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Luncheon Speech at the Economy Club of Toronto

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Good afternoon. Thank you for the kind introduction. I have to start by saying that in the past few months I've found myself mentioned in the Globe and Mail more than once. In the front section for my political involvement and today in the ROB for this study. So far, I'm enjoying the ROB much more. For the moment at least, it's more gentle to me.

This project is a unique partnership between ROBTV, the Globe and Mail's Report on Business, Davies, and KPMG. It will be a quarterly examination of the attitudes and opinions of senior executives in this country. We call it the C Suite study because we survey only CEOs, CFOs or COOs, randomly selected from the ranks of the ROB Top 1000 Companies.

This is a project we are all very excited about. The sponsors want it to be a real contribution to the Canadian policy debate. Rather than just ask one or two questions that can provide an interesting but incomplete picture, our partners wanted each quarter's survey to be broad ranging and dedicated to a more fulsome examination of issues. By doing it on a quarterly basis, over time we will be able to build a portrait of the Canadian business community, to track how opinions evolve over time. By conducting focused surveys of significant length, the portrait that emerges will have real context. The purpose of this project, therefore, is to generate an understanding of what business leaders think and why they think what they do. The ultimate objective is to facilitate a dialogue about critical issues facing the country.



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Following on the recent change of government at the federal level, this study focuses primarily on business executives' hopes and priorities for the new federal government.

The full study is available on the Globe and Mail website this morning, and – if I may be so bold – at gandalfgroup.ca. There are four specific observations about the results of this study I want to highlight in these remarks – business leaders' optimism about the economy, their enthusiasm for the new federal government, their approach to tax policy and some of the factors other than their status as business executives that impact on their policy views.

First, C level executives are very optimistic about the Canadian economy over the next twelve months. There are marked regional differences among them in the strength of the growth they expect. For instance, western based executives are more likely to expect the economy to grow strongly over the next year. The growth expectations among executives in BC and particularly Alberta are truly remarkable. However, there is a pan-Canadian consensus among business that our economy will keep growing.

In this, business leaders share the optimism that the Canadian population feels about our economy. In a recent study we conducted for Genworth Financial, three quarters of Canadians felt the economy is growing, and will continue to strengthen. This stands in stark contrast to the pessimism many Americans feel about their economy. Canadians, led by the business community, are feeling good about the economy and the country while Americans increasingly feel negatively about both their economy and the direction their country is headed.



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Among Canadian executives, this confidence about the Canadian economy exists despite concerns among many of them about the state of the US economy. Fully one third of Canadian business leaders expect the US economy to slip into a mild recession this year. Given the very high priority our business leaders place on fiscal responsibility and balanced budgets, they look with alarm at the deficit situation in the United States and the seeming inability of the Administration and Congress to agree on a plausible way out of it.

Notwithstanding that a downturn in the US economy has historically meant bad times for the Canadian economy, most Canadian executives think we are strong enough to withstand with growth intact what they believe will be a mild and short-lived US recession

Executives are even more bullish about their own companies' prospects, again led by high expectations of growth among western based companies. Their biggest concern is the ability to find and keep enough skilled workers, a view consistent with recent studies of the labour market. It is notable that the number one policy priority of executives – namely education and training to deal with labour shortages – is not among the federal government's current five highest priorities. Perhaps this focus on access to adequate labour is one of the reasons why executives are not enthusiastic about the government's plans to cancel the child care program introduced by the previous government.

CEOs are also concerned about exchange rates. There is worry that a strong Canadian dollar will price Canadian exports out of weaker US markets, a situation that could be exacerbated by slowing US economic performance.



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As concerned as executives may be about the US economy – and despite their confidence about their own company’s prospects -, there is little enthusiasm for our government to rush into free trade agreements in the Asia –Pacific region in the hope of expanding into new markets. Most executives see this as a mid to low level priority at best, which in turn reveals a key finding of our study. Our executives are much more intent on seeing government policy focusing squarely on enhancing Canadian productivity and competitiveness. This would further explain the emphasis executives place on training and education, as well as meaningful tax reform.

The second key finding of our study is that the Harper government has assumed office with strong support and goodwill from C-Suite executives. Most expect it to be a positive change from the previous Liberal government. They expect and may well demand better performance in the areas of ethics and accountability. Indeed, this is the area where there is the strongest consensus that the new government should differ from the government it replaced. A Federal Accountability Act to increase transparency and reduce the impact of money and lobbying in Ottawa is strongly supported by the Canadian business community. In this, first they are reacting as all other taxpayers do, demanding careful management of tax dollars. Secondly, this likely reflects the growing trend toward corporate accountability and transparency we have seen in the private sector in recent years post Enron and then Sarbanes Oxley.

Also receiving strong support from C level executives is Prime Minister Harper’s commitment to balanced budgets and debt repayment. As strong fiscal conservatives, executives place keeping the budget balanced as by far the most important priority the government could have. In this, they have the strong support of Canadian voters. Canada may now have the largest national consensus about fiscal responsibility among western industrialized nations.



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The priority placed by both business and citizens in Canada on balanced budgets and debt repayment stands in stark contrast to the United States, where the population has greeted growing deficits with seeming indifference. Recent surveys conducted by the Pew Center show that Americans are unconcerned about federal deficits. Just as importantly, policy makers in the Administration and Congress seem to feel that Americans are unprepared for either serious cuts in spending or tax increases in order to deal with the deficit. This is in marked contrast to the recent Canadian experience of eliminating our deficit and producing balanced budgets on the basis of public demand.

In this context here in Canada, it will be interesting to see how business leaders react over time to the Afghanistan mission. They are lukewarm about large increases in military spending or commitments, not because they don't support the mission but because they are leery about the fiscal impacts of military commitments, as evidenced by the problems in the US budget.

Canadian executives expect our new government to be better for business, despite the fact that our survey indicates that the Conservative platform is not 100% aligned with executive priorities. One area where there does appear to be strong alignment is in the area of Canada - US relations. In overwhelming numbers, Canadian executives expect the Harper government to maintain closer relations with the Bush Administration than the Martin government did. Note that this constitutes a significant challenge for the new government. Canadians draw a sharp distinction between how they feel about the Bush Administration and how they feel about the United States as a country.

The Liberal government had placed emphasis on diversifying the ways in which Canada/US relations were conducted in Washington, by increasing focus on Congress and other centers of power rather than relying exclusively on leader to leader relationships. In expressing the view that relations with the



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President should be closer, and that a closer relationship will pay dividends for the economy and the country, executives are signaling that they believe the tone and nature of high level relations between the two countries matters and has an economic impact.

Despite the fact that there is little previous cabinet experience in the Harper government, few C-Suite executives are worried that economic management will weaken under this government. Finance Minister Flaherty is an unknown commodity to most executives, especially outside of Ontario, but executives are cautiously optimistic about his capacity to maintain and drive appropriate economic policy. In Ontario, where executives have seen him in action at the provincial level, few offer a negative assessment of Minister Flaherty.

The third finding is that there are differences in nuance and substance between the government's short term tax policy agenda and the tax policy priorities of C level executives. In their belief that taxes need to be reduced, both the government and business leaders are in sync. However, there is difference over the form of those tax reductions. While executives are not opposed to the promised reduction in the GST, they are not terribly enthusiastic about it either. In this, they are likely reflecting the view of most economists that a GST cut is not strongly correlated to productivity or competitiveness gains.

Consistent with that perspective, executives would prefer the new government not cancel the personal income tax cuts announced by Minister Goodale in last November's fiscal update. If canceling personal income tax cuts is necessary to pay for the proposed GST cut, that is not a trade-off that many business leaders would recommend. Executives also see a need for additional corporate income tax cuts. Given the opposition to corporate tax cuts by the Bloc Quebecois and the New Democrats, however, this might be difficult to accomplish in this minority parliament – perhaps one reason why



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most executives think a long term period of minority governments will be bad for the Canadian economy.

Further on tax policy, executives are very enthusiastic about the exemption on capital gains that are reinvested within six months. Executives will be listening hard to see if that policy reemerges as a government priority.

All told, Canadian business is looking for tax policy that economists believe spurs productivity gains - personal income tax cuts, corporate tax cuts, and capital gains relief – more than they are looking for tax policy to stimulate consumer spending, such as reducing the GST.

Another finding from this survey that I find very interesting is that, despite remarkable consensus around core ideas, there are significant differences of opinion among the business leaders we interviewed. These differences tended to reflect varying levels of education and socio-economic status, the political culture of their respective region, or even the executive positions held. By way of illustration, CFOs are much more focused on fiscal responsibility and less supportive of government spending plans than CEOs are inclined to be. Western executives are more conservative on social issues and more enthusiastic about the new government than are central Canadian executives. Quebec executives place more priority on the fiscal imbalance than do Alberta executives. And all executives show consistency with other Canadians in urban settings with high educational levels in their tendency to be opposed to reintroducing a debate about same sex marriage.

In conclusion, this survey creates a portrait of a virtuous circle for this country. C-Suite executives in this country show a remarkable optimism about our country's economic prospects – where their major



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concern is how to find enough workers for the good jobs they are creating. The business community looks forward to very harmonious relations with the Harper government. They strongly support the government's approach to ethics and accountability, to fiscal policy, and to Canada/US relations. On tax policy, there are differences in the preferred design, but agreement on the necessity of reducing taxes. As a consequence, it looks as though a strong working relationship will exist between the business community in Canada and the new Conservative government.

Thank you for your time.