares of the corporation, again at 95 percent of market value. The employees' pension monies, added to the corporation's treasury, would enable the corporation to finance its future growth, thereby creating more opportunities for promotion and new employment, in the best interest of all Canadians.

The passive corporate investors, and those aggressive ones making bids for effective control, tend to purchase only the voting securities currently outstanding listed on the various stock exchanges and relatively liquid in terms of trading pattern. Little or no thought has ever been given to the merits of purchasing treasury stock or a

combination of trading and treasury stock. In the case of the tender offer for the corporate shares outstanding, how much of this vital money is returned to new investment is highly debatable.

In our opinion, the officers and other senior executives of corporations should be required to invest in the company's stock, rather than be issued options to purchase at a later date. As a benchmark, we'd suggest that 10 percent of their salary be paid in stock, issued from treasury at 95 percent of prevailing market prices, the capital gains tax to be waived after five years.

Governments, agencies, Crown corporations

The Canadianization of the foreign controlled corporations operating in Canada has been, is today, and will remain, a very politically popular pursuit. We fervently agree with the concept of Canadianization; we are adamant that governments have to date been going about it the wrong way.

It was the method of Canadianization in the mid-1960s that killed the outlook for the chemical industry. It is the method of Canadianization that is killing the prospects for the petroleum industry today!

To buy back the oilpatch has so far cost \$10 billion of Canadian savings. The monies were drafted overnight out of Canada, never to return, never to discover another barrel of Canadian crude oil, never to create another job in Canada. Would not the prospect of energy self-sufficiency and employment across Canada be a whole lot brighter today had those same \$10 billion been directed toward the purchase of treasury shares?

How high would Pacific Western Airlines be flying today if the Alberta government had bought treasury shares? Will the Heritage Fund make the same mistake when it buys equities? The Caisse de Dépôt too should review its investment objectives and time horizons. Where would Domtar, Domtex, Provigo and other corporations be today had the Caisse bought treasury shares?

We need not remind the first-time British Columbian investor about the British Columbia Resources Investment Corporation opportunity, or Ontario taxpayers about the Suncor Inc. stock purchase, because they all now know that the concept was right but the method was wrong!

A 1981 survey by the New York Stock Exchange indicated that 85.4 million Americans – nearly half the adult population – profit directly or indirectly from stock ownership in the sixteen largest U.S. petroleum companies. The vast majority participate in stock ownership through pension and insurance plans or other kinds of funds, while slightly more than three million own the company stock directly.

In Canada, where \$100 billion of Canadians' savings are currently invested in pension accounts, 90 percent of which is dedicated to legal Canadian investments, it seems reasonable to assume that better than half of all the Toronto Stock Exchange Composite Index corporations' shares outstanding are held by pension and insurance plans, representing savings on account for more than half of the voting population in Canada.

Recently, Canadian legislators have failed to understand the function of the capital markets and have actually stifled their growth. By contrast, in Japan, West Germany and until recently France, a sense of partnership exists between business and government, particularly in creating a more favourable investment climate. This country's disposable income applied to savings has sharply dropped in recent years. A direct corollary is the 50 percent decline in industrial productivity since 1960, substantially below that of the leading nations.

A dramatic counter strategy is now needed to catch the imagination of the public, government and members of the financial community, to restore faith in the capital market system. In an age when voluble communications play an important role in shaping public attitudes, now is the time to throw down the gauntlet in response, and to play a major role in aligning Canada's priorities for the 1980s.

Eh Canada!

Wake up before it's too late

(1999)

I believe the time has come for Canadians to reconsider our country's strengths and weaknesses in order that we may all be better positioned to face the challenges and opportunities of the new millennium. In so doing, I would honestly hope that our educators, politicians, bureaucrats and business executives will find common ground and a more enlightened way to lead and guide us as we go about our daily lives. At the moment most have failed to impress! Let me explain.

Performance measures

As far as Canada's governments are concerned, the ultimate measure is the relative performance of the Canadian dollar.

Since I left the hallowed halls of McGill University, nearly forty years ago, our currency has lost, on average, a penny a year vis-à-vis the U.S. dollar. When one considers the fact that our dollar peaked at \$1.10 to the U.S. dollar in 1974, last traded at par in 1978 and lost 12 percent of its relative value in 1998 alone, the rate of decline is accelerating rather than abating. Should this trend continue, and it will if we do not mend our ways, our children may have to cope with a 35-cent currency, never to reap the benefits we struggle to enjoy with the likes of a 65-cent dollar! As such, it behoves us all to gain a better understanding of what has gone so horribly wrong in the past twenty-plus years and, thereby, be prepared to take the steps necessary to rectify the situation.

Unfortunately, our CEOs have not fared much better, their ultimate measure being the relative performance or the *wealth effect* of the Canadian stock market. In this regard we now rank but eighteenth of the twenty-two countries comprising the world index, tenth in terms of the ten-year average common stock yield.

In sum, though the United Nations' human development index has repeatedly suggested that Canada is the finest country in the world in which to live, a closer examination of the fundamentals would indicate that its foundation has weakened markedly in recent years, and if we fail to right matters of state and commerce the conditions will get even worse in the new millennium. So rather than just blame others for our recent decline in stature and standard of living, let us all take a closer look at the facts, agree on what must be done and get on with it! It is high time we all exclaimed, *Eh Canada! Wake up before it's too late.*

Topics to be considered

As those who have attended our *Off-the-Record* luncheons over the past eight years will know, I have consistently suggested that we'd all be wiser to press for better ideas from politicians and better results from governments. Each level should do what it does best. By rebalancing the federation we should be able to reduce duplication, end the unilateral use of federal spending power to invade provincial jurisdiction, allow provinces flexibility to tailor programmes to their needs and make governments more accountable. Rebalancing is not about power, it's about making governments more proficient.

I should also add that, even though we could find the wherewithal funds required, we appear to lack the will to offer the competitive financial incentives and the recognition tied to accountability, necessary to encourage the true movers and shakers to run for public office. As a result, the real power in Ottawa now rests with the appointed mandarins in the Prime Minister's Office and the Privy Council Office. It is they – commanding the massive apparatus of the federal civil service – who

initiate new policies and dismantle old ones. We constantly forget this and invariably suffer the consequences.

Furthermore, the recent crises about the globe have shouted out, loud and clear, that government regulators and corporations will from now on be under the microscope to meet the highest of ethical standards. Opacity, cronyism and corruption will no longer be tolerated. Transparency, accountability and timely disclosure will be a must.

With these caveats in mind, the topics to be considered and discussed include: the demise of the Canadian dollar; the national debt; taxation and regulation; productivity; the brain drain and immigration; unemployment and welfare; health-care; special-interest groups and other sundry concerns. The goal is to make common sense of our dilemma in order that we might find our way as we march headlong into the new millennium.

The Canadian dollar

As wary homeowners inherently know, a well-situated house in a good neighbourhood that has been properly maintained, carries but one low-interest mortgage and is deftly marketed, tends to sell quickly at the listing price or even at a premium. As every CEO must appreciate, the price of a company's common shares is a reflection of the underlying fundamentals, including the financial wherewithal, the growth in revenues, cash flow and earnings per share and long-term investor understanding about the promising prospects. Characteristically, all top-quartile multiple stocks also have pristine balance sheets and are sponsored by a host of respected research analysts. The very same type of criteria apply to the relative value of a country's currency.

From our perspective, the Canadian dollar's more important long-term problems have to do with high taxes, over-regulation, a workforce whose skills are lagging and, over the very long term, an education system hard pressed to deliver people with ever more advanced skills and a university system tethered to tenure. In the final analysis, it's all

about productivity and the federal government must concentrate on raising it, for when productivity rises, the dollar will follow.

Though many mistakenly blame the weakness in the Canadian dollar on the decline in commodity prices that account for only 9 percent of GDP but 35 percent of exports, the fact is that world commodity prices have been in a perpetual downward trajectory for decades as supplies keep expanding thanks to new discoveries and the advent of better production techniques, and this trend is likely to continue. Furthermore, as our dollar loses its relative value, other distortions develop.

For example, non-resource industries have become accustomed to a declining dollar. As a result, Canada's manufacturing sector remains less productive relative to its foreign competitors and the required capital investments are all too often put off to another day. In keeping, Canada's share of total global foreign direct investment has fallen considerably, down from 11 percent in 1980 to just 5 percent in 1997. Unless the relative decline in productivity is arrested and then reversed, there is little reason to hope for recovery in the value of our dollar as some misguided souls and many scholars are wont to predict.

In addition, those who cling to the notion that the loonie is low compared to its purchasing power parity (PPP) are also off the mark, for the relevant measure has not to do with consumer prices but rather one based on unit labour costs. The latter reflects the relative cost of doing business in Canada, as well as changes in this country's productivity vis-à-vis the U.S., which now buys over 80 percent of our exports. In this regard, Canada's PPP relative to the U.S. is not far off the loonie's actual value.

Of note, Canada's unit labour costs have doubled over the past two decades, while those in the U.S. have increased by only 50 percent, and U.S. productivity gains have been twice ours.

In today's world, competitiveness at home and elsewhere depends on innovation, improved customer service, flexible production, auto-

mation systems and customized product design, as well as maintaining and improving high standards of quality and keeping production costs low. On all these fronts the declining dollar has actually masked a deterioration in the competitiveness of Canadian businesses as compared to those of our largest trading partner, the U.S., and others.

All of these factors have also contributed to a massive relative underperformance by our stock market. Even excluding resources that only account for 20 percent of the Canadian stock market, but adjusting for currency fluctuations, whereas the U.S. market was up 24 percent in 1998 and a whopping 249 percent so far this decade to December 31, 1998, Canada's performance is up but 10 percent last year and just 64 percent since 1990. Furthermore, how are we supposed to accumulate wealth for retirement when our capital gains tax rates are double those south of the border? Then again, these characteristics no doubt spur an exodus of some of our most talented people, many of who have been educated at great expense to Canadian taxpayers.

One of the very first steps to be taken in the quest to arrest the decline in the value of our currency would be to mandate that the Bank of Canada's primary responsibility be to protect and enhance the value of the loonie over the longer term. Furthermore, the complete minutes of the board of governors' gatherings should be made public as they are for U.S. Federal Reserve Board meetings. At the moment, the governor meets weekly with the minister of finance and their discussions are kept secret. In effect, in order to tell the world that we are serious about mending our ways, the Bank of Canada must become de facto free of direct government influence. Its deliberations must be transparent, accountable, timely and devoid of conflicts of interest. If higher interest or inflation rates are called for, so be it!

To sum up, it is a mistake to blame only external factors for economic weakening while ignoring the effects of domestic policy actions. Therefore, Canada should reject the notion of competitive devaluation, leading to higher interest rates. Recognize that amputation of large

portions of the federal bureaucracy and trimming of entitlements, including the gold-plated MP pension plan, has not yet been achieved. End the discussion about spending the fiscal dividend as we have massive debts to repay. Why not reduce income- and capital-gains tax rates that are clearly discordant with those in the U.S.? In order to increase domestic and foreign investment, the financial markets also require confirmation that the federal government is serious about creating conditions conducive to a more stable and strong economy, for we can no longer play smug in a world that is so exacting and turbulent.

In addition, if the Bank of Canada fails in its new-found quest to protect and enhance the value of the Canadian dollar longer term, we may be forced to retreat from a flexible exchange rate system to a fixed one vis-à-vis the U.S. dollar, cede control over monetary policy and take our marching orders from the chairman of the Federal Reserve Board. Or we could consider the merits of a currency board. Whereas the new euro implies loss of political as well as monetary sovereignty, currency boards do not. The Canadian dollar would be backed by stronger foreign reserves, in this case U.S. dollars, and trade without restrictions at a fixed rate. Such boards run on automatic pilot so maintenance of the fixed exchange rate would be the Bank of Canada's only role. But before we succumb to temptation, it is important to realize that those countries that are seduced by capital controls not only scare away so-called hot money, they also risk frightening away future foreign and domestic long-term investors, who tend to balk at regulations that leave their money hostage to the whims of politicians and bureaucrats.

Finally, let us never forget that a falling currency does something worse than undermine the prosperity of a country. By rewarding those who have invested abroad and punishing investors and pensioners who have kept their savings at home; by rewarding those whose wealth is liquid and mobile, and punishing those who own homes, farms and businesses, a crumbling currency challenges its inhabitants' confidence in themselves, their government and their country.

The national debt

Is it any wonder that the Canadian dollar traded at a new all-time record low of U.S.63.31 cents in August 1998? Canada's federal government debt now stands at an unconscionable \$585 billion, of which \$339 billion is owed to foreigners. Of note, when the Canadian dollar last traded at par in 1978, the national debt-to-GDP ratio was 10 percent and the comparable U.S. ratio was 28 percent. Today our debt-to-GDP ratio stands at 68 percent, the U.S. rate is currently at 45 percent and is declining far more rapidly than is ours.

Furthermore, while the federal government budget deficit was recently eliminated, interest payments alone amount to a staggering 25 percent of government revenues, \$42.5 billion a year or almost 5 percent of GDP. Hardly what one might honestly call a balanced budget!

According to The Fraser Institutes's yearly debt study, as at the end of 1997, federal, provincial and local governments have actually accumulated \$933 billion in direct and indirect debt. When unfunded liabilities are included, the total balloons to \$3.4 trillion. The all-inclusive tally translates into each man, woman and child in Canada owing \$113,532 in total liabilities – almost four times the average salary! Thanks to a thirty-year spending spree, we have squandered our economic wealth and rendered Canada a debt-burdened basket case.

So where did we go off track? To begin with, in the 1960s and 1970s governments undertook a succession of imaginative projects that absorbed from tens, to many hundreds of millions of dollars, that came to nothing at all. They also abolished the office of the controller general which, at one time, held a veto over every government expenditure. It was replaced by a committee of politicians, with no accountability because most bureaucrats like it that way, and always will!

Quite obviously, a new controller general should be appointed forthwith. Politicians and bureaucrats should be made accountable for every expenditure and, given the full-blown Canadian dollar crisis, an accelerated debt-reduction programme should be implemented.

A great number of wholly owned federal- and provincial-Crown corporations should be sold to the private sector or wound up. At last count, federal government corporate assets totalled \$62.2 billion, only 60 percent are profitable and the outstanding obligations amount to \$45-plus billion. Parliamentary appropriations for capital and operating purposes total about \$4 billion per year. Their mandates and goals are seldom clear-cut, understood or reported, information on performance is insufficient and accountability is also lacking.

Whether we are dealing with wholly or partially owned assets, Canada's record on disengaging government from activities best left to the private sector lags behind the likes of Britain, Australia and New Zealand. Yet as a 1997 Bank of Canada study concluded, privatizations can enhance the economy's performance by producing significant long-term economic and budgetary gains. Air Canada, Petro-Canada and Canadian National Railway Co. are three fine recent examples.

In sum, if it took nearly three decades to accumulate, we should target to pay off the national debt in a like amount of time, because 100-year mortgage interest rates are far more expensive – both short and longer term – and we should set an example for future generations to follow. As a case study, in 1995 Alberta passed legislation setting out a twenty-five-year debt-retirement schedule, with any unforeseen additional budgetary surpluses required to be devoted to debt reduction. New spending will have to come from the only true fiscal dividend: interest savings liberated by the declining debt. To our way of thinking, the federal government should follow suit and do so immediately!

Taxation and regulation

While the economy may be strengthening, too much dependence on a low Canadian dollar to boost international trade is hurting productivity and the living standard of Canadians. Per capita incomes are still stuck at 78 percent of U.S. levels (U.S.\$24,400 in Canada versus U.S.\$31,300 in the U.S.), down from 86 percent in 1989. As well, the number of us living

on low incomes is increasing, hitting about 17.6 percent of the population. Government transfers now account for about 68 percent of the income of the lowest 20 percent of Canadians, up from 61 percent in 1990. The main economic challenge, according to the Conference Board, is what to do about Canada's social policy while, at the same time, paying off the national debt.

In terms of taxes, we have the highest personal income tax rates in the world, we rank second in indirect and other taxes, like the formidable GST, and fourth in corporate taxes. All of which hold back economic growth and job creation and encourage the "cash-on-the-dash," barter and smuggling aspects of the underground economy that are said to collectively account for about 15 percent of the Canadian GDP, as compared to 18 percent in the U.S. Furthermore, until the federal government develops a comprehensive long-range plan for paying down the national debt while providing meaningful, permanent tax cuts, it will not likely come to grips with the country's fundamental economic problem, that being too little discretionary income in people's pockets.

High taxes are also a contributing factor in today's back-breaking level of family borrowing. In fact, personal debt levels have grown faster in Canada than in any other G-7 country and are now more than 100 percent of real personal disposable income, compared to 73 percent at the start of the 1990s, in large part because of our propensity to supplement our stagnating incomes with credit.

A good start in tax reduction would be to completely eliminate federal surtaxes. The government should also bring back full inflation indexing as de-indexing has, in effect, pushed many people into a higher tax bracket. It should also stop passing the buck on expenses to the provinces and do much more about dramatically reducing public expenditures as a whole, and pursue measures to promote increased innovation, productivity and growth. This cannot be done unless we are successful in restraining the inherent appetites of politicians,

bureaucrats and special-interest groups to spend an even higher share of Canadians' incomes on their behalf. So let's get on with the process of reducing the governments' take and influence before it's too late.

In recent times there has been much screaming about employment insurance (EI) which I believe should be severed from the country's general finances and set up as a wholly independent fund like the reformed Canada Pension Plan (CPP). The fund should be actuarially sound, balancing its books over the economic cycle. Employer premiums should be experience-rated, so that industries that draw heavily on EI bear a greater burden than those that create little or no unemployment. This would, in effect, favour the productive, growing companies and not the redundant ones that must grasp for handouts to survive, the aim being to cut premiums substantially, lowering the job-destroying payroll burden, especially on low-paid work.

In passing, we should commend the federal government for its initiative to transform the CPP from being a government debt holder to an active investor in publicly traded stocks, corporate debt and money market instruments. Given the potential size of the fund and as Canada's underperforming equity market accounts for but 3 percent of the world's stock market value, the government should also do away with the limiting foreign content rule for pension funds and RRSPs. This would act as a hedge against the Canadian dollar's steady decline and allow the independent investment managers, who must remain absolutely free of any political influence, to seek higher returns.

Such moves in the EI fund and CPP would also force both federal and provincial governments to make much more explicit commitments to reduce expenditures, debt and taxes, while continuing to fund more innovative, efficient ways to deliver public services.

To sum up, when Shakespeare wrote, "Defer no time; delays have dangerous ends," he might well have been talking about the fundamentals of Canada's current economic malaise!

As we read the tarot cards, the true heroes of deficit reduction to

date are Canadian taxpayers. In 1965 the tax burden as a proportion of the economy was about 25 percent of GDP in both Canada and the U.S. It has subsequently reached 37.2 percent *chez nous*, compared to 27.9 percent of GDP in the U.S. Marginal tax rates are 46 percent in Canada and 33 percent in the U.S. In 1960 the size of the public sector in Canada and the U.S. were about equal, at 28.8 percent and 26.3 percent of GDP respectively. By the mid-1990s the Canadian number had ballooned to 48.6 percent, compared to just 33.5 percent in the U.S. Simply put, we Canadians are paying a very hefty price for a government bureaucracy that has gotten completely out of hand!

Apart from the stunning complexity of our tax system, with its bloated and Byzantine transfer mechanism, and with more than 250 deviations in the 1,500-page Income Tax Act, The Fraser Institute recently delivered another withering report, estimating that regulation compliance costs the economy as much as \$83 billion, compared to \$58 billion in the mid-1970s. This hidden tax of regulation costs each household about \$11,270 in 1995-96, compared with \$10,280 in fiscal year 1973-74.

All in, is it any wonder that Tax Freedom Day for most Canadians was June 27 in 1998, a 55-day jump since 1961! Is it not time we insisted on clear and decisive leadership from key public policy-makers? Is it not time we got our tax rates down to more reasonable levels?

Principles of productivity

Productivity is a measure of production efficiency, regarded as the foundation of growth in a country's standard of living.

While StatsCan says productivity gains are the best in thirteen years, unfortunately the absolute productivity gap vis-à-vis the G-7 countries continues to widen. In 1984 the gap between Canada and the U.S. was 6 percent, today it is close to 25 percent. The culprit is that output per person is growing less, as we have many small, under-capitalized Canadian-owned plants that are not as efficient as those in the U.S., and

we have failed to rationalize in the face of a depreciating currency. Since the introduction of NAFTA in 1988 the Canadian dollar has dropped from U.S.82 cents to U.S.65 cents or thereabouts. In addition, 1998 was the sixth straight year that Canadian workers in the commercial sector received lower pay increases than their American counterparts.

By contrast, in 1992 U.S. corporate profits were about equal to that country's 25 percent share of the world economy. By late 1998 the U.S. share stood at 38 percent and U.S. corporate profits now account for nearly twice its share of world GDP. Wages are also rising rapidly. Is it any wonder that the U.S. dollar is the world's most respected currency?

In the meantime, Canadian federal government officials are wasting time, energy and money striving to perpetuate the stifling status quo. As a direct consequence, we have dropped to fifth from fourth in the World Economic Forum productivity ranking; as noted earlier on, the Canadian dollar and our standard of living also continue to slide.

Free markets reward the virtuous and punish the promiscuous. As the growth-oriented provincial premiers of Ontario and Alberta have so ably demonstrated, we should dramatically cut government debt, regulation and spending; enact substantial capital, corporate and individual tax cuts; introduce more labour market flexibility; and the fat-assed federal government should forthwith follow suit given the advent of globalization and the dynamics of the Internet.

Furthermore, productivity underpins a country's ability to build and sustain a higher quality of life. But let Canadian banking, railway, telephone or any other companies try to increase their productivity by rationalizing their operations, closing redundant branches or streamlining plants, investing in information technology or laying off members of professions or trades whose usefulness has been overtaken by technology, and increased productivity is suddenly seen in Canada as being inhuman, an abandonment of loyal employees and clients by uncaring CEOs and boards of directors. We beg to differ!

For lest we forget, in a globally integrated economy, with no power

to increase prices, the Americans have realized admirable results. The stronger-than-expected corporate profits and the resultant boom in U.S. stock markets, higher wages and an unemployment rate that is less than half ours or those in Europe, are the collective results of pursuing the principles of high productivity.

As a consequence, the U.S. dollar has gained in relative value while some of the other currencies about the globe have had to be devalued. Americans are enjoying the greatest and the longest improvement in their standard of living while many other economies are mired in recession. Given as the Americans have created a system in which anyone with talent and energy has open access to the financial resources needed for success, is it any wonder that the brightest and most astute graduates, and the most enterprising entrepreneurs from Canada and elsewhere, are flocking aboard the brain train to the U.S. in search of fame and fortune?

In addition, with a compassionate conservatism bent, the U.S. of the future wants still lower taxes, even less government intervention and no new social programmes. While those who wield power must always be held accountable for its use, is it not time we Canadians came to our senses, stopped being addicted to government handouts and got on with the task of becoming a more productive nation?

The brain drain and immigration

As Bill Gates, the chairman of Microsoft, has oft mentioned, his number one worry is that the brightest of his employees have always been the company's greatest asset and now the cleverest of the new talent wants to join a start-up where growth potential is even greater. Thanks to the U.S. stock market boom, opportunities abound and talent is scarce. In the scramble to build companies – and wealth – a furious competition has emerged for top people. A brisk North American free-agent market is evolving and this should be worrisome for all Canadians.

While few count departing Canadians as they go to live elsewhere,

emigration being a bit of a mystery until the next census appears, the purported explanation often focuses on the disparity in tax burdens. However, for many of us, the opportunity to earn both a higher income and one paid in U.S. dollars is the most powerful incentive.

In fact, between 1982 and 1996, among managers and professionals alone, there were 34,000 more emigrants to the U.S. than immigrants to Canada from the U.S. Those emigrants took with them \$6.6 billion worth of education, \$3.7 billion of it in the form of publicly financed post-secondary schooling. Furthermore, as a recent C.D. Howe Institute study has documented, the big shift in migration flows for highly skilled workers has taken place in the 1990s.

The net numbers of Canadian doctors, scientists, nurses and managers going to the U.S. in 1993–94 was equivalent to 40 percent of our 1991 graduating classes in these categories and by any yardstick that is disturbingly high. Furthermore, most Canadian athletes who head south also tend to be excellent students and even if our universities did offer athletic scholarships, we would only keep a few from leaving, given the size and funding of the U.S. programmes.

Furthermore, where once it was difficult to get a working visa in the U.S., NAFTA has opened the door and qualified professionals with firm job offers get visas with comparative ease and have a much-improved chance of getting permanent residency in due course. In addition, the U.S. is now planning to facilitate the temporary entry of information-technology professionals to meet a growing shortage and many Canadians going to the U.S. on temporary work permits end up staying there permanently. The same holds true for Wall Street firms who rely on the most adroit of graduates to devise the complex algorithms behind derivatives strategies, while big multinationals call on them to solve problems in new ways and all pay big U.S. bucks for success.

As such, ignoring the changing economy and the dynamics of the North American talent market is perilous and the diddling denial by procrastinating politicians and bureaucrats is maddening and self-

defeating. Furthermore, when it comes to immigration, we also have to be a lot smarter than we have been in recent times. Rather than let almost anyone in who crosses the border, we should insist that future citizens obey our laws, follow our main social codes, support themselves and contribute positively to Canada's prosperity.

Unfortunately, within Canada, rather than encourage Canadians to migrate from province to province in search of opportunities, our governments have created robust policies that reduce incentives to move. Through equalization and regionally preferential payments for social programmes, we ensure that good public services are available to everyone across Canada whether their respective province can afford them or not. In so doing, we proudly subsidize immobility when it comes to public services and thus challenge the principles of productivity, as does our national employment insurance system which significantly reduces the cost of staying put in regions that offer only seasonal or occasional work. Our regional development programmes are also a failure and interprovincial trade barriers continue to cost each Canadian household \$1,000 per year and for no good reason. All of which is ridiculous!

Minimum wage, pay equity, welfare and workfare

Minimum wage hikes are both popular and allegedly cost free. Not only do the usual suspects of anti-poverty advocates, our sleep-walking politicians, union spokespersons and academics support them, so do public health doctors, student leaders and, most importantly, a large majority of citizens. They call it "compassion on the cheap," even though raising the minimum wage ends up hurting the supposed beneficiaries – the working poor.

As a closer examination of the facts will confirm, in economic terms, minimum wage earners are not underpaid but underproductive. By hiking their pay, we only price their labour out of the market. As numerous studies have confirmed, the hikes both kill jobs and reduce work hours.

So rather than have governments arbitrarily set minimum wage standards, it would be better for all concerned and cause the fewest economic distortions were we to at least tie the minimum pay hikes to annual productivity gains. After all, if low-wage workers are more productive, employers could afford to pay them more.

We should also gain a better handle on the grotesque pay equity legal tangle that attempts to prove the unprovable and justify the indefensible, which is that public-sector employed women are underpaid relative to men, and that the difference can be measured and corrected. As a result, since the early 1960s, we have financed an increasingly destructive agenda whose outcome is not unity, equality or fairness, but division.

Alas, equal pay for equal work has been a federal law since 1978. Its goal was to eliminate gender-based wage discrimination among jobs, not within them. Even to this day, how to determine whether they are of equal value remains a tricky issue that officially involves weighing four factors: skill, effort, responsibility and working conditions. Why these four and not others, such as choice or risk, is a question nobody ever seems to ask. Similarly, no credence is ever given to supply and demand.

Even so, whereas the buzzwords connected with pay equity – discrimination and fairness – appeal to Canadians' generous side, the federal government should stop trying to socially engineer salaries and instead change the law to require job-to-job analogies only, not nebulous equal-value comparisons. In the end, the marketplace – along with what the taxpayers can afford – should determine public-sector salaries, not human-rights tribunals.

At the moment, the mammoth civil service is overpaid. A case in point being that women in the public sector earn almost twice as much as their private-sector counterparts. Ninety percent versus 51 percent have an occupational pension plan. Furthermore, public-sector employees receive longer holidays and claim more sick days, and the 30 percent of census families who earn less than \$30,000 per year include

few federal public servants but many lower income private-sector employees whose taxes help to finance any pay equity settlements.

In sum, the “swivel” service employees are vastly overpaid as compared to those in the private sector and meaningful adjustments in the count and costs of the public sector are long overdue.

Turning to unemployment, twenty years ago Canadian and U.S. rates were, on average, roughly the same. But, as StatsCan reminded us all recently, an unemployment gap has emerged and widened between the two countries ever since 1981. And even though we and they may count unemployment differently, put crudely, their rates have fallen by a third; ours have risen by a third.

Why? Because the Americans have beaten our productivity pants off more years than not, and better productivity leads to more wealth and, ultimately, more jobs. As noted earlier on, a whole range of Canadian policies, albeit fewer than a decade ago, discouraged labour-market flexibility, mobility and capital accumulation. Our country’s education systems have only recently been reformed to give better value for money after several decades of underwhelming achievement. Furthermore, our taxes are much higher than in the U.S., discouraging investment, savings and additional earnings. Ask yourself, who really wants to work a lot harder, and save and invest more, with marginal tax rates of nearly 50 percent for people earning a middle-class family income?

For the record, between 1989 and 1997, full-time, paid employment grew 10 percent south of the border, while the number of Canadians working full time for someone else actually declined 2.5 percent or by 228,000 people. Eighty percent of the 6.5 percent growth in overall employment was due to a dramatic expansion in the number of self-employed Canadians, many of whom could not find full-time jobs, many now living off the avails of the underground economy. As a consequence, full-time, paid employment declined to 63 percent in Canada as compared to 73 percent in the U.S. Had Canada’s economy kept pace with the U.S., there would be over one million more full-time

jobs; the economy would be \$44-plus billion larger and family incomes would be, on average, close to \$6,000 higher and taxes would likely be a lot lower!

Less we forget, layoffs and job turnover have always been part of the Canadian economy. However, the global turmoil creates a new pattern: the worst of times for workers exposed to harsh winds from overseas, the best of times for those who are not.

What began as temp work often has turned into multi-year employment, as companies got hooked on the flexibility and lower labour costs that temps provide. Canadian government policies must support and encourage this trend if ever we are to get our costs in line and our productivity and profitability up to competitive standards, so that our economy and its workers can grow and prosper in the longer term.

Until now, workfare has involved putting welfare claimants in training programmes or community work placements, with non-profit agencies and municipalities. Now the Ontario government will pay employers to give welfare recipients six months of on-the-job training as it moves workfare to the private sector. We believe this is a giant step in the right direction but not a substitute for encouraging businesses to expand and create more long-term, full-time jobs.

Health care

As an opening salvo, one problem in need of immediate attention has to do with social insurance numbers (SIN). For scam artists, the wages of SIN is a gold mine of taxpayer largess. At the moment, the SIN database has active files on 310,000-plus Canadians born more than 100 years ago versus a more accurate StatsCan count of 3,000! Similarly, there are 200,000 people eligible to hold temporary SINs but there are over 600,000 such SINs outstanding. Is it not time Human Resources Development Canada (HRDC) came to its senses and introduced a common client identifier number that every Canadian would use for

every aspect of life, insisting on certified original birth certificates, an expiry date on temporary SINS and beefing up the HRDC's investigative unit? The current abuse of SIN privilege is costing Canadians untold hundreds of millions of dollars annually and is totally unproductive.

Turning to the topic at hand, health care is a \$75-billion elephant in Canada's tent and its appetite is voracious. Slim down the elephant for a few years, as Canadian governments have done recently and, unfortunately, the appetite grows more insistent.

In fact, Canada spends about 9.6 percent of its GDP on health care, down from 10.2 percent a few years ago; the U.S. spends about 14 percent. And even though budgets have expanded rapidly in recent years, governments are under enormous pressure to increase spending on health care, and may also face a huge one-time payment to some public servants as result of the human-rights tribunal's equal pay for work of equal value ruling, which the government has assiduously appealed to the Canadian Federal Court.

Despite the federal and provincial governments' recent and overt cost-cutting agendas, ambitious restructuring initiatives have left Canadian hospitals awash in red ink. The question to be asked is: How can it be that bed closings, mergers and layoffs – seemingly rational measures to rein in ballooning hospital deficits – have been so ineffectual?

The answer lies in the misguided model of hospital restructuring itself. Instead of fostering efficiency and premium quality health care, by organizing themselves around just one or a few illnesses, hospitals undergoing restructuring remain wedded to the rigid system of vertical integration, where each hospital aspires to be all things to all patients. As such, hospitals are burdened by long-held inefficiencies that will not disappear through simple amalgamation.

Though health-care spending remains a priority, so too do tax cuts and direct debt reduction. With just a small surplus, too high unemployment and a meagre growth rate, governments need to narrow

the choices for additional spending. As such, a new approach is necessary. While apologists for the current regime will, of course, balk at the suggestion that consumers could ever make responsible decisions, this is an arrogant and wrong-headed assumption. For the only satisfactory arbiter of priority decisions is the marketplace, where consumers decide what matters most, though the task of directing patients toward the right care centre should fall to nurses and general practitioners. These workers ought to be organized into hospitals specifically designed to meet the needs of patient triage, the specialists to become absolute experts in their respective field(s) of endeavour.

Just as no other country organizes health care as the Americans do, 60 percent private, 40 percent public, only Canada uses the public purse to finance nearly all essential services. Other countries provide a parallel private system, often offering an even wider range of services than we do in Canada. As such, is it any wonder that some Canadian doctors want a parallel private health-care system, and the right to offer additional services through private clinics, suggesting that this would take pressure off the public system and provide them with more income? In fact, nearly two-thirds of Canadians believe that those who want to pay more for better service and greater coverage should be allowed to do so.

We should also introduce a modest user fee to discourage frivolous calls to doctors' offices and clinics and to compensate medical staff members. In so doing, we should be able to slow the galloping growth in the costs of ensuring comprehensive health care and allow, in fact, encourage our highly skilled doctors and nurses to earn more money, thereby, mitigating the incentive to emigrate to the U.S. Those physicians and staff members who chose to opt out should find solace in regional centres, now challenged to attract qualified practitioners.

In sum, in order to be assured that we might gain the biggest bang for our buck, we must forthwith cause our urban hospitals to become more productive, by effecting specialization and allowing the private sector to provide ancillary services.

Is it not time the prime minister, the health minister and the provincial premiers respected the majority opinion of Canadians vis-à-vis health care? Is it not time they responded before it's too late?

Special-interest groups

Before we draw up a few final remarks, let us first examine the role of special-interest groups (SIGs) and assess whether or not they add or subtract from Canada's productive well-being.

To begin with, whatever special-interest groups might like us to believe, public spending, whether by the federal or all other governments, taken together, has undergone only very modest change in recent years. Furthermore, there is still lots of room to cut politically motivated spending, such as business subsidies, to free up extra dollars for health care, education, debt and tax reduction, etcetera.

It has been estimated that there are as many as 300 special-interest groups feeding at the taxpayers' trough. In conjunction with these SIGs is a massive patronage system and vote-getting policies that cost billions, led by divisive bilingualism and multiculturalism programmes. However, rather than subsidize businesses so they can exist, would it not make much more sense to lower business taxes and reduce the myriad of regulations CEOs face, thereby allowing entrepreneurs to compete globally? Unfortunately, this does not seem to impress PMO mandarins, who tend to behave like Nero fiddling while Rome burned. For our politicians, in the main, seem content as long as they end up in charge of the ruins brought about by our declining productivity growth!

Over the past sixteen years the federal government has doled out \$11 billion to corporate welfare bums and collected only 15 percent of the money that was supposed to be repayable.

For my money, given as the government is supposed to serve the public, before a loan or subsidy can be granted, a comprehensive financial and economic analysis should be undertaken – including the projected rate of return, the terms and conditions and repayment

schedule – and the details disclosed for the public record. As with all significant government contracts, including those for professional services, that are supposed to be subject to tender rather than a one-horse race or sole-sourced, the respective details should be subject to due diligence, and the final agreement scrutinized by the office of the independent controller general before opening the public purse.

No industry or company should be given a grant to survive. Those who accept grants must be subject to timely, full, plain and true disclosure and the government minister and department held accountable. Otherwise we will be continuing the practice of turning politicians into bribery specialists, and smart business people, labour union and special-interest group leaders into con artists, a practice that has rarely created any net new jobs. A few examples come to mind.

It hardly seemed like a fair fight. Only one day after the Organization for Economic Co-operation and Development (OECD) released a report on Canada's declining standard of living, onerous tax burden and stagnating productivity, the House of Commons subcommittee on the study of sport put forward urgent measures to deal with another national crisis: the suffering of Canadian professional sports, including the National Hockey League and the plight of its overtaxed players! And even though twenty years of U.S. research indicates pro teams have a very modest economic impact, one of our major league baseball clubs has recently had the audacity to ask that non-fans across the country involuntarily chip in with the \$150 to \$200 million the team will need to build a new facility. Folks, these people should be taken out behind the barn and thrashed until they come to their senses!

In addition, the federal cabinet recently voted in favour of bailout packages to assist embattled grain and hog farmers. Unfortunately the agriculture minister apparently fails to comprehend that it is the unaccountable Canadian Wheat Board (CWB), an anachronism that survives chiefly because of political and patronage power it bestows

upon Ottawa, that stands between the grain farmer and financial success and the CWB should forthwith be done away with.

As far as being hog-tied, just because a token number of opportunistic farmers and fly-by-night speculators were tempted into pork over the past few years, as the Asian tigers' remarkable growth fuelled demand, and now face financial difficulty, is no reason for Canadian taxpayers to bail them out to the tune of \$900 million. Quite the contrary!

In terms of our fishing communities, if we have learned anything, it is that while words are as plentiful as seals, intelligent actions are rarer than east coast cod and west coast salmon. Why? Because fisherman, over many years, noisily demanded higher quotas and trashed the science that showed that too many fish were being taken.

They persisted in an industry where many people's income was derived more from an annual unemployment insurance subsidy than from fish. Though there is more than enough blame for everyone to shoulder, there is no obvious reason why the taxpayers should be on the hook indefinitely. Is it not high-tide time that everyone understand that the fishery is an ordinary industry, fishermen and processors are ordinary workers and they must play by the ordinary rules?

While we are at it, we should also put the federal heritage minister out to sea in a boat. Let me expand.

Thanks to the demise of the value of the loonie, coupled with an additional \$50 to \$100 million per annum advantage provided by way of an 11 percent refund on labour costs, and only a 15 percent withholding tax on foreign star salaries, the made-in-Canada film and TV industry is booming. It employs 35,000 people and generates \$2.3 billion a year in economic activity. Not wishing to leave well enough alone, the would-be dream merchant heritage minister is now proposing to impose a 3.5 percent levy on all box office receipts and video rentals, hoping to raise an additional \$150 million a year to help subsidize films made in Canada by Canadian screenwriters, actors, cinematographers,

directors, not just camera operators, makeup artists, gaffers and gophers. In our opinion, such an outrageous performance should not be applauded!

Furthermore, Canada taxes its citizens to broadcast indigenous radio and television programmes and also support authors, poets, painters and sculptors and keep doors of museums, theatres and galleries open. In fact it requires private and public radio broadcasters to play Canadian records on air and to produce Canadian television programmes, as a condition of licence.

This does not, however, excuse us from dull management at the CBC, the skittish quality of Canadian magazines, wasteful indulgence of bad artists and poorly conceived cultural policies that create ludicrous, bureaucratized banality. Rather, the sickly pallor of today's CBC, crippled by federalistic sclerosis and chaotic programming priorities, is a direct outcome of twenty years of Ottawa's indifference to the network's value as one of the world's great public broadcasters.

In truth, repeated cuts in federal funding have taken far less toll on its performance than the parade of inept presidents whom the federal government has deemed worthy to run what is still the most important showcase for Canadian cultural expression. Is it not time that a seasoned, successful professional broadcasting executive be given the CEO mantle and charged with the responsibility to expand the corporation and spearhead moves to make the CBC into a more businesslike organization, and hopefully wean it of its roughly \$1 billion in annual subsidies longer term? Furthermore, let's insist on an independent board of directors, once and for all times devoid of patronage appointments.

While we are at it, what about the mostly unlawful legislation to restrict the freedom of Canadian advertisers to buy space in U.S. magazines that circulate here, even though the government's own studies actually show that the Canadian magazine industry has been crippled by our special-interest laws! And then there is the Book Publishing Industry Development Programme amounting to more than \$30

million a year that recently put up nearly \$100,000 for a publisher to produce a book of 500 dumb-blond jokes!

Folks, we will remain the butt end of jokes if we do not prevail in our quest to have our politicians and mandarins be more accountable for their budgets and programmes. If we fail, the National Capital Commission may succeed in its hastily conceived proposal, titled *A Capital for Future Generations*, which preposterously proposes Canadian taxpayers foot the \$200-million bill for a Parliamentary Boulevard, a new grand allée for red-jacketed, bearskin-topped regimental band parades for visiting dignitaries, and likely Canada's very own funeral if we fail to come to our senses!

A few final remarks

As we noted at the very beginning and as detailed throughout this treatise, Canada's problems are rooted in a lack of understanding of, and commitment to, improving productivity. As a direct result, we are not enjoying the rewards that come from being far more competitive than we have been. As a consequence, our standard of living has suffered and the creation of wealth has been minimal.

Notwithstanding, before we jump ship, there is one very fine example I'd like to cite to prove what can be done to get things right.

To our way of thinking we need not look any further than the privatization of the Canadian National Railway Co. For when CN was one of Canada's major crown corporations, it was a bloated, archaic mess that was being held hostage by its unions. The stories of abuse and pettiness were nothing short of bizarre.

In 1992 there were 36,000 employees, the operating ratio was an embarrassing 97 and the railway was losing \$1 billion a year on sales of \$3.9 billion. By the end of 1996, the year CN was privatized, the operating ratio had improved to 85, the earnings were \$124 million on sales of \$4.2 billion. By the end of 1998, the operating ratio was 72.5 and the railway made \$569 million on revenues of just \$4.12 billion.

In 1992 the CN trains hauled goods over 19,500 miles of track and it now uses and maintains but 14,100 miles of railway. The employee count is down to 21,660 and due to drop yet another 3,000 in 1999. Even so, CN remains 31 percent less productive than major Class I U.S. railways, based on the amount of freight it carries per employee, and Canada's tax policy and government regulations are largely to blame.

However, real gains in productivity have and continue to be made, as CN relies more and more on the latest technology to improve its competitiveness. The recent \$450-million purchase of new 6,000-horsepower locomotives will allow the retirement of 500 aging, less powerful behemoths, and CN will be able to haul more railcars per train and run the trains at higher speeds. Once its acquisition of Illinois Central Corp. is approved, it will add a very efficient north-south route from Chicago, down the Mississippi River valley to New Orleans and Mobile, to take advantage of the 11 percent annual growth in rail traffic between Canada and the U.S.

As a result of this record of success, Paul Tellier, once clerk of the Privy Council, a former cabinet secretary and CN's President and CEO since the fall of 1992, was recognized as Canada's CEO of the year for 1998. To our knowledge, no other erstwhile mandarin has ever been so honoured in Canada's history.

As a matter of fact, all other Canadian CEOs and aspirants would be wise to examine CN's rise in productivity and profitability as a case study, as there are many interesting lessons to be learned. CN's common shares have also been stock market leaders, creating wealth for many Canadians of all walks of life, and more and more competent research analysts have come aboard for the ride to higher ground.

The last word is this. We are steadily losing ground in an ever-changing world because we tend to hold onto the certainty of redundant practices, rather than embrace the exciting and challenging risks and rewards that productivity has to offer. Our political system is fraught with government bureaucracy and patronage appointments,

rather than accountability and understanding of what is best in the longer term. Until we mend our ways the value of our dollar, our standard of living and competitiveness will continue to erode in relative terms and we have no one to blame but ourselves. Is it not time we came to our senses and shouted out: *Eh Canada! Wake up before it's too late?*

Let's get it right!

(2002)

Canada has never lacked for potential. It is in its economic, social, cultural and diplomatic performance that our nation so frequently disappoints. When the history of the past thirty or so years is written it will be, in substantial part, a sad story of squandered opportunities and shattered dreams.

Canada can only regain its past glory if it faces up to the reasons for its decline on the world stage and consciously chooses a bold path with ambitious national objectives. It must redefine what is essential and adjust its priorities accordingly, for it can no longer accept mediocrity as a measure of achievement. It must focus attention on identifying and recognizing those who are the world leaders in a wide variety of endeavours and learn from their very fine example.

Whereas former prime ministers and presidents are regaled with respect and even dignity in Britain and the United States, our federal political leaders have tended to treat their predecessors and successors badly, even poisonously. This uncalled for display of a lack of respect for each other has rendered tawdry this important aspect of our national life, the House of Commons and the Senate. Is it any wonder that so many talented Canadians have steadfastly refused to run for federal, provincial or even civic office?

As a consequence, rather than having a simple, straightforward

vision for our country that Canadians from coast to coast are prepared to buy into, we are bedeviled by political leaders who are divisive, ineffective, invisible and impregnable; men and women who refuse to debate the real issues in parliament, in full view of the the press and of the people who elected them to office. This shameful set of circumstances must change for the better if we are ever to survive as a country.

Turning to the corporate side of the equation, whereas wealth creation reflects stock market performance, value creation measures the ability of management to earn a return that exceeds the cost of capital. Though a recent study of 468 publicly traded companies continuously listed on the Toronto Stock Exchange for the four-year period from 1997 to 2000 shows that there is a wide variation between the best and worst performers, irrespective of the specific industry sector, just 34 percent recorded a positive Annual Economic Return (AER). Only 45 percent showed positive Economic Value Creation (EVC). Or, in other words, 55 percent of the firms in question failed to earn enough to even cover the cost of capital.

Needless to say – but I must – investors of all stripes are at a loss to understand why such underperformance is allowed to continue and why boards of directors have been so ineffectual in terms of governance. As such, is it any wonder that Canadians are seeking less restrictive foreign investment limits on retirement funds as they continue to shift more and more of their hard-earned financial assets out of laissez-faire Canada, in search of superior investment returns and to escape the ravages of the ever-declining value of the Canadian dollar?

In sum, if we continue to lose ground to the United States, it will only be a matter of time before we are forced to forego the loonie and give up our political and economic independence in the process. We cannot tarry for time is short and getting ever more so every day we procrastinate by blaming others for our very own shortcomings. So let's all dig in and get on with it!

Embracing change is a positive, standing pat is not

In the real world, as opposed to la-la land, the velocity of change is, more often than not, the very key to success. The principal elements are money, capital and labour. Given as there is a finite versus an infinite amount of each, accelerating the rate of turnover is a great way to get a bigger bang for your buck in today's very competitive global community.

In the case of personal and corporate income, if governments continue to claw away more and more of every extra dollar earned, not only is there a disincentive to work harder, there are fewer dollars readily available to buy goods and services. While it can be argued that tax dollars are eventually spent, inevitable bureaucratic delays and misappropriations by governments are a distraction, not a positive.

Similarly, capital taxes tend to slow the advent of corporations and entrepreneurs acquiring the machinery, computers and software necessary to become more productive and more competitive in today's just-in-time world. Capital gains taxes are also a deterrent to success in that they inhibit the flow of funds from where they are no longer required to where they are really needed. Government grants, on the other hand, tend to strip funds from profitable and growing enterprises to prop up unprofitable, deadbeat companies that should be allowed to go out of business because they no longer are able or willing to cut the mustard.

When it comes to labour, there can be no question about the need for and desirability of a well-educated and skillfully trained work force. Constructive steps taken to secure such are very key to the longer-term success of both private enterprise and governments. Testing is the best way to measure progress. Taking things for granted is not. Turnover is another very important aspect, allowing the laggards to be displaced and the up-and-comers to spread their wings. Labour union agreements, employment contracts, severance packages, change-of-control golden parachutes and the like, tend to hinder success, not hasten its pace.

To those of you who doubt my words, please realize that the

unemployment rate in the so-called “ruthless” United States is substantially lower than in “caring” Canada, the standard of living of Americans is also much higher than that of Canadians and the gap in per-capita wealth continues to widen to their advantage, not ours.

Getting out the vote is a major concern

Regardless of whether one is talking about the Canadian electorate or a corporation’s shareholders, the incidence of eligible voters casting their ballot or proxy has become a major concern for those wishing to make a change for the better. The count has dropped over the past few decades from somewhere between two-thirds and three-quarters down to 50 percent or less. As a consequence, the incumbents have gained a distinct advantage as they persist in trying to maintain the status quo.

While some may argue that the existing first-past-the-post system is not fair, I believe the lethargy expressed by today’s voters and investors alike is a reflection of the lack of a compelling message by those seeking change and not the madness of the method of gaining approval. As such, is it any wonder we get stuck with maladroit political leaders and chief executive officers at a time when Canada desperately needs star players to cope with the double-barrelled challenges of globalization and terrorism?

Is it any wonder that voters and investors find themselves at a loss to understand why our governments, institutions and corporations are failing to make the grade? Is it any wonder there is a seething undercurrent of dissatisfaction with the performance of our political and corporate leaders? Is it not time we took control of the tiller, steering this ship of fools in the right direction before our dollar records yet another new low and the Canadian stock market drops another peg in the world rankings? Or are we just going to stand by and watch our once magnificent country fade away for lack of caring by its people?

If we truly want a new crew of men and women to lead us to the promised land, we have got to vote the incompetents out of office. Though the vote-early-and-vote-often practices championed by

schlocky power brokers of yesteryear are frowned upon today, please exercise your right and cast a ballot or form of proxy every legitimate chance you get to do so.

The flip side suggests that those in the crosshairs should stop being so bland. This is a time for thinking out of the box of conventional thought. We need new ideas to solve old problems. We need enlightened leaders to guide us through the new millennium. We can no longer afford to rest on our wilted laurels or count on a cupboard laid bare of inspiration by those who only see fit to support the tried and not-so-true ways of the past.

So let us all examine a few stepping stones to a more promising future for all Canadians, before the pervasive doom and gloom of wasted opportunities overwhelms us all.

A strong currency is the key to opportunity

As noted in my most recent *Off-the-Record Exchange of Constructive Ideas* essay, the declining value of the loonie is costing us plenty. It is certainly not the key to opportunity as the prime minister is wont to suggest, nor can its demise be blamed on anyone but ourselves. Over the past quarter century, our politicians have allowed the standard of living to deteriorate measurably, to the point that the average Canadian is now 35 percent less well off than had he or she grown up in the United States. Ever increasing regulation and taxes by all levels of government have exacerbated the lot of all Canadians, be they rich or poor.

The notion called purchasing power parity is only a good measure for those amongst us who can no longer hack reality. The same applies to all subsidies paid to corporate welfare bums! Similarly, the concept that converting to the U.S. dollar, a policy referred to as dollarization, would make any difference is about as naive as suggesting that switching to the French franc would make us all bilingual, or swapping the loonie for the Italian lira would cause the Vatican to forgive us our sins! Just ask the Argentineans if you do not believe me!

So what is the truth about why the value of the loonie continues to decline and can steps be taken to rectify the situation?

Those who have been involved with me for many years may recall a position paper titled *The Value Investing Challenge* (1986). It outlined the key factors that must be present in order for a common share to trade at a premium price over an extended period of time. Berkshire Hathaway Inc. was the primary case in point. As far as I'm concerned, the principal measures also apply as to the valuation of currencies. Let me explain.

At the outset, a stock cannot make it to the top of the performance chart without a strong balance sheet. Nor can a currency perform well if the country's debt to gross domestic product (GDP) ratio is out of whack, as Canada's has been and continues to be.

All successful companies generate free cash flow, funds in excess of the amounts required to remain competitive, just as trustworthy governments must do. Unfortunately, the federal government surplus has all but disappeared, thanks to persistent and excessive increases in programme spending. As such, funds are not available to pay down obligations or to allow for more competitive tax rates.

Shareholders in successful enterprises enjoy the benefits of rising earnings per share. Governments that struggle to break even, by failing to reduce expenses, must be taken to task and Ottawa has failed miserably in this regard. A rising dividend rate is a plus, rising tax rates are not. Top quartile multiples of cash flow and earnings surely reflect improvements in productivity and margins, a declining currency is the result of just the opposite.

A company with carefully focused businesses, run by an insightful CEO and a capable management team, that is deftly promoted, will maintain its premier status, come what may. The federal government's helter-skelter support of the unproductive at the expense of the productive is clearly the dead-wrong way to get to where we need to go.

I am also not alone in my thinking when I suggest that we would all

be much better off today had our elected members of government and successive governors of the Bank of Canada stood firm in protecting the value of the Canadian dollar over the past two and a half decades. The federal and provincial governments would not be deeply in debt. Credit ratings would be higher, interest expenses and tax rates lower. The Canadian stock market would have continued to outperform most of the American indices. Our corporations would have prospered thanks to a lower cost of capital. Employees, investors and pensioners would be enjoying a higher standard of living and the incidents of unemployment and poverty would be measurably lower than they are today.

As such, is it not high time we all came to our senses, got our collective acts together and saw to it that steps were taken to get the loonie back up to par? Or are we just going to stay slouched down in our rocking chairs and leave it up to our children and grandchildren to atone for our sins? I say, let's get on with it, even if it means a six-day work week.

It is time to tell it as it really is

When times are a-booming many important standards tend to get put to the side. Government surpluses rise and public spending runs amuck. Bulging corporate coffers are wasted on ill-conceived diversification and convergence pursuits. Generally accepted accounting principles are thrown to the wind and the so-called critics, like investment research analysts and members of the financial media, change roles to become nothing more than a bunch of giddy cheerleaders. Graft abounds and the underground economy flourishes.

Just as the editorial writers come to suggest that a new paradigm is upon us and the business cycle has forever been altered, the economy inevitably shifts back into low gear and we are, once again, forced to take a deep breath and weather yet another nagging recession. Whereupon, the validity of government programmes is questioned, auditors are sued for malpractice, research analysts run for cover and the media

quickly changes its tune. Meanwhile, stock prices collapse and investors suffer significant losses. The corrupt amongst us are uncovered, tried and those found guilty are thrown into jail. Many, many reputations are besmirched, others are ruined.

The real questions to be asked are these: Why did this all have to happen in the first place? Would we not be light years ahead were we not to fall off the straight and narrow rails of truth every time the economy takes a turn for the better? Why is it that those responsible for managing other people's money never seem to be concerned about the inherent risks of debt and a raging bull market, be they in government, banking or business?

Is it not time we wage earners and taxpayers saw to it that the elected and hired hands were all held more accountable for their sins of commission and omission? If we do not take action, the status quo will never change for the better.

Emigration and immigration trends must be reversed

If our dedicated teachers and professors are successful in their collective quest to increase the number of high school and university graduates, does it not stand to reason that governments and the private sector should do all they can to find challenging and rewarding jobs for the top-flight alumni, rather than have them pack up and leave the country? At this time, our tax rates are uncompetitive, the value of our currency continues to decline and the hidden expense of government regulation costs the average household of four about \$13,700 per year! Is it any wonder that those with above-average intelligence are flocking to the U.S., rather than coming to or staying in backwater Canada?

Even so, we appear to be content to trudge ever onward in support of a flawed immigration policy. We will accept just about anyone who finds his or her way to our shores, with or without proper papers, with or without the skills we need. Many go on welfare and clog our subsidized housing and health-care systems, at a net cost to the taxpayers

of, give or take, \$700 million per year. To make matters even worse, whereas the more selective policy of the United States guarantees a positive return, ours more or less ensures that Canada's productivity will never be up to scratch, particularly so if we persist in being so stupid!

The good news is that since the terrorist attacks on America on September 11, 2001, the president of the United States has forced Canada to rethink its immigration practices or forever have us face long delays in crossing our mutual border in either direction. While the prime minister's initial response was to cry foul in defense of our sovereignty, he was soon convinced to toe the line given as 40 percent of Canada's GDP and 87 percent of its exports go to the U.S. and every hour counts in today's dynamic North American economy. Though the net result of U.S. pressures is yet to be tallied, I would bet anyone even money that our borders will no longer be allowed to remain the sieves they have been for the past while. The immigration quotas will also be adjusted to the point whereby quality will count, not quantity. This change for the better has been a long time coming!

Canada's aboriginal policy needs to be redirected

The abysmal state of aboriginal reserves reflects the failure of the current government policy. Though reserve-resident Indians comprise just 1.3 percent of Canada's population, they account for 5 percent of all federal programme spending, to the tune of about \$7 billion per year. While it is understandable that the band leaders in charge of the handouts jealously guard their fiefdoms, only a very small group, affiliated by kin and connection, prosper while the rest of the tribe members are left to fend for themselves as best they can. As a result, there is a 30 percent unemployment rate, widespread alcoholism resulting in the tragedy of fetal alcohol syndrome, gasoline sniffing and astonishing rates of suicide and domestic abuse. Is it any wonder that fewer than three out of five natives live on-reserve?

Canada prides itself on being a multicultural country. Though we should question an immigrant's proficiency when he or she wishes to enter Canada, the empirical truth is that, within one or two generations, they typically bring their values, language skills and place of residence in line with the dictates of our industrialized, urbanized, capitalist liberal democracy. Unfortunately, we have so far decided that the aboriginals do not need to make these tradeoffs because they are "the original people of this land." Nonetheless, there can be no justifiable reason why the prize for first occupancy should end up being a life of squalid poverty.

Is it not high time that we and they mended our respective ways of dealing with these pervasive problems? Is it not time for changing the status quo by insisting on band accountability before granting any more government assistance? Is it not time we realized that education and income levels are better for urban, compared to rural and on-reserve, aboriginals? Is not a small off-reserve middle class reason enough to believe that a change for the better is possible if we all got our heads together and did away with many of the long-held taboos?

Although most of us understand modernity's demand for punctuality and routine, and aboriginals prefer the rhythms of weather and seasons, we need to find concrete ways to offer special programmes aimed at narrowing the significant gap in health, education and the standard of living. By creating opportunities for individual natives and rewarding personal effort, we should be able to enhance the where-withal of those on the reserves, in a concerted attempt to ensure a brighter future for the children of today and tomorrow. By consolidating federal programmes into many fewer departments, we should also be able to reduce the number of feather-bedded bureaucrats feeding at the public trough!

In sum, government funding programmes are a disgrace. If the aboriginal leaders and the rest of us ever hope to improve the lot of native peoples, many significant changes in policy, attitude, responsibility and accountability are going to be required. All relics of the past

must be challenged in an all-out drive to improve the lot of the average aboriginal.

Hobby-horse budgets never win major stake races

While a stubborn recession may mock the prognostications of the professional number crunchers – for whom the recovery is always just two quarters away – their off-the-mark forecasts brings to mind a line by a former governor of the Bank of England. He once revealed that there are three kinds of economists in the world – those who can count and those who cannot. Our government seems to be the home of the third sort!

As such, is it any wonder that there is a sizable and growing, so-called democracy deficit. For example, in 1969, 59 percent of Canadians thought the federal government did the right things. At least they gave it credit for doing so most of the time. Today that figure is just 22 percent. That is so because the vast majority of us now believe that the elected members of parliament and the “swivel” servants are there primarily to serve themselves, their friends, special-interest groups and big business.

Adding fuel to the fire is the mumbo jumbo of the latest federal budget, which clearly suggests that our economic slide vis-à-vis the United States is set to continue for the foreseeable future, at least until there is a coherent political opposition or widespread public outrage to bring about the changes necessary to correct the situation. Fortunately, the knowledge possessed by the Americans, the main engine of modern economic growth, remains largely intact. If they can fix what ails their mighty economy, ours will also rise somewhat, thanks to the vast investment and trade between the two countries, and the inner strengths of human capital and entrepreneurship.

Notwithstanding, we will never do as well as we might until we too get our act together and our financial house in order. Until that happens, Canadian industry and private investors will continue to pour more and more money into U.S. businesses, billions upon billions more than the

Americans are every likely to invest in Canada. In the past seven years the difference has been more than \$175 billion in their favour, not ours.

Although our ever-optimistic prime minister often appears to be at odds with the opinion of the minister of finance, who is himself at odds with the findings of the auditor general, the fact is that the \$132 billion of federal programme spending for fiscal 2002–03, outlined in the latest federal budget, goes far beyond our means. Particularly so, given as still 25 percent of every tax revenue dollar – or approximately \$40 billion per annum – must go to cover the interest due on the monstrous \$547 billion national debt. For the record, Canada's per capita indebtedness is more than three times as great as that of Argentina, and you undoubtedly know what has happened to that once-proud, and now bankrupt, country.

When measured in real terms, the budget works out to \$4,166 per person, an increase of 8.3 percent over the year before, the largest year-over-year increase since the 9 percent spending bubble foisted on us by the federal Liberals during the 1982–83 fiscal year. The largesse includes more than a few spending brainiacs. My favourite is called the Transitional Job Fund. Its aim is to placate the lowly members of parliament by allowing each to disperse \$100,000 as they see fit – \$30.1 million in all – without any controls! Although the amount may seem frivolous in terms of the massive budget sums, for my money, and yours, would we not all be far better off if the time and funds were spent preparing for meaningful debate in the House of Commons.

Is it any wonder that the auditor general has recently concluded that at least \$16 billion of last year's tally was wasted federal spending. Despite the minister of finance's claim that there is absolutely no fat in his latest bungle, given the raft of ill-advised and annoyingly political stimulus programmes that are about to be unleashed, you can bet your bottom dollar that will not prove to be the case. Nor will the payola ever be properly accounted for by the various federal government departments involved in handing out the dough.

To help pay for this folly, personal income taxes, which currently account for 48.5 percent of total federal government levies, are projected to rise to 49.3 percent. By comparison, U.S. rates are dramatically lower and projected to be lower still in the next while. Total tax revenues for all levels of government in 1996 stood at 41.1 percent of GDP in Canada. The comparable 2002 figure, including tax cuts, will be down only marginally, to 40.1 percent, whereas the equivalent U.S. figure remains the same at 29 percent.

Folks, we are being screwed, left, right and centre. Is it not high time we voted all these spendthrifts out of office, for we must get about and do a much better job of managing Canada's financial affairs. We certainly can no longer afford the luxury of a federal government that only sees fit to table a budget every two years and continues to be quite unaccountable for its boondoggle spending programmes.

A change for the better is essential for all Canadians if ever we are to survive and prosper as a sovereign nation. The way we respond in the next few years is going to be vital to our longer-term future. So let us all get on with what needs to be done. Hobby-horse budgets never win major stake races! It's time we boarded up the stable and did away with the liberal-spending race stewards.

The health-care system needs a dose of reality

Over the past decade I have repeatedly suggested that we should all press for better ideas from politicians and better results from governments. Each level should do what it does best. By rebalancing the federation we should be able to reduce duplication and end the unilateral use of federal spending power to invade provincial jurisdiction; allow provinces the flexibility to tailor programmes to their needs and make governments more accountable. Rebalancing is not about power, it's about making governments more proficient.

Nowhere does this statement ring truer than it does for health care, a provincial jurisdiction long held to ransom by federal politicians and

bureaucrats. It is high time we got the mess cleaned up, for there is a strong correlation between better health and faster economic growth.

According to the Canadian Institute for Health Information, the governments and their respective agencies will have spent \$74.4 billion on health care in fiscal 2001, up \$6.7 billion year-over-year. Payments by individuals and private insurers will push the total to \$102.5 billion. All of which works out to an astounding \$3,298 per capita.

Since 1996, despite increasing medicare spending at more than twice the rate of inflation, the administration costs have increased by an additional 2.5 percent. Even so, and as we all know, the system has repeatedly failed to meet the needs and expectations of our people.

Notwithstanding the finger pointing by all the various levels of government, the administrators, physicians, nurses and support staff, most of the criticism fails to focus on one of the real causes of medicare's morbid state, that being the outmoded Canada Health Act of 1984. It prevents provinces from using private health-care companies to supply public health services, just as it prevents them from creating a private health-care system. All the while, these sorts of reforms are necessary if we are ever to ensure comprehensive and affordable medicare for all Canadians longer term.

Though most of our politicians tend to speak publicly as though the sclerotic system were a national treasure and somehow essential to our continued existence as Canadians, many now privately acknowledge that the current arrangements are broken and are in need of fixing. Therefore, is it not time the governing Liberals – and the other federal parties, for that matter – started to talk openly and honestly about the problems long before the annual spending tops \$120 billion, \$130 billion, \$150 billion, and the country goes bankrupt trying to pay the bloody bills?

As it now stands, health care already is the largest single budget item and accounts for 35 to 40 percent of total government programme spending. That is so in spite of the fact that only about 51 percent of all drug spending is covered, which many find absurd in a public health

system that often prescribes medicines to treat a variety of ailments, replacing the need for more expensive operations that are paid for by medicare. In addition, the health-care providers, whose salaries and benefits take up two-thirds of the budget, insist that they want and deserve more pay, even though there is precious little evidence of any increase in productivity over the years. Meanwhile, a federal and a provincial commission are in the throes of holding public meetings in the hope of uncovering ways to redefine this long-cherished social programme. The ultimate aim is to make the system more effectual and hopefully allay misgivings about the way the Americans get things done.

As I see it, there needs to be a new national protocol that clearly states what specific types of “medically necessary” services each province should be required to provide and pay for, delisting most of the others, but allowing the various provincial jurisdictions to add to the list as they see fit. There also needs to be a complementing national standard in terms of prescription drugs. No matter what, user fees should be charged to unclog the health-care facilities, insurance coverage provided by the private sector.

In order to contain the unsustainable increases in administration costs, the entire system should be privatized so that it can escape from the expensive ways of politicians and bureaucrats alike, the profit motive to provide the incentive to keep costs in check longer term. Such should also permit top-flight practitioners to earn more than a standard wage, thereby removing, or at least somewhat offsetting, the primary reason why so many move to the U.S. in search of fame and fortune. Like all other service providers living off the avails of the taxpayers – such as public transit, the education system, the post office and government offices of all descriptions – health-care workers should be declared “essential” and, as such, forego the right to strike.

If we succeed in introducing these sorts of change to the health-care system, I have no doubt that proficiency and accountability will improve measurably, slowing if not arresting the galloping increases in the costs

by providing a more affordable array of options to all Canadians from coast to coast. Those prepared and willing to pay more for extra services by way of privately funded clinics and hospitals, should be encouraged to do so as this will take pressure off the publicly financed facilities and, in effect, shorten the waiting lines and increase the effective capacity at no additional cost to the taxpayers.

We need a national securities commission

During my nearly forty years in and about the securities industry, dealing with CEOs, CFOs and IROs, I have yet to meet a sane person who believes that the current system of thirteen provincial and territorial securities commissions makes any sense whatsoever. Apart from the additional time and costs involved, experience tells me that each jurisdiction inevitably has an axe to grind and a bureaucracy to protect, and the right of self-funding only exacerbates the situation.

Another concern has to do with the laws of the land, in that there are no specific securities rules other than the catch-all legal category of “actions contrary to the public interests,” allowing an arbitrary transfer of power by which governments can dole out any tyranny that strikes their fancy. As a result, it is difficult to tell whether or not a commission is pursuing the public interests or simply following its own selfish agenda – and that is just not right, nor truly effective.

Similarly, without clear and stringent securities rules, the sharks who swim in Bay Street’s deep waters may never get caught in the regulators’ conflict-of-interests net. If ever they are unlucky enough to do so, the most severe penalty is not likely to be any more costly than a mildly expensive fine which, in all likelihood, would hardly make a dint on the profits gained from the various and sundry transactions in question. As it now stands, the scoundrels will very seldom, if ever, be forced to endure the hardship of prison or a lifetime banishment from the work they chose to do.

While securities legislation and the policing thereof has always been

a provincial responsibility, how many more scandals will it require to reach that logical, yet politically difficult, decision to form a national securities commission, backed up by an act of parliament with clearly stated and more stringent rules? Though no laws can define and prohibit all possible business arrangements, they should lay out principles and tests that would offer reasonable guidance. The authorities should also have the power and ability to investigate, put forward concrete allegations and punish those responsible for serious, undisclosed conflicts of interest. The punishment for breaking the law should fit the wrongdoing, jail being a real possibility.

Coincidentally, the security industry must also come to have definite and uniform rules governing where and when multiple roles need be disclosed, and each firm should employ an internal ethics officer to make certain that any conflicts of interest are clearly stated. To date, many issues have not been intelligibly translated into industry regulations, leaving investors inadequately protected. Improved compliance, tougher oversight and better monitoring of staff behaviour are a must if ever the reputation of the investment industry is to regain its past lustre.

Let's get it right!

Over the past two decades I have expended a great deal of time and effort thinking about Canada and its future as a sovereign nation. During the course of my endeavour, I have spent countless hours discussing and debating many issues in private and in public, from coast to coast and about the globe.

While one may never expect to ask all the right questions or find all the right answers, one thing I know for sure. It is that we Canadians are fast running out of space in which to manoeuvre, and our options are fewer in number than they once were. As such, now is the time for our political, business and community leaders to get their heads together, stand up and tell us the truth about the very real quandary we find ourselves in and offer affordable and doable ways to get the country

back on a firmer footing before the quicksand of our folly overcomes us all. Pollyanna promises will not do what needs to be done!

I sincerely hope that you will get involved in the process, striving to do your part. If you do not, you will have no one to blame but yourself if Canada fails to pass its many tests with flying colours. It's time to stop the dithering. It's time we got things right!

*The great art of governing consists
in not letting men grow old in their jobs.*

NAPOLEON BONAPARTE

About the author

Born in Montreal in 1938, Edmond G. Eberts was raised in the Saguenay region of Quebec. He is a graduate of Bishop's College School and McGill University.

Ed joined the petrochemical division of Union Carbide Canada Limited in 1959 as a technical sales representative. In 1965 he was appointed a partner and vice president of C.J. Hodgson Securities Inc. As the Toronto Stock Exchange seat holder he was responsible for developing the institutional investor client profile, the equity trading activities and the portfolio management services for professional and private investor accounts in Ontario, Western Canada, the United States and Europe.

Recognizing the need for CEOs to gain a better understanding of the public investor equation, he launched RAPPORT in 1974, the first and foremost firm of investor relations advisors and capital formation strategists in Canada. More than a quarter century later, and having been paid fees by nearly 450 corporations, trusts and limited partnerships, he continues to be a perceptive observer of the political and economic goings-on in Canada and elsewhere about the globe.

Married to a Calgarian, Maureen and Ed have three entrepreneurial daughters, Jennifer, Rachael and Katie. They are collectors of venerable and contemporary art, and are the mainstays of The Turnberry Tour, an annual invitational golf classic inaugurated in 1985. Ed's musings on two of his passions – business and golf – are explored in his books *Reflections of a Bay Street Cowboy* (1999), *No Free Lunch* (2000), *Parables of Golf* (1995) and *A Caddie's Lament* (2001). The Rapport Web site includes a summary of his corporate-strategy recommendations.