

**Montreal Council on Foreign Relations (CORIM)**

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***“Social Harmony in Jeopardy:  
A Threat to Democracy”***

*Mr. Chairman,*

*Distinguished head table guests,*

My esteemed CORIM friends, hello and thank you for the great pleasure you have given me by inviting me to share a few ideas with you!

During a talk I had the opportunity to give on September 25, 2017, to members of the Canadian Club in Montreal, we reflected on the origins and significance of the rise of populism among several of our allies and neighbours. We concluded that democracy is eroding. Certain groups in society, manipulated by demagogic agendas, have come to vote democratically against their own interests.

We came to the understanding that there is a need to take further action as liberal democratic societies in three areas:

1. First, an increase in graduation rates at every level to raise living standards.
2. Next, a major effort in teaching about the use of social media so that we are better equipped to flush out manipulative fake news.
3. And, finally, referendums. A majority of Quebecers find a threshold of 50 per cent plus one vote to be unacceptable for deciding on profound changes in society. Respondents to a CROP poll conducted for us in August 2017 regarded a threshold of 60 to 69 per cent as most appropriate.

Many analysts, researchers and commentators have already written extensively on the phenomenon of populism. There's no need to repeat ourselves here. Essentially, let's remember that certain socio-economic groups feel disadvantaged and are in fact disadvantaged. The causes stand out clearly: dislocation resulting from the rise of technology and of globalization, inability to adapt due to inadequate schooling or dropping out, low social mobility, and social or legal rigidities that lead to polarization between two broad social groups: the protected and the unprotected, the haves and the have-nots. Should we be surprised that some social groups feel excluded?

Let's talk a bit about the sense of exclusion. In August 2018, we asked CROP to take a snapshot of the situation using the large body of data available to them. The conclusions relate to Canada and, upon examination, are directly transferable to Quebec. The portrait that emerges could also very well apply to the United States or to other jurisdictions, probably with more dramatic variances.

I've pulled out a few examples that fill out the picture. The first one reflects growing cynicism in Canadian society resulting from the sense of exclusion that many people feel. In 12 years, the level of cynicism toward the elite has gone from 38 per cent to 65 per cent of the population! Ethnic intolerance has gone from 29 per cent to 42 per cent! On the other hand, enthusiasm for the prospects that lie ahead for some people is reflected in a rise in the search for novelty from 28 per cent to 51 per cent. Broadly speaking, Canadian and Quebec society is split in two: 58 per cent of people feel generally confident about the future, while 42 per cent feel excluded. Alain Giguère, the President of CROP, is at the head table to answer questions, and his study is available on our corporate website.

The gap in perceptions between these two groups has been growing from year to year! I think you'll agree that these observations do not augur well for social harmony!

This raises a fundamental question: are the laws of the free market contributing to the building of just societies? Are the actions of our governments constructive?

It's obvious that disadvantaged groups have a very clear reading of what's happening to them. Their dream of a society that enables them to fulfil themselves and advance economically is not becoming reality. Consider this statistic from Centraide Montreal: 40 per cent of people living under the poverty line are working!

What do these citizens see? They see the financial abuses that culminated in the economic collapse of 2008, already 10 years ago (!), and that led to the "Occupy Wall Street" movement. These abuses contribute to the rise of cynicism toward the elite. Here in Quebec, we had our red squares. Let's remember that none of the presidents of the big American banks who presided over this fiasco lost their jobs!

In a similarly speculative vein, the Institute for Governance of Public and Private Organizations, headed by Yvan Allaire, published studies in May and November 2015 on the impact of hedge funds that used the pretext of insufficient yields to force the sale and evisceration of certain publicly traded companies. The studies concluded that, even so, the returns from these hedge funds are significantly lower on average than the yields from the S&P Index. Professor Roger L. Martin of the University of Toronto's Rotman School of Management wrote an article, published in the *Harvard Business Review* on August 20, 2018, condemning the absurdity of this economic activity that benefits only a handful of speculators to the detriment of companies' social and economic mission. It's entirely understandable that many citizens don't see why these speculative activities should be permitted and protected by our laws!

Here's another example from the world of finance. In a speech delivered in April 2016 in Toronto, I denounced the sudden infatuation in Canadian financial circles for investment trusts that encouraged the massive distribution of cash flows to shareholders, to the detriment of investment in corporate sustainability and growth, thereby reducing capital expenditures to anemic levels. Thank God, the Minister of Finance ended this on October 31, 2016, thus preventing an obvious potential catastrophe of hollow shells. It's

clear that excessive caution, the lure of easy, risk-free gains and a short-term are harming our economy.

Many players in the financial world have come to define their mission as being “finance for financiers.” This is a deviation from the original mission, which was “finance for the creation and development of industry and infrastructure.” Are these players waiting for social pressure and legislation to force them to act in the common interest?

Let’s continue our reflection on the growing divisions in our societies.

The Institut du Québec, in a June 2017 study on “social mobility and income equality in Quebec and Canada,” found that our two regions are jurisdictions with high social mobility and inequality in average income, putting us much closer to the Scandinavian countries than to the United States. This result is not achieved, however, through tax redistribution alone. At the personal level, if public funds are generally spent wisely, then I’m prepared to pay 53 per cent in taxes to benefit from a peaceful social climate such as we enjoy in Quebec and across Canada. But is this all it takes? Is this the best way to proceed “for the middle class,” as it’s politically fashionable to say nowadays?

The need for economies that are more inclusive both between and within countries has been raised repeatedly over the last 10 years by the Organization for Economic Cooperation and Development, the United Nations Educational, Scientific and Cultural Organization and the International Economic Forum of the Americas, to mention just a few. All these bodies have predicted serious social dysfunctions if inclusion is not among our major concerns, along with global warming, for example.

Are there other factors that lead to excessive concentration of wealth to the benefit of a small minority? This is a good question, but we need to recognize that a society wishing to be perfectly egalitarian would discourage initiative and creativity. This would thus produce an extremely undesirable situation, just as its opposite would do.

At one level, sustainable and equitable economic growth would set the stage for fulfilling social goals. Thus the importance of investment and productivity.

In this regard, our governments have cause for disappointment. The Conference Board of Canada and the Fraser and C.D. Howe institutes point to investment shortfalls and productivity lags in Canada, especially as compared to the United States. They are quite right. But in my view, the policies applied are not always in line with the goals pursued.

Here are some examples of inconsistencies in the development or application of public policies.

- 1) First example: the attempted tax reform at the federal level aimed at taxing small businesses more heavily. I'm not going to rehash the debate from late June 2017 and early 2018. Suffice it to say that the desire to equalize tax levels has taken precedence over the need to create a climate favourable to the emergence of new businesses. Whiffs of populism have prevailed over economic pragmatism.
- 2) Second example: During recent government consultations, I suggested reducing capital gains taxes, currently at 29 per cent in Canada, compared to only 20 per cent in the United States, to encourage risk-taking. I was made to feel that I'm "one of the rich who doesn't want to pay his share." Here again, populism overrode economic pragmatism.
- 3) Third example: The federal and provincial governments have created programs to encourage the development of high-speed communications infrastructure in regions where they are lacking. The economic selection criteria seem ill-defined, unverifiable and unchallengeable. And yet, our taxes are at stake! The lack of rigour in these processes is clearly not in the best interest of the taxpayer. It is imperative that they be improved.
- 4) The fourth example of this type involves the creation of the Canada Infrastructure Bank. The fact that the Bank's decisions are ultimately subject to political

influence sends the wrong message about how our country's economy is being micro-managed.

What should these four examples lead us to understand? That we should not be surprised by the shortfall in investment and innovation in Canada when governments adopt policies that discourage economic players.

Now let's talk a little about competition policy, more particularly in North America to begin with. I raise this issue because, in Canada, our regulators have adopted a *laissez-faire* policy modelled somewhat on that of the United States, though a little less extreme.

For several years now, *The Economist*, a weekly political and economic magazine, has been warning us about excessive economic concentration at the corporate level.

In its March 26, 2016 issue, *The Economist* ran an article headlined: "Too much of a good thing: Profits are too high. America needs a giant dose of competition." You may well be wondering how this concerns us. The ability of huge corporations to limit competition due to their excessive size is having dramatic impacts. Indeed, the excessive price of goods and services is helping make households poorer by generating abnormally high financial yields that benefit a minority.

Ordinary citizens have understood clearly that the principle of individual freedom has prevailed over collective interests at the highest regulatory and legal levels.

This is what enabled AT&T to buy Time Warner or Bell to buy Astral, in each case with minimal conditions that fail to stem the abuses that come with excessive size.

With this in mind, I'm opening a parenthesis to highlight weaknesses in Canada's Competition Act. This law focuses largely on protecting consumers, which is a good thing. But the law and the Bureau that administers it show little concern about the predatory activities of major players at the expense of smaller ones. This blindness runs counter to the public interest, since the disappearance of competitors leads inexorably to

the creation of monopolies. During my nearly 40-year career, I've been able to observe that nobody—absolutely nobody—at the federal level is paying heed to this situation.

Speaking of excessive size, the names of certain other companies will certainly come to mind. These are the FAANGs, an acronym for high-tech companies Facebook, Apple, Amazon, Netflix and Google. Much has been written about the effects, whether harmful or beneficial, that their remarkable advances and the resulting dislocations have had on our quality of life. We know all too well what the word F-A-N-G means.

In the various investigations into voter manipulation by obscure forces (which I shall not attempt to name here), in the United States, Britain and elsewhere, the concept of responsible conduct has been raised in connection with the activities of these giants. Lawmakers in several countries are trying to determine what restrictions should be imposed on these players when their influence reaches planetary scope. Governments have no choice but to act. But is this enough?

We probably all agree on the need to minimize government intervention and to let the market optimize competition and the quality and prices of goods and services.

But what's to be done when a company's market power becomes excessive, even when this power is acquired legitimately? We've seen examples in the past. The railway cartel in the United States was dismantled in 1890 following the passage of the Sherman Antitrust Act. The Standard Oil cartel suffered the same fate in 1911. AT&T was dismantled by Judge Harold Greene in 1982. Since then, our southern neighbours have become far more permissive, as we have just seen.

The European Union remains far more vigilant and has been willing to intervene based on potential disadvantages stemming from reduced competition or on a potential decline in innovation that may result from a merger. It's clear that the Europeans are taking the subject of excessive size and its harmful effects on society far more seriously than we naïve North Americans are doing.

In September of this year, Margrethe Vestager, European Commissioner for Competition, noted the conflict of interest resulting from Amazon's position as e-commerce platform supplier to other retailers with which it competes on the basis of privileged information obtained from these retailers. And earlier in the month, a *Technology News* headline stated: "Germany seeks to curb Internet giants' dominance."

Another parenthesis here: Germany's succession tax has long provided an exemption for family-owned companies being passed to the next generation. This encourages an inter-generational passion for perfecting the product. This in turn has given rise to the emergence of the *Mittelstand*, industrial groups that have made Germany a top global exporter of high-quality products. Isn't it time for a system like this in Canada?

But let's get back to the excessive size of companies.

Experience shows that approval of excessive mergers, even with conditions, is often at society's expense. The conditions set by regulators are hard to monitor and often limited in duration.

What's to be done? Sadly, there aren't many alternatives. It would be much easier simply to prevent excessive mergers. Indeed, many economists seriously challenge the concept of a transfer to consumers of cost savings from size or vertical integration. And what's to be done about the FAANGs? The accelerated transformation that these companies impose on markets for goods and services clearly has advantages, but at what cost? Amazon is now the beneficiary of 45 per cent of online shopping transactions and is growing quickly. When does "plenty" become "too much"? The time for deciding is approaching. It needs to be done with discernment and prudence. But let's be realistic: these companies need to be divided into competing entities.

We can easily agree that governments are often poor economic decision-makers, as I have shown with some of my previous examples. And taxpayers are right to be nervous at the idea of entrusting greater responsibility to government machines perceived as inefficient, bureaucratic and disconnected from reality.



However, this presentation has clearly highlighted the growing imbalances of participation in wealth-creation. On this question, there is no substitute for government intervention to create conditions favouring the emergence of prosperity and social justice. We're talking here about a wise choice of social, economic and tax policies rather than about investment decisions. Not only about taxing the most fortunate to help the least fortunate, but, in a more constructive way, instituting effective support programs for further learning and for vocational training. In a context of growing international competition, all players have an obligation to promote the push for excellence at a more demanding level than the current standard. For this to happen, the provincial education ministries will probably have to undergo electroshock therapy.

All the thinking I have consulted over the last decade points to the need to work harder toward achieving better education and instruction for the populace. This means boosting graduation rates at every level – high school, college, university or vocational. But let's be frank: in the recent past, education has not been treated as a priority by our governments.

I would add that we have the responsibility as a society to ensure that our young people are not only good producers but also good citizens. This involves accepting not just the rights but also the duties of citizenship, something inseparable from acquiring a solid background in history, economics and general culture.

To conclude, our governments have the responsibility to adopt coherent economic and social policies so as to create a climate conducive to wealth creation and redistribution. Our governments must absolutely give high priority to education to deal with evil at its very root. But they will have to be far more professional in the way they act.

Moreover, we in the business community have to show moral leadership. Speculation and short-term profit alone can no longer prevail. Simply seeking the lowest cost at any price is not always the best path to follow. We have a duty to value work at all company levels. We need to find ways to reduce the gap between the highest-paid and the lowest-

paid. To my mind, this doesn't mean unduly limiting executive compensation but rather raising the overall level of productivity and wages in all our companies.

Together, we need to build a new social pact based on increased responsibility, a climate of mutual respect between groups in society and a rebalancing of pay levels as a result of these changes. In short, we must move toward a new Canadian model, with lower income inequality and higher social mobility. Let's draw upon the best practices in other countries! In light of this presentation, you'll agree that there's plenty to do!

Failure to act exposes us to losing our harmonious living environments. It exposes us to serious social dislocation, the disappearance of the rule of law and, ultimately, the disappearance of democracy as our forefathers had imagined it.

Thank you for attending today and good afternoon!