

OPINION

Canada's productivity problem runs deep and ripples far in the economy

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Pedestrians walk through a sliver of sunlight in the financial district in downtown Toronto on July 6, 2022.

COLE BURSTON

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I'm proud to live in Canada. Canadians believe in democratic principles and we strive to treat one another with decency and respect. But one of our biggest failings is our habit of ignoring the elephant in the room. And unfortunately, we have several of them.

Among the large beasts we don't discuss enough: declining productivity, oligopolies that suppress competition, relative underperformance in our financial markets, and an urgent need to increase innovation.

My message is not about what any political party has or has not done. My message stems from looking at the numbers, something I like to do as a chartered financial analyst and former bank executive. Numbers tell an objective story and right now, it's not a strong one for Canada's economy, beginning with the most important challenge we face: Canada's productivity problem.

In 2022, Canadian productivity was only 71 per cent that of the United States. On Tuesday, Bank of Canada senior deputy governor Carolyn Rogers rightly called this a national "emergency." It's a problem that stems from long-standing issues in our economy, and its impact is alarming.

Last year, the Government of Canada published a report called *Competition in Canada from 2000 to 2020: An Economy at a Crossroads*. The report noted that "Fair competition means that businesses must make a strong case to consumers that their products or services are the best choice," and then set out numbers showing how Canada's competitive edge declined in those years.

We've also lagged in innovation, of which artificial intelligence is only one example. AI is an unstoppable innovation at this point, and the United States has

stepped up as its leader. Again, numbers don't lie and the *growth* in market capitalization of one American AI company alone in under a year (Nvidia) is five times greater than the entire market capitalization of our largest company in Canada, Royal Bank, a company that's been around for 160 years.

There is no reason why Canada could not have assumed a leadership position in artificial intelligence. In fact, four of the early pioneers of machine learning are Canadian: Geoffrey Hinton, Yoshua Bengio, Richard Sutton and Raquel Urtasun. While these remarkable individuals continue to play leadership roles in Canada, they have all worked in or sold their businesses to U.S. companies: Google, ServiceNow, DeepMind, and Uber.

Our innovation gap with the U.S. is further illustrated by the market capitalization of the top 10 companies in Canada and the U.S. In Canada, the combined market cap of our top 10 is \$1.2-trillion, while that of the top 10 U.S. companies is \$21.5-trillion (in Canadian dollars.) Adjusting for relative population size, that combined market cap in Canada should work out to roughly \$12-trillion – or 10 times the amount it actually is. One further proof point, from another perspective, is that our top 10 companies combined would only rank eighth in size in the U.S. top-10 company ranking.

The composition of each country's top 10 by market cap is even more interesting. In Canada, our six banks dominate the market, with four banks representing 43 per cent. In contrast, not one bank is in the American top-10. JP Morgan Chase, widely recognized as the most respected bank in the world, doesn't even appear on that list. We have excellent banks in Canada but it's unreasonable to expect companies well over a hundred years old with market dominance to be innovation hubs: we must find a way to encourage and incentivize entrepreneurs in Canada in the same way they flourish elsewhere in the world.

Our lack of competition and innovation have driven relative underperformance to

the U.S. Over the past five years, the S&P 500 has returned 15.2 per cent annually versus the TSX's 9.8-per-cent performance.

There is an urgent need for innovation. Challengers in every industry should be encouraged instead of viewed with skepticism at best and suspicion at worst. The telecommunications sector is a good example of this.

In 2009, Anthony Lacavera founded a company, Wind Mobile, to challenge the big three providers in Canada. In his excellent book, *How We Can Win*, Mr. Lacavera discusses the barriers he experienced in piercing through a Canadian oligopoly. Ultimately, the business became Freedom Mobile and was sold to Shaw. Shaw was in turn sold to Rogers, creating an even larger entity. In order for that merger to proceed, Freedom Mobile was sold to Quebecor – yet another telecom giant. This is a typical pattern seen in Canada, one which minimizes competition instead of cheering it on.

From a financial perspective, I know oligopolies are not what Canadians need and from a shared values perspective, I'm not convinced our lethargy is what Canadians want. The numbers in Canada reflect comfort with oligopolies and hesitation to encourage disruption. I believe we should be taking advantage of our strong economic foundation and incredible potential to accelerate innovation for both today and the generations to come.

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