

MEMO TO THE PRIME MINISTER: BUILDING OUR COUNTRY, AND SHAPING CANADA'S ROLE IN THE WORLD

Richard L. George and Thomas P. d'Aquino

The new prime minister takes office with an historic opportunity for building a better Canada and shaping its role in the world, write the chairman and president of the Canadian Council of Chief Executives, the nation's foremost business association, comprised of the CEOs of the 150 largest companies in the country. Richard George and Thomas d'Aquino suggest a three-point agenda for success. First, build on the strong economic foundation of fiscal policy established by Paul Martin as finance minister — eliminating the deficit and paying down debt have freed up billions of dollars for social programs, while tax cuts have stimulated economic growth. Second, Canada needs to develop a comprehensive strategy for North American economic integration in light of continental security in the post-9/11 context. Third, as one of the world's foremost trading nations, Canada can assert global leadership in building a multilateral world, provided we meet our obligations in defence and development.

Le nouveau premier ministre dispose d'une chance historique de construire un Canada plus fort et de définir son rôle dans le monde, écrit le président et chef de la direction du Conseil canadien des chefs d'entreprise, qui regroupe les dirigeants des 150 premières sociétés canadiennes. Pour ce faire, Thomas d'Aquino et Richard George proposent un programme en trois points. Premièrement, tirer parti des solides fondations établies par l'ancien ministre des Finances, l'élimination du déficit et le paiement de la dette ayant dégagé des milliards de dollars pour les programmes sociaux tandis que les réductions d'impôt stimulaient la croissance. Deuxièmement, élaborer une stratégie globale d'intégration économique nord-américaine qui tienne compte des exigences de sécurité nées du 11 septembre. Enfin, en tant que nation commerçante parmi les plus importantes du monde, faire valoir le leadership du Canada dans la construction d'un monde multilatéral, sous réserve pour lui de s'acquitter de ses obligations en matière de défense et de développement.



Congratulations on your election as the new leader of the Liberal Party of Canada and your accession as Canada's 21st prime minister. You already have made your mark in the private sector and as finance minister. Now you face the challenge and opportunity of shaping our future as a country.

The Canadian Council of Chief Executives (CCCE) agrees that Canada stands at a rare moment of historic possibility, and to make the most of this opportunity, we see three strategic priorities. First, Canada must build an increasingly competitive economy to provide all Canadians with a

quality of life that is unmatched in the world. Second, Canada must be a sovereign and dynamic partner in shaping a secure and prosperous North America. Third, Canada must become an effective catalyst for global human progress.

Public policy affects what it makes sense for our companies to do at any given time, but a fundamental commitment to innovation and competitiveness is an everyday responsibility of any chief executive. Individually and collectively, we are committed to taking full advantage of the opportunities that lie ahead to build successful and growing enterprises from a Canadian base.

Moreover, we know that sustainable business growth requires more than good public policy. It must be built on a foundation of trust. To this end, we are committed to good corporate governance, to ethical and environmentally responsible business practices and to good corporate citizenship at home and abroad. We also are fully supportive of your efforts to improve public governance, to reinvigorate Parliament and to restore public trust in the integrity and effectiveness of the central institutions of Canadian democracy.

As Canadian business leaders, we want to see our country prosper as an economy in order to achieve our goals as a society. And as global citizens, we want to see Canada grow into a more influential force in the broader contests that are shaping our world today.

You have established securing Canada's social foundations and building a truly 21st century economy as two of your key goals. In our view, economic policy and social policy are two sides of the same coin. We expressed this belief through our *Canada Global Leadership Initiative*, launched in 1999: make Canada "the best place in the world in which to live, to work, to invest and to grow."

To achieve this goal, Canada must aim for the highest possible quality of life. This requires a high level of economic achievement as measured by gross domestic product. At the same time, it means that Canadians should enjoy long and healthy lives as measured by health outcomes; be protected by a strong social safety net that reduces the frequency and depth of poverty; and have access to a healthy and attractive environment, whether measured by remote vistas and national parks or green space and clean air in urban centres. Success on this front also will be measured by continued strong flows of immigration that recognize Canada as a place where people from every race and culture can feel at home.

But to be the best place in the world in which to work, Canada will need to focus on other indicators of progress. There must be plentiful opportunities for work, reflected in a low rate of unemployment. To foster innovation and boost productivity, Canada must increase both the rate of adult participation in training and lifelong learning and the pace at which immigrants are able to integrate fully with the Canadian labour force. Success on these fronts should in turn make average labour income among the highest in the world. And within the constraints of providing effective public services, the best place in the world to work should keep

To be the best place in the world in which to invest, the key determinants will be the cost and accessibility of capital. The tax system must be structured in a way that encourages Canadians to invest in enterprises small and large. A healthy supply of venture capital will be reflected in a high rate of new business start-ups.

taxes on incomes as low as possible, and enable families to make their own choices about how to spend their hard-earned money.

To be the best place in the world in which to invest, the key determinants will be the cost and accessibility of capital. The tax system must be structured in a way that encourages Canadians to invest in enterprises small and large. A healthy supply of venture capital will be reflected in a high rate of new business start-ups. Low corporate tax rates will attract greater investment from Canadians and from abroad. Leadership in corporate governance, combined with simple, transparent and effective regulation of capital markets and open access to capital flows, will give investors confidence and keep the cost of capital to a minimum.

Finally, to be the best place in the world to grow, Canada must reflect excellence at both the personal and corporate level. Personal growth will be reflected in education indicators such as the highest level of participation and achievement in post-secondary education. Future business growth will be driven by high levels of investment in research and development and in the use of productivity-enhancing technologies. And the growth of Canadian business beyond our borders will depend on assured access for Canadian goods and services to continental and global markets. In the end, it is a quality of life attractive to people and a business environment attractive to investment that will drive Canada's reputation as the home of choice for growing global enterprises and for highly skilled and productive workers.

We live in a dynamic world, and past successes cannot guarantee our future happiness. There is no question in our minds, though, that Canada has the potential to be the best in the world by any measure Canadians consider to be important. As you have suggested, the time has come for Canadians to summon a new national will, to meet the challenges of tomorrow with new energy, new ideas and an unrelenting determination to make the most of all of the resources at our disposal.

In adopting the multifaceted goal of making Canada *the best place in the world in which to live, to work, to invest and to grow*, it is obvious that no one policy prescription will suffice. An effective strategy will include numerous specific elements, many of which will evolve over time. But as we suggested at the outset, we see three strategic priorities: ensure a strong economic foundation for our social goals at home; build an effective economic and security partnership in North America; and make Canada a catalyst for change in the world.

Ensure a strong economic foundation. Everything that Canada can hope to

achieve as a country depends on a healthy and growing economy. An economy that generates jobs and raises family incomes also produces a stronger tax base.

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As finance minister, you understood that no social service and no global mission could be sustained indefinitely on a diet of borrowed money. You made the tough choices to bring the federal books into balance. You cut spending, you raised taxes and, "come hell or high water," you slew the deficit. With the books in balance and inflation under control, both Canadians and foreign investors could look forward with more confidence. The resulting surge in economic growth in turn enabled you and your successor as finance minister to pay down debt, cut taxes, boost spending to record levels and yet still remain in balance even in a year that has seen Canada suffer more than its share of slings and arrows of misfortune.

As you take on the mantle of prime minister, we would urge you first and foremost to strengthen this foundation. You championed the concept of pru-

dence in fiscal planning and setting aside significant reserves for unexpected contingencies. We continue to support this practice strongly. Paying down the debt by \$52 billion in the past six years has freed up \$3 billion a year for more useful purposes. We support your

goal of continuing to reduce the federal debt to the 25 percent of GDP level at which it stood in the 1960s.

We also see much more that needs to be done to improve opportunity and fairness through the tax system. Federal and provincial governments need to work together more effectively to attract the investment that creates jobs and raises incomes, most importantly through further cuts in corporate income and capital taxes. And in the personal tax system, we think the federal government should continue to increase the opportunities for tax-sheltered savings for retirement and for education, raise the basic personal exemption to get more Canadians off the tax rolls altogether, reduce the oppressive marginal tax rates that now prevent many modest-income families from getting ahead no matter how hard they try, and raise the floor for the top income bracket to make Canada a more attractive location for high-income jobs.

Above all, we support your commitment to keeping a firm grip on federal spending and to an ongoing review of existing programs. As you have put it, this means focusing on results, on outcomes, on improving programs that work and bringing those that do not work to a deserving end.

The challenge of spending review is

different today than it was in the mid-1990s. Canada is not in a fiscal crisis requiring deep but one-time budget slashing. Rather, to ensure the sustainability of the public services that matter most and to give governments the capacity to respond to new and growing needs, we believe that you will need to change the spending culture. Ministers and public servants always should look inwards before looking to taxpayers. New ideas should compete against existing programs as well as with one another.

To this end, your government will need to develop a continuous and multilevel spending review process. We recently suggested to the Standing Committee on Finance of the House of Commons a process that would involve annual review of all programs at the departmental level as well as reviews of broad policy areas every five years and reviews of cross-cutting functions such as human resource management and procurement at least once a decade.

We have also suggested the creation of a reallocation pool that would require public service executives and ministers each year to identify the least effective five percent of the spending under their direction. Even excluding debt service costs, transfers to the provinces, Employment Insurance benefits and pensions, applying this "5 percent solution" to direct program spending alone would still produce a pool for potential reallocation of more than \$3 billion a year.

To be effective, any review process needs a specific target, a firm deadline and real incentives. Executive bonuses in the public service should be tied to meeting the review requirements. And no department should be eligible to receive more money for new or existing programs unless it first has put on the table its own potential contributions to the reallocation pool.

It is not enough for a program to meet an identifiable need. The govern-

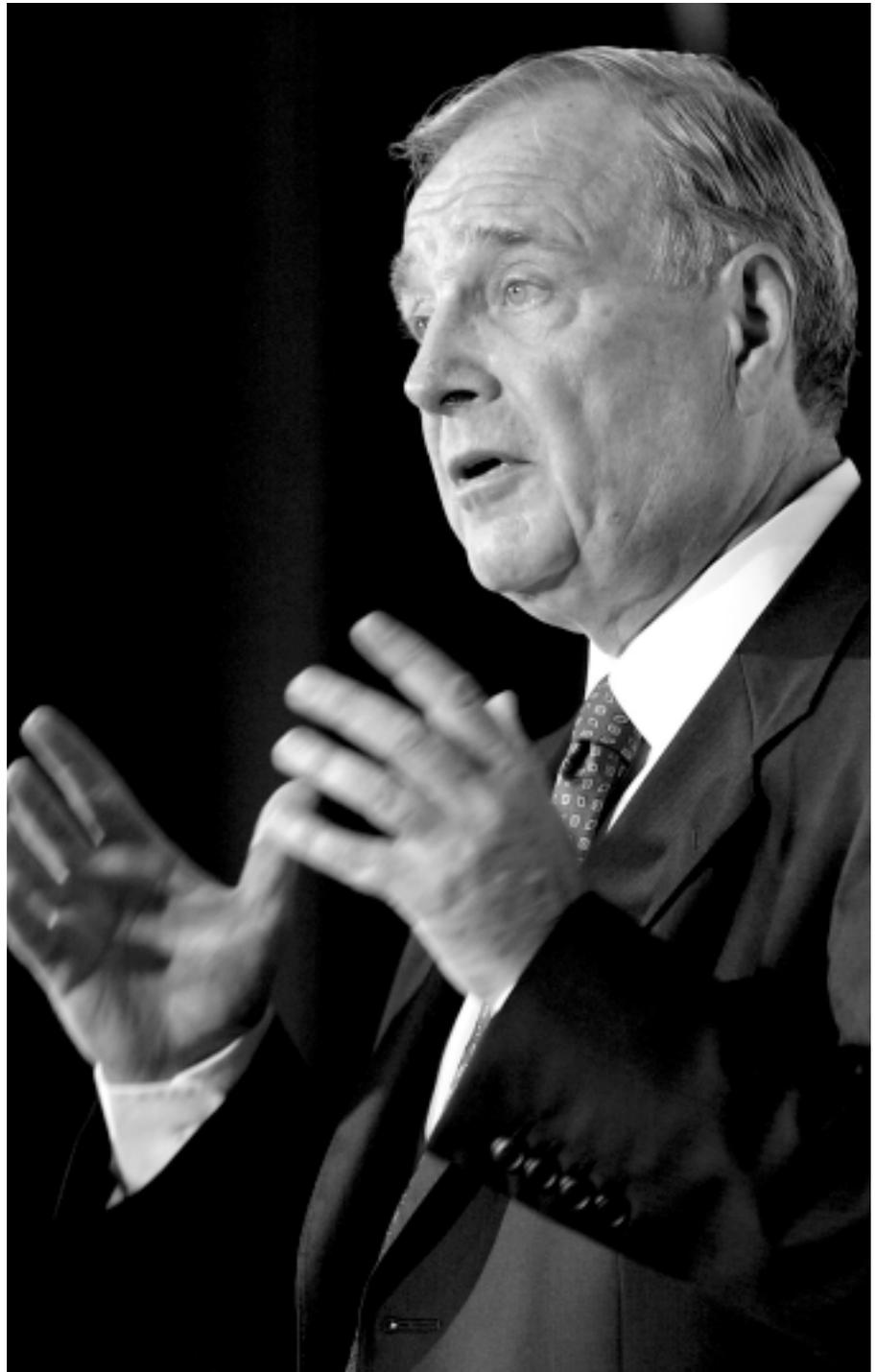
ment also must ask whether an existing program is the best way to meet that need and consider how that need stacks up relative to others on the public policy agenda. Needs change over time. So do the tools available. The federal decision-making process must reflect this reality.

Rigorous and effective program review is not just good stewardship of the public's money. As Canada moves through a period of slower economic growth, such discipline is essential to enable governments to respond to new and growing needs in society.

Not all government efforts to support economic growth require spending. In general, lower taxes are more effective than subsidy programs and handouts in fostering economic growth. And much can be done without major fiscal commitments to improve competitiveness through smart regulation. But whether you judge the priority to be tax relief, debt reduction or increased spending in critical areas such as health care and national defence, the most recent fiscal projections suggest little room for major new measures of any kind unless your government takes seriously the ongoing review of existing spending.

Develop a comprehensive strategy for North America. No strategy for Canadian economic success would be complete without a special focus on Canada's major export market, the United States. And in today's environment, it is impossible to compete effectively for economic advantage in North America without also addressing the United States' well-justified focus on security.

In the late 1980s, Canadians took a leap of faith into the Canada-United States Free Trade Agreement. Five years later, we extended the idea of a comprehensive free trade deal to Mexico. The resulting economic benefits to people in all three countries are undeniable, and Canadian public opinion reflects an increasing confidence in our ability to forge a unique place for ourselves within a highly integrated North American economy.



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As Paul Martin articulates his agenda for Canada, the country's business leadership suggests that developing a comprehensive strategy for North America is not a bad place to begin.

Canada's economic security depends on the free flow of people and goods across borders, especially within North America. At the same time, we cannot ignore the very real threat that international terrorism poses both to us and to our major trading partner. This double imperative — to protect both the economic *and* physical security of Canadians — is

what motivated the CCCE early this year to launch our *North American Security and Prosperity Initiative*.

More needs to be done to improve opportunity and fairness through the tax system. Federal and provincial governments need to work together more effectively to attract the investment that creates jobs and raises incomes, most importantly through further cuts in corporate income and capital taxes.

We began with two simple propositions. One, the economic integration of North America is irreversible. Two, economic security and physical security have become inseparable.

The immediate response by both countries to the attacks of September 11, 2001, was the *Smart Border Declaration*. Its 30-point action plan was excellent and necessary to restore confidence in both the security and efficiency of the Canada-United States border. But increasingly this is recognized as merely the first step in what must become a more ambitious effort to reinvent our shared border.

The past year has seen an explosion of debate in government, business and academic circles about how best to build on the foundation of the *Smart Border Declaration*. Some people argue for modest, incremental steps; others for so-called "big ideas." In our view, this dichotomy is misleading. Whatever choices Canada may make about how far to proceed in any one area, there is an absolute need for an overall strategy.

Within such a strategy, the arguments for a bold approach are compelling. First, because anything that may be agreed in one area affects what can and must be done in others, it makes no sense to handle negotiations on a piecemeal basis. Second, only a broad set of negotiations provides enough room to discuss mutually beneficial trade-offs. Third, only an exciting and ambitious proposal can

attract attention and mobilize political leadership in the United States.

Adopting a bold strategy and pur-

suing comprehensive negotiations do not mean that Canada's goal should be to create European-style centralized institutions. Negotiations may be carried out on many fronts and are likely to be implemented through a flexible framework, one that builds on the existing complex network of formal and informal institutions that manage the many levels of our bilateral relationship. But to ensure Canada's competitiveness and growth at the same time as we enhance our physical security in a dangerous world, Canada needs a coherent and comprehensive strategy for North America.

As suggested by our Council's North American initiative, this strategy must encompass border management, tariff and non-tariff barriers,

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regulatory issues, resource security, the defence of North America and development of flexible new institutions. Initially, some of these elements will need to be discussed first with the United States, but North America includes Mexico, and the heart of Canada's North American strategy must remain trilateral.

You already have made a number of specific suggestions for measures to strengthen management of the Canada-United States relationship. These include creation of a cabinet committee on the Canada-United States relationship to be

chaired by the PM; creation of a House of Commons committee on the bilateral relationship; and a dramatic expansion of face-to-face contacts between Canadian and American political leaders at the federal, provincial/state and municipal levels. We support all of these ideas.

We also support your belief that Canada requires a national security policy. The *Smart Border Declaration* highlighted the importance of much greater cooperation and coordination among all of the departments and agencies on both sides of the border dealing with security issues.

Within Canada, we must coordinate our military efforts with those of internal security, intelligence, policing, the coast guard, customs and immigration controls and emergency preparedness. We must improve our ability to conduct surveillance of our territory and its approaches, by land, sea and air. But it is not enough to focus only on our own needs.

Even to protect our own territory, we clearly need to rebuild our military and security capability and become once again a credible partner in the

protection of North America. But the protection of our economic and security interests within the continent is just one aspect of the broader challenge Canada faces globally.

Make a difference in the world. As you have put it, Canada's foreign policy always has tried to help the poor, the sick, the vulnerable and the victims of battle, but global integration has changed the rules of the game. We agree with your conclusion that today's global challenges require new thinking about how the international community governs itself and how

sovereign nations work together to tackle global issues.

Today's global struggle against terrorism is more than a contest of military might. At stake are the basic values underlying democratic societies. In joining the battle against terrorism, Canadians are fighting for the creativity, openness, diversity and compassion that are hallmarks of our society as well as the foundation for our economic prosperity.

Prosperity, freedom and security are interdependent and mutually reinforcing. Canadian governments since the Second World War have been in the forefront of building a global framework for trade and development, from the foundation of the General Agreement on Tariffs and Trade to your own leadership in creating the G-20 as a forum for cooperation among key players in the developed and developing worlds.

As a trading nation, Canada has in particular a profound interest in strengthening the multilateral rule of law and in continuing to expand opportunities for trade and investment worldwide. As a free and democratic nation, Canada has a fundamental duty to ensure that democratic development worldwide is reinforced by economic progress. As a leading practitioner of sustainable development, Canada has a special responsibility to ensure that people in the most vulnerable developing countries have access to clean air and water, good sanitation and better medicines. And as a nation committed to global peace, Canada must pursue a multifaceted strategy that understands and takes advantage of the many links between economic and physical security.

In recent years, however, Canada has failed to live up to its tradition of leadership in driving global progress. Our defence and peacekeeping capability has eroded. Our development assistance has grown scattered and

ineffective. And as Canada's diplomacy has relied increasingly on rhetoric rather than on more concrete contributions, our credibility and influence in global circles have suffered. A thorough and comprehensive review of foreign policy, including diplomacy, development and defence, is long overdue and must be a priority of your government.

To be heard and respected as a strong and independent voice in the world, however, Canada must make sure that its policies and activities are coherent, focused and mutually supportive. In the pursuit of noble ideals, the bread and butter issues of economic growth still matter greatly. If our domestic policy choices fail to produce both rising incomes and social

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justice, if they cannot combine robust economic growth with enhanced protection of the environment, Canada will lose both the economic means and the credibility to persuade others to follow in our footsteps. To have an impact on the choices of others globally, rhetoric is not enough. Strength abroad flows from strength at home.

Smart policy choices matter to our own future as much as ever. What we are suggesting here, however, is that Canadians have a higher duty as well: to succeed not just for ourselves, but in ways that help others succeed too. Just as the challenges facing our country are increasingly international in scope, the benefits of smart policy at home have huge implications for Canada's role in the world.

Canada has many global roles to play: assisting the development of the world's poorest countries; spreading the benefits of trade and investment liberalization to all corners of the globe; encouraging forms of economic development that enhance the global environment; strengthening multilateral institutions and processes; contributing to global peace and security; and spreading Canadian values through business investment and government influence.

Whether we are competing for economic success through trade and investment or for influence in the marketplace of values and ideas, a small country operating in a global environment requires bold leadership and a focused strategy. We must dare to dream. We also must be willing to act.

If our ambition as Canadians is to reach beyond the simple pursuit of prosperity for ourselves, then we must consciously shape our actions to set an example for the world. Our goal must be to build an increasingly competitive economy that supports a superb quality of life for Canadians within a secure North America, and a country capable of acting effectively as a catalyst for human progress globally.

Canada has great potential, not just to build on its economic successes, but also to reach new heights in shaping a world of peace and prosperity. We know that you are committed to realizing this potential fully, and we look forward to working with you in driving the actions that will be needed to turn today's moment of historic possibility into tomorrow's shining reality.

Richard L. George is Chairman of the Canadian Council of Chief Executives and President and Chief Executive Officer, Suncor Energy Inc., and Thomas d'Aquino is President and Chief Executive of the Canadian Council of Chief Executives.