I want to focus specifically on a topic all too familiar to you — our lagging productivity performance. In fact, in remarks this year Bank of Canada Governor Mark Carney chastised Canadian companies for being “too timid and not investing enough in the future.” He said the government had done its job by “creating the conditions needed for a productivity renewal” and the time had come for business to follow through. Finance Minister Jim Flaherty and Industry Minister Tony Clement can take some considerable pride in this new reality.

Canada ranks only 17th in productivity performance among OECD countries. More pointedly, business productivity was 75 percent of that in the US in 2007 compared to 90 percent in the 1990s.

Over the last 10 years, Canadian productivity growth has been around 1 percent annually compared to 2 percent in the US. This is not a formula for success.

It is possible to quibble about the actual statistics, because the inputs vary depending on the makeup of individual economies, the rate of employment, etc. But, by any measure, the trend is troubling and needs attention, and not just from government.

It will require a concerted partnership by government and the private sector. Creative approaches by business to help solve public policy challenges must be part of the productivity solution because, as the former chairman of the Royal Bank, Rowland Frazee, said over 30 years ago, “productivity is what a nation lives on and it’s all it lives on.”

First and foremost, we need to keep our fiscal house in order. Over the past 25 years governments with different political stripes established an impressive framework of policies that served us well during the recent recession. It began with the Progressive Conservative government that introduced free trade with the US and NAFTA, the elimination of the manufacturers sales tax and introduction of the GST, policies for low and stable inflation, financial regulatory reform and a wave of privatizations and deregulations. It was followed by a Liberal government led by Prime Minister Chrétien that initiated a dramatic policy of deficit reductions, huge investments in university research and significant advances in R&D generally. This was followed by the present Conservative government with its highly beneficial changes to corporate and personal taxes.

It was the continuum of sensible and effective policy under three different governments — avoiding the erratic policy lurches of the past — that changed Canadian attitudes and provided the solid economic foundation on which Prime Minister Harper was able to stand as host of the G8 and G20 summits earlier this year.

For example, between 1999 and 2009 Canada recorded the highest growth in income per capita in the G7 and the second-highest GDP growth per capita.

Canada entered the recession with the lowest debt-to-GDP ratio in the G7. After the recession, Canada will still have the lowest debt-to-GDP ratio in the G7, and by an even wider margin. In 2010, the IMF estimates that Canada’s debt-to-GDP ratio will be approximately 31 percent compared to the US ratio of almost 67 percent, 75 percent in the UK and in Japan, 115 percent. Their ratios will continue to climb, while Canada’s should begin falling in 2011.

Each of these policy initiatives received consistent support from the CCCE and your predecessor organization, the Business Council on National Issues. That support was and is indispensable to the discipline required from government. And we will need similar examples of courage and conviction to bolster our fiscal foundation against future pressures from an aging
population and from increasing health costs, impacted by the same demographic trend.

You as business leaders have a responsibility to help stimulate a rational discussion on how Canada can best meet these challenges. It seems to me that, on health care for instance, we need to strike a better balance between the intrinsic value of universal coverage for basic medical service and the readiness — indeed, the capacity — of Canadians to pay the necessary taxes to support the system.

The Organisation for Economic Co-operation and Development, not exactly known for radical analyses, recently concluded that, because our health care system is not sustainable in its current form, some form of user fees and greater scope for competition within the system will be necessary.

The current federal-provincial funding formula ends in 2014. A serious, adult discussion is called for and I believe a blue ribbon panel of medical and financial experts could provide a sensible framework for the debate and for the decisions needed. Not surprisingly, the fundamental assumptions on which Justice Emmett Hall based his recommendations for medicare almost 50 years ago have changed and we need to adapt accordingly.

We need to maintain Canada's position as an attractive place for investment and, as the Macdonald-Laurier Institute recently observed, with a specific corporate tax advantage vis-à-vis the US. This was actually a prescription advocated by Laurier more than a century ago. It is equally valid today.

Tax in Canada on new business investment is now the lowest among G7 countries. We need to preserve and strengthen that advantage.

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The quality and quantity of labour or human capital is a major driver of productivity. Here, Canada's track record is decidedly mixed. We rank highly in terms of the share of population with post-secondary education and we are among the OECD leaders in the funding of higher education R&D. And yet there is less collaboration on R&D between business and public research institutions. That gap needs to be filled. Businesses large and small need to take more advantage from the much-improved research capacity of our post-secondary institutions. I encourage you to build closer relationships and try to harness this capacity to facilitate longer-term business opportunities. If you engage professors and students more in addressing your challenges, their graduates will be better able to contribute to your success.

We have a higher high school graduation rate than the US but a lower ratio of university graduates than the US and a lower proportion as well of graduates with advanced degrees in science and engineering. As Roger Martin of the Rotman School of Management has observed, the managerial class in Canada also falls sharply behind the US in terms of education. Well under 40 percent of Canadian managers have a university degree while close to 60 percent of US managers have a bachelor’s degree or higher. This is something your companies should address more urgently. Seek to hire experienced managers who have a vision for the future and are driven to seek competitive advantage through innovation.

There are some unavoidable realities on the human capital front. We do have an aging population and, regrettably, the two fastest-growing segments of our population — the
When it comes to taxes we need
above all, to sustain a powerful,
competitive edge for Canada vis-à-
vis the US. You as business leaders
need to take better advantage of
that tax benefit and our strong
dollar to replace capital stock and
invest in advanced technology,
machinery and equipment. We need
to be more competitive to bolster
future prosperity. It is that
straightforward.

Canada has had a persist-
ently dismal track record
when it comes to venture capital. By
removing discriminatory tax treat-
ment on foreign venture capital, the
government is trying to address this
deficiency, but much more is needed.
Venture capital is the lifeblood of
innovation.

We have a reputation for being
risk averse, less competitive and reluc-
tant to tackle global opportunities. Caution may well be the hallmark for
the success of our financial sector but
it is not necessarily a strength in terms
of productivity.

We need a higher tolerance for risk
and frankly for failure because lessons
from what does not work are often as
effective as those that do.
I suggest a three-pronged public-private partnership that would establish a $300-million fund, with $100 million from government, $100 million from the private sector and a remaining $100 million over time from individual investment projects. This fund could be modelled on the Israeli example, overseen by an arm’s-length board of technical and financial experts (from government and the private sector) and designed specifically to kick-start a whole new approach to seed capital for innovation in Canada. The government would be protected disproportionately on the risk aspect whereas the private sector and the individual investors would stand to benefit from a greater proportion of the reward from successful ventures.

Next, an old chestnut, one that has been studied endlessly but with minimal results. I am referring to the regulatory overburden in Canada, which is seen by foreign investors as the single biggest impediment and which you all know is a serious drag on productivity.

The automobile sector is one of the most integrated industries in North America. And yet there are more than 150 different regulations on each side of the border affecting the same North American manufacturers, including those now effectively owned by the government. There are many
more in many more sectors that serve to hobble the efficiency of our otherwise integrated economies. The Canadian Federation of Independent Business estimates that our companies spend more than $30 billion annually to comply with various regulatory requirements.

We need to streamline and harmonize what we now have and restrict the tendency to create more uniquely Canadian standards in the years ahead.

To that end, I suggest that the Prime Minister appoint a regulatory czar with a specific one-year mandate to act on the serious analyses already on record and cut through the bureaucratic swamp of overlapping and outdated regulations that serve no real public policy purpose. There should also be a strict “show cause” stipulation for any new regulatory proposal that differs from that in the US.

Finally, and perhaps most importantly, trade: going global in emerging and advanced economies to spur cross-pollenization of ideas, improve competitiveness and deliver better products. The benefits to Canadians on employment and investment as a result of our trade policies in the last quarter century can only be described as remarkable. You were instrumental in the success of our FTA and NAFTA negotiations but you need to be as vigorous in supporting similar initiatives today with the EU and the major Asian economies. Government cannot do these by itself.

To accomplish this major task of bringing Canada to a world leadership position on productivity will require an uncommon degree of political and corporate will.

It’s called leadership — that ineffable and sometimes magical quality that sets some men and women apart so that millions will follow them as they conjure up new visions and invite their countrymen to dream big and exciting dreams.

In his seminal work, Leadership, James MacGregor Burns segregates “transactional" from “transforming” leadership. He writes that it is the transforming leader who “raises the level of human conduct of both leader and led...who responds to fundamental hopes and expectations and who may transcend and even seek to reconstruct the political system rather than simply operate within it.”

In a brilliant address delivered some years ago in Canada, Ted Sorenson — himself a skilled observer of powerful leaders as special counsel to Presidents Kennedy and Johnson — said:

Once in office those who wish to stand up and stand out and leave something enduring behind must build new institutions, not new images. They must look to the next genera-

tion not merely the next election. They must talk in terms of fundamental values, not merely costs. They must appeal to our hopes as well as our needs, to what we long to be and what we know is right. That’s leadership.

The impact of significant public policy decisions is often unclear in the early years. It sometimes takes a considerable period — frequently decades — before the full consequences of an important initiative become apparent.

Canada, like other privileged nations, is often extremely resistant to change. Deep and important structural changes are indispensable, however, to maintain a growing economy and ensure the flourishing of peace and liberty, and they can only be brought about by a firm expression of political will.

Leaders must have vision and they must find the courage to fight for the policies that will give that vision life. Leaders must govern not for easy headlines in 10 days but for better countries in 10 years — and they must be ready to endure the attacks that often accompany profound or controversial change, while they await the distant and compelling sounds of a verdict that only history and a more reflective nation can render in the fullness of time.

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Brian Mulroney was prime minister of Canada from 1984 to 1993. Excerpted from an address to the Canadian Council of Chief Executives in Montreal, October 18, 2010.
Our work gives hope –

Hope to millions suffering from chronic disease – prolonging life, easing pain. Our work delivers better health care and faster recoveries, through prevention as well as cure. Our work in Canada helps save lives here at home and around the world through innovative research into medicines and vaccines.