

# The Intersection of Main and Bay: Driving Canada's Competitive Advantage

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**for**

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CANADIAN BANKERS ASSOCIATION  
ASSOCIATION DES BANQUIERS CANADIENS

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## Introduction

Good afternoon and thank you Brian (Chalmers) for the warm introduction. And thank you Kent (Smith-Windsor) for the invitation to speak here today. I am honoured to make this my first speech west of Ontario and my first speech to my Chamber Alma Mater.

It is certainly an exciting time to be here with the provincial election in full swing. I do however find it confusing to know who is running for office when I look at all the lawn signs mixed in with Halloween ghosts and skeletons. And no doubt there are some candidates who are using tricks and treats to win votes. Enough of the ghoulish humour.

I am pleased to see so many old and new friends and colleagues in the room, - several of whom I worked with during my time at the Chamber. I want to congratulate Russel Marcoux and Yanke Group of Companies for their recent induction into the Business Hall of Fame. Well earned and a good choice by the Saskatchewan Chamber for choosing Yanke and Russel for this honour.

I've been to Saskatoon many times over the past several years and I always appreciate having the chance to speak to such a dynamic chamber of commerce. You should be proud of the work that it does for this city, the province and for Canada.

Like the chamber of commerce, the Canadian Bankers Association also works hard to create an environment in which all businesses, including the financial sector, can grow and thrive and contribute to the prosperity of our communities. In fact, the CBA shares many of the same goals as the chamber network and we often work together to achieve them.

This is why in the title of my speech there is a reference to the intersection of Main and Bay. Bay Street is well-known as the home to the financial sector and Main Street is where local entrepreneurs traditionally set up shop. The point is, regardless of whether you are a large corporation or a smaller enterprise you face many of the same opportunities and challenges. We're all much more alike than we sometimes realize with respect to the issues facing us.

With that in mind, I want to focus on one such issue today – that is, Canada's competitiveness and how to drive a Canadian advantage – one that benefits Saskatchewan and Saskatoon. And, we want to make sure that this advantage can be sustained over time in a fiercely competitive global environment.

## **Driving Competition**

What does it mean for Canada and Saskatchewan to become one of the most competitive jurisdictions and its businesses global champions? And, what will it take to achieve it?

It means creating quality jobs, attracting investment and talent, encouraging innovation, and building a strong tax base that can support the social programs we hold dear.

And Canada's advantage is not simply an advantage for business, but for all Canadians. It does mean that both governments and business have a role to play in improving Canada's competitiveness.

## **The Banking Sector: Contributing to the Economy and Prosperity**

If we look at the banking sector, I can tell you that we are a major driver of Canada's economy and of local economies across the country. In fact, many people think of the banking sector as a Toronto or 'central Canada' business, but it has an equally vital presence on Main streets and in the downtown areas of communities across the country.

Let's look at some of the numbers.

Banks directly employ a quarter of a million Canadians in communities large and small in every province and territory. In Saskatchewan, the banking sector employs more than 4,300 people.

In 2006, the six largest banks paid taxes of \$43.6 million in Saskatchewan, part of the more than \$6.4 billion in taxes the industry paid in Canada as a whole. In fact, the banking industry pays more in corporate income taxes than any other industry in Canada.

Last year, banks helped nearly 1.2 million Canadian entrepreneurs turn their ideas into reality with more than \$81 billion in financing. And banks contributed close to \$2.1 million to Saskatchewan charities.

The banking sector is growing, especially in Saskatchewan. Here, bank-related GDP has grown by 3.3 per cent since 1997, outpacing the 1.6 per cent increase in provincial GDP generally over that time.

Virtually every Canadian shares in this success. Bank stocks are an important part of many public and private pension plans. Bank shares comprise 22.7 per cent of the Saskatchewan Pension Plan. Every member of the Canada Pension Plan is a shareholder in Canada's banks. Canadians are more than just bank customers, they are bank owners.

## **The Banks – Competition within the Sector**

There are some who may say, oh, but who are the banks to talk about competitiveness at all? Aren't there really only five banks in Canada?

My response to them is: maybe you haven't been paying attention. There has been a massive change in banking in the past few years with an array of new entrants and brand new financial institutions that we couldn't even have imagined 10 or 15 years ago.

Today we have over 70 banks in Canada including several virtual banks like ING, and Citizens Bank of Canada. Some of the largest banks in the world are here in Canada such as HSBC. We also have banks that are owned by a grocery store chain, (President's Choice) an automotive and house wares retailer (Canadian Tire), and by credit unions and a life insurance company (Manulife). We have Bank West, created by Western Financial Group, a network of insurance brokerages.

In short, there is a great deal of competition in Canada's banking industry and the intensity is only going to increase.

But, can more be done to enhance the environment in which banks and other businesses compete? Can government and business, working together, really drive a Canadian advantage? With all hands on the wheel, I believe the answer is a clear yes.

## **Government Framework**

Which brings me to my next point – the role governments play in setting the framework for success, for keeping Canada competitive and creating long-term prosperity.

Our tax system, our regulatory system and other key areas such as competition rules, both domestically and internationally, as well as regulations governing the labour market all have an impact on business decisions.

Let's take a minute and look at the federal level where many of these issues are also being debated.

Two weeks ago Prime Minister Harper introduced the government's new priorities in the Speech from the Throne.

We were encouraged to see the commitment to provide a long-term plan of broad-based tax relief for individuals, businesses and families. And as well, the federal government has put an emphasis on the long over-due need to establish free trade among the provinces.

Finance Minister Flaherty is also scheduled to provide an economic and fiscal update this fall, and then there is the federal budget in early 2008. He recently announced the federal government's surplus for the last fiscal year was about \$14 billion. This is a sure sign that we are overtaxed at the federal level.

And then there is the possibility of a federal election in the coming months. Whenever it happens, we expect and encourage our federal leaders to put forward sound proposals for making Canada more competitive. Stéphane Dion has already pledged that he would lower the federal corporate tax rate.

I think this is just great that we have a tax-cutting agenda already being debated.

In the meantime, the federal finance and industry ministers together have recently created the Competition Policy Review Panel. Through it, we have an opportunity to explore in-depth what we can do to foster a Canadian advantage.

In addition, there are two other panels we are expecting the federal government to announce – the Tax Fairness and Competitiveness Panel and the Common Securities Regulator Panel.

It sure seems like “panel season” in Ottawa. Nonetheless, the CBA is going to make the most of these opportunities to present our ideas on how to ensure Canada's place in the global economy.

And if we look at Canada's competitiveness from an international perspective, we see many challenges. Our current standing is not great. Canada ranks 16<sup>th</sup> in the World Economic Forum's global competitiveness index with the biggest of the G-7 ahead of us. Canada also dropped from 13<sup>th</sup> position in the year before. The World Economic Forum also ranks Canada poorly in terms of tax rates and regulations.

I'd like to spend a few minutes talking about some of the areas where Canada needs to do better if we are to compete and win globally.

## **Taxes**

Let's start with taxes, one of my favourite topics. Regardless of the industry, regardless of the location in Canada we need to ensure that our tax environment is as competitive as possible. In fact I believe we should be aiming to make Canada the most competitive country – ensuring that we have a competitive tax advantage over other countries, which we certainly don't have at the moment.

Indeed, The C.D. Howe Institute's 2007 Tax Competitiveness Report noted that Canada has the eleventh highest effective tax rate on capital among 80 industrialized and leading developing countries.

I can't emphasize enough that corporate taxation in Canada should, at a minimum, be competitive with other key jurisdictions, but preferably create an advantage for Canadian firms. And it means that all levels of government in Canada need to participate and contribute to achieving this goal.

Unfortunately, Canada still has a relatively high combined federal-provincial corporate income tax rate at about 34 per cent. Even though it is scheduled to fall to closer to 30 per cent by 2011, the current average in OECD countries is already lower at 28 per cent. Of course other countries are not likely to remain static as they continually compete to attract investment.

If we are to create the tax advantage that we all want, then these tax cuts must be deeper and happen sooner. At the federal level, the CBA is recommending that the scheduled reductions in the corporate income tax rate should be accelerated and then reduced even further to 16.5 per cent by 2012.

Here in Saskatchewan, through the persistent hard work of the Chamber and others progress has been made on the reduction of corporate income tax and the elimination of the capital tax. However, as you know all too well, more needs to happen, especially on the capital tax on financial institutions.

Singling out financial institutions – that are required to hold capital for prudential reasons – and then taxing them on that capital is particularly absurd.

And I'm sure that the Chamber will be one of the first to be encouraging the next government in Regina to give Saskatchewan a tax advantage over your neighbours.

When it comes to personal income tax, we need to be more competitive as well to attract and retain a viable labour force. Perhaps even more urgently, we need to make the best use of the resources that we have, and that includes creating incentives to work. A tax system that encourages a strong work ethic through economic rewards will increase Canada's global competitiveness.

While relief for all tax brackets should be addressed in the future, we believe that the short-term focus should be on reducing the tax burden for the lowest income tax bracket. You might be surprised to know that there are workers in this bracket who face the highest marginal effective tax rate on their income. This certainly doesn't create an incentive to work.

We at the CBA will continue to make a competitive tax regime a priority for Canada. As long as other countries are ahead of Canada on this front we will continue to put forward suggestions about how to create a Canadian advantage.

## Regulatory

One of my other favourite topics getting lots of debate recently is regulatory efficiency and what it means for Canada's competitiveness. This is an issue the banks know all too well. Essentially, banks are affected by everything from bylaws to Basel.

On the domestic side, bank financial groups must comply with some 50 federal, provincial and territorial departments, agencies and authorities. The sector is also affected by another 150 other regulators and agencies. Countless municipal bylaws also touch banks.

On the international side, banks are currently facing an unprecedented number of large complex regulatory compliance projects, for example, to name a few, there are:

- Changes to international accounting standards,
- Adopting updated global capital adequacy standards (Basel II), and
- Anti-money laundering/terrorist financing regulations.

And it isn't just banks that are regulated in Canada. Certainly, the regulatory environment is a challenge for all businesses. From City Hall to the Legislature in Regina, and of course on Parliament Hill, a new regulation is born practically every day.

I've heard about some of the regulatory challenges here in Saskatchewan. There is the example of the uranium enrichment facility in New Mexico that was conceived, approved and saw construction commence in 36 months. That's the competition.

Then there is the situation that sounds more like an episode from the Rick Mercer show where Saskatchewan waterways and streams are regulated by the federal department of Fisheries and Oceans.

What is needed in Canada is a regulatory environment that is less prescriptive and intrusive. Our governments should recognize that the best regulator is in fact a competitive marketplace.

When talking about regulatory reform, the country's need for a common securities regulator certainly ranks high. Not only are Canadians paying to maintain 13 separate regulatory bodies, the cost to business of complying with 13 sets of rules is substantial.

The CBA recently did a study of small- and medium-sized firms raising capital in Canada. Based on the results of our research we found that the current regulatory structure imposes unnecessary costs and inefficiencies on SMEs. More importantly, we determined that a common securities regulator would lower the cost of capital for SMEs, reduce their fees for complying with so much regulation and improve their nation-wide access to investors.

It is quite unfortunate that some provinces are not willing to give up their local fiefdoms for the benefit of Canadian entrepreneurs and for the economy of Canada as a whole. Their proposals under the passport system of securities regulation may be a step in the right direction – and we do recognize that they are taking important steps to make it easier for firms to raise capital – but it is still a second-best solution. The passport system still imposes the same infrastructure, costs, and fees of the current multiple regulatory system, and builds in a confusing and overlapping enforcement system.

Now, I know some people don't like this reference but it is nonetheless true that the only other country without a national-level securities regulator is Bosnia-Herzegovina. No offence to the people of Bosnia-Herzegovina, but we really should stop our family feud in Canada and come together on a common securities regulator.

It doesn't make sense to put Canadian companies at a competitive disadvantage and expect them to shoulder the burden of supporting a fragmented regulatory system.

In addition, while free trade in securities is being discussed will Canada be at the table to negotiate arrangements? We have to be. The question is how can Canada – with 13 securities regulators and no single voice speaking on its behalf – negotiate effectively with the US?

The CBA and its members have been advocating publicly for a common securities regulator for quite some time now, as has the Canadian Chamber of Commerce. For years, we have called upon the provinces to put aside their differences and make common cause for the good of the economy. Unfortunately, that has not come to pass.

Minister Flaherty has shown leadership on this issue – he has endeavoured to work with the provinces on common solutions and he has agreed to form an expert panel to advise on possible approaches. All good steps, but the time may be coming when more concerted action is necessary, and we would fully support him if he took the steps necessary to put in place a single securities regulator.

## **Labour Market Issues**

The last area that I want to discuss today is something that has become a very acute problem here in Saskatchewan, and that is the labour market issue. Saskatchewan, and for that matter just about everywhere else in Canada, is facing some serious labour force issues.

I see that the Saskatchewan Chamber has set a growth goal for the province – increasing the population to 1.5 million people by 2030. Good for them to focus attention on this challenge.

It is well documented that with so many baby boomers retiring over the next eight to ten years this will open many jobs requiring experience and post secondary (and perhaps higher) education. Where will these candidates come from? The pressure to fill these jobs, whether internally or externally, will ensure that the competition for quality employees will continue to be brisk.

As Canada's birth-rate continues its steady decline, immigration will continue to be an important component of demographic growth in Canada. Yet Canada - which has traditionally had the largest immigration program in the world - faces growing international competition.

And Canada's approach has historically been a passive one. How will we compete successfully and attract the talent we are going to need from abroad? As I have mentioned, a competitive approach to personal income taxes is an important part of attracting the best and brightest to Canada, and to Saskatchewan.

To compound the problem, there are too many internal barriers within Canada that limit labour mobility. We have to find a way to get workers to where they are needed.

More leadership is needed from our elected officials to bring down the barriers throughout Canada. It is long over-due that we establish free trade among the provinces and territories. As I said earlier, we were pleased to see the federal government emphasize this in the Speech from the Throne.

I know that you have been trying to get your provincial government to be part of the Trade and Labour Mobility Agreement between Alberta and British Columbia. I hope you succeed. This would be a good step in the right direction.

## **Conclusion**

My time is running out this afternoon and I should let you get back to the office.

It would make me very happy if our governments commit to take action in the areas that I touched on today. If they do, then Canada will, without a doubt, be the investment location of choice, and attract head office jobs and we would ensure that Canadian-based companies are able to compete with the best in the world.

And as I've said many times this morning, our competitive advantage must include all businesses whether they are on Bay Street or Main Street.

When I look around this room I know that our firms, and our sector, are already making a significant contribution to the economy and to Canada's competitiveness. Can we do more? Of course and we will.

Thank you.