

**Canadian Club of Montreal
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**Speech by Mr. Louis Audet
Chairman of the Board of Directors
Cogeco Inc. and Cogeco Communications Inc.**

Entrepreneurship and Social Justice

Thank you for this friendly introduction.

Distinguished members of the Head Table, dear friends of the Canadian Club of Montreal, Ladies and Gentlemen,

Good day, welcome and thank you for being here.

Today, I propose to entertain you, as an individual, on two subjects that I am passionate about and that are rarely considered side by side: “*Entrepreneurship and Social Justice*”. Yet, both are important to develop a strong industry, and to enhance social harmony.

Let us first talk about entrepreneurship starting with a practical example.

The German economy is in good part built on the Mittlestand, a manufacturing infrastructure made up of a multitude of mid-sized manufacturers. Together, with large industries building equipment and cars, they are at the base of an export success story recognized the world over.

Where does this remarkable success come from? It's very simple, the German tax system is friendly to intergenerational transfers of ownership. Practically speaking, it does not collect tax upon an owner's death, be it on the value nor on the increase in value of a company. The industrial infrastructure evolves with a long-term vision, in a spirit of continuity and remains under German ownership.

And what about our tax system here in Canada? You already know: upon the death of an entrepreneur, a tax of 27% is levied on the increase in value of the estate. The direct consequence of this tax is that the heirs of entrepreneurs are faced with an immediate

cash call of 27% of the Fair Market Value of the shares of the family business. Many families are not able to meet such a requirement: they are forced to sell. Continuity in the family passion for a product or service is lost. And a new owner must be found and we are back to square one.

Yet, in general, countries have a vested interest in maintaining local ownership of their companies. Head offices, jobs and economic benefits disappear when these companies are sold to non-Canadian owners. Companies under family control create numerous economic benefits in their country and often have a longer term vision.

We wanted to better understand how Germany does it. So, we commissioned a study by the Louis Caouette inc. consultancy. This study documents how 14 OECD countries deal with inheritance taxes.

You will be surprised to learn that such a tax practically does not exist in the 14 mostly European countries we have analyzed.

Allow me to go through the list of the countries we have analyzed. We have chosen these countries not because they support our thesis but because of their importance in the global economy and their relative size compared to Canada.

The following list of countries do not or only marginally tax intergenerational transfers of companies: the United Kingdom, France, Sweden, Austria, Norway, Denmark, Switzerland, Germany, New-Zealand, Portugal, the Czech Republic, Australia, The Netherlands, and Italy. Note the presence of the Scandinavian countries in the list, eminently egalitarian countries. They do this to protect their industrial infrastructure.

The Government of Quebec has been preoccupied with challenges presented by the upcoming massive family company transfers as entrepreneurs come of age. Quebec has already made a significant gesture by agreeing to postpone their part of the tax for twenty years. That's a good start. The Federal Government has not acted. And yet, the Centre de transfert d'entreprises du Québec states that 66% of company transfers will have to take place outside of families – hence the risk we lose them.

The conclusion is self-evident: the Canadian tax system discourages family entrepreneurship. This tax mistake is unique to our country and must be corrected. This tax, introduced in 1971, does not fit contemporary industrial imperatives which our peers have correctly identified. I call on both levels of government to urgently end this tax.

Today, we are making public, in both official languages, our study on the taxation of intergenerational company transfers compiled by Louis Caouette inc. The study is available on the Cogeco internet site www.corpo.cogeco.com as is the text of this conference. Mr. Louis Caouette is also available to answer questions.

But that is not the only hinderance to the continuation of family companies. Certain capital markets financial intermediaries have long held an unfavorable view of multiple voting shares and family control. This is despite the studies published by Banque Nationale, year after year, demonstrating the superior returns of family-controlled enterprises.

L'Institut sur la gouvernance d'organisations privées et publiques (IGOOP) has already largely documented the harmful effects of hostile take-over bids and their studies are available on their internet site www.igopp.org. IGOPP has also opined favorably on multiple voting shares under certain conditions.

Allow me to share my personal point of view. Cogeco has been a public company since 1985. Today, if we had to consider an initial public offering, we would not proceed without multiple voting shares. And we would not agree to a sunset, nor an impediment to their transferability. My advice to entrepreneurs considering going public: say no as long as you don't get these basic conditions. Further advice: begin your discussions early, and stand your ground! Let us remember that it is entrepreneurs who create jobs and prosperity.

This completes my thoughts on factors likely to enhance entrepreneurship, innovation, and perennity of the industrial fabric of our country.

I would now like to turn to the second topic of today's talk: Social Justice.

In the next few minutes, I will discourse on a subject about which I hold no particular expertise: I am not an economist for example! I will use data provided by third parties which I will interpret freely. So these statements are my opinion and the quoted parties bear no responsibility for my statements.

I suggest that we start with social mobility in Quebec and Canada. This is about taking stock of economic well-being opportunities for citizens, what economists call Intergenerational elasticity of revenues. Or, said differently, to what extent parental income is a determinant on offspring income later in life. In this regard, l'Institut du Québec (affiliated with the Conference Board) reveals that in Canada, and even more so in Québec, our social mobility is close to that of Scandinavian countries. At the other extreme lie the United States characterized by strong inequalities and low social mobility.

This is a first positive observation. It is also interesting to note that the proportion of younger Canadians graduating with a university degree stands at 64.4% according to the OECD. For reference, the United States stands at 51.9%. This favorable result is all the more surprising when we consider the ranking, as compiled by Louis Caouette inc., of the gross domestic product per capita in the 64 North American states and provinces: Canada ranks 48th and Quebec ranks 58th. So, we achieve more social justice with less resources.

However, we have to admit that these results are largely achieved through tax transfers and not as a result of the fair valuation of the work of the beneficiaries. Furthermore, Centraide informs us that 830,000 Quebec workers earn less than \$15 an hour, or less than \$25,200 per year. That's 10% of the Quebec population. 200,000 of them earn the minimum wage of \$13.50 an hour or \$22,700 per year. Yet, the poverty line in Québec and in Canada sits between \$24,400 and \$32,600 per year, according to Statistics Canada, varying according to location and number of persons in the household.

Furthermore, when we remind ourselves that 30% of Quebecers backed les Carrés Rouges in 2012, we understand that the issue is a lot deeper than it appears. If this situation is of primary importance for the people involved, it also is for the nurturing of social harmony which is the prerequisite of a strong and durable democracy.

The mechanisms that undermine democracy have been amply described through the ages, from antiquity up to today. When a majority estimates that the disparity in revenues and access to opportunities becomes too large, cataclysms occur, like that of the Gracques brothers around 130 BC, or, in modern history, the French Revolution in 1789 and the Russian Revolution in 1917. Or at the very minimum, tremors imperil democracy as was the case in the United States last January 6th, or in France with les gilets jaunes, or in the United Kingdom where the disastrous fallout of Brexit is only now starting to appear.

With regards to the assault on the Capitol, we are talking about a hostile act carried out by criminals. But let us remember that the republican party has not managed to disavow this act convincingly. This is a reflection of a much deeper social malaise. At the root of this malaise, we find the net reduction of the hourly wages of American workers without a university degree of between 6.4% and 9.4% from 2000 to 2017. We should not be surprised that they think the system is rigged.

The arrival of Donald Trump on the heels of the Tea Party further cristallized other protest segments: anti-abortionist, anti-tax, anti-government, ultra-individualists, and so on.

Exit interviews conducted by Edison Research on November 3rd, 2020, confirm that nowadays polarization has extended to all social strata. Thank God, the Canadian culture of Mutual Accommodation has spared us from the miseries we can observe south of the border, at least up to now!

This example, while extreme, confirms that inequalities, when pushed to the limits, breed social insecurity and threaten democracy.

Of course, revenue disparities are normal as they may depend on individual efforts and sacrifices invested which may vary from one individual to another. But market forces left to their own devices threaten the stability of democracies in the medium to long term. It is from this logical angle that the problem must be attacked.

As we saw earlier, Canada sustains its social harmony through tax transfers between families. But, in my opinion, this does not adequately value the work of the recipient.

If it is true that resources are presently flowing towards the better off in society, I don't think we should conclude that taxing above 53% is the right answer for fear of discouraging initiative. However, we can narrow the disparities by enhancing the value of low decile revenues. This logic leads up to the realization that the minimum wage must be urgently increased and not timidly as has been the case for years.

The arguments against raising the minimum wage significantly in Canada as well as elsewhere in the world are well known, here are a few: if workers cost more, jobs will be lost; if this increase is forced upon them, then all businesses will go bankrupt and so on.

The subject is timely since on October 11th last, Professor David Card of the University of California at Berkeley, born in Guelph, Ontario, received the Nobel prize in economics for his demonstration that fears about the nefarious effects of increasing the minimum wage are without merit. His experiments go back to 1994 and were revalidated in 2000. Considering the reluctance still evident today, prejudices obviously die hard! This is essentially what the October 13th editorial of the Globe and Mail exposed.

In my opinion, it is high time that the minimum wage be increased, but not without safeguards.

To ensure the prosperity of small and medium businesses, the state has to enforce the implementation of this measure. Without proper surveillance, vulnerable workers will be subject to exploitation by some. Surveillance must ensure that the application of the minimum wage is uniform such that it be competitively neutral for businesses.

The experience of Ontario which increased its minimum wage to \$14 an hour in 2019 did not cause negative economic consequences and notably resulted in an increase of hours worked and stable school attendance, confirms Centraide Montreal.

We must have the conviction to incite our governments to go further to adequately enhance the value of work.

In my opinion, going further does not mean moving from \$13.50 an hour to \$14 an hour! I urge our governments to consider raising the level to \$20 an hour. I think we must try things that make a real difference.

A word now about the most vulnerable in our community: persons in a homeless situation. The subject of homelessness is complex and fraught with prejudice. I will not attempt to paint a complete picture. Suffice it to say that our society has embedded in its laws and programs mechanisms to support the weakest in our society. When we speak of homelessness, we are talking about persons who have fallen: loss of a dear one, loss of a job, various addictions, and so on. Many are afflicted by physical or mental illness. These persons are the last real abandoned individuals in our society. They have fallen through the mesh of our safety nets and landed ... on the street.

There are a number of organizations that work to relieve this misery. Today, we have the pleasure to welcome Mr. James Hugues, President and Chief Executive Officer of the Old Brewery Mission, which is a leader in the treatment of homelessness in Montreal. The Mission has been in existence since 1889. For many years, it has administered emergency services to homeless persons: meals, lodging, basic care. During the last 10 years, the Mission has become a pioneer in being the first to take charge of homeless persons as they arrive at the Mission to attempt to prevent them from becoming chronic cases: diagnostic, treatment and accompaniment. These days, accompaniment means providing them with an apartment. These tent groupings you have seen on Notre-Dame Street East are homeless people for whom basic decency is being in a place they can call their own, may it be a simple tent, rather than a bed in a community shelter. The Mission today, with the help of federal, provincial, and municipal funds, acquires buildings to renovate them and convert them into apartments for homeless people. In addition to continuing to support emergency services, of course, the Mission nowadays finances accommodation and accompaniment services in buildings the capital of which it does not have to shoulder. And it works! 96% of participants today live in their own apartment and there are 300 of them!

Help for the most unprotected of our communities, increase in the quality of life, the interests of the citizens of Montreal and all Canadians converge towards a common

objective. And our financial support is important since governments support only 40% of the operating costs of organisms such as the Old Brewery Mission.

Somewhere, between the hardship of homeless persons and the difficulties of less well-off persons, there is a segment of the population in need of affordable housing, and that is where these two segments overlap. This is another facet of the problem that requires our attention. Maybe this will be the subject of a future conference ...

This concludes my talk. And this is how find themselves united, on the one hand, the need to reform a Canadian tax system that is harmful to industry and, on the other hand, the need to seriously raise the minimum wage to fairly value the contribution of each person in our communities and hence help to protect our democracy.

Thank you for being here today and for your generous support of the non for profit organizations represented around this table!

Have a good day!