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Chair

The Honourable Michael Chong

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• (0900)

[*English*]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): I would like to welcome everybody to the 14th meeting of the Standing Committee on Industry, Science and Technology, this May 6, 2010. Pursuant to Standing Order 108(2), we are here for the study of Canada's foreign ownership rules and regulations in the telecommunications sector.

In front of us today we have two witnesses, both as individuals. We have Professor Morck, who is a professor at the department of finance and management science in the school of business at the University of Alberta. We have Associate Professor Hejazi, who is an associate professor of international business at the Rotman School of Management in the University of Toronto.

So welcome to you both.

We'll begin with an opening statement from Mr. Morck.

Professor Randall Morck (Department of Finance and Management Science, School of Business, University of Alberta, As an Individual): Thank you very much.

Let me first explain that I'm an old-fashioned economist. I study why some nations are rich and others are poor, why some regions are rich and others are poor, why some families are rich and others poor. That's the question that got Adam Smith going with his *Wealth of Nations*. I think it's a useful way to think about almost any problem in economics.

When you think of how many medical researchers, entrepreneurs, musical composers, and so on, languish in third-world poverty, whether in Africa or in our Indian reservations, the waste is just immense. Once you start thinking about that human waste, it's actually very hard to think about anything else, in the words of Nobel laureate in economics Robert Lucas. Because of a lot of hard work, we know a lot more about this now than we used to, and I think we can relate it to policy decisions, such as the one you're facing, with more confidence than we could a quarter of a century ago.

A huge body of empirical evidence now shows that competition and specialization, what Adam Smith originally talked about, caused the productivity growth that's central to wealth creation. In the past few decades, we've learned that some other things matter a lot more than we might have thought: innovation, governance, and the quality of regulation, in particular. Let me talk about each of those contributors to productivity and how foreign ownership restrictions interact with them.

First is competition. Competition depends on the number of firms in an industry, it depends on the extent to which the firms actually really compete with each other, and it probably, most importantly, depends on how easy it is for new firms to get into the industry. If the existing firms are providing poor service at high prices and getting cozy with each other, you really want those entrants to be able to get in. It seems like that is actually the most important thing, not counting the number of firms. High barriers to entry just correlate remarkably reliably with bad economic outcomes.

Now, foreign ownership restrictions are a really good barrier to entry. If you want to block entry, it's actually a very good way to do it. Most obviously, a foreign company can't move into the Canadian sector if there are prohibitions on foreign-controlled companies coming in. But foreign ownership restrictions can be a barrier to entry in more nefarious ways.

First, foreign ownership restrictions mean this for Canadian entrants. If I want to set up a new Canadian company to move into this sector, I have to issue most of my stock in Toronto. I can't go to NASDAQ or the NYSE to issue stock, even if I might be able to get more money there for selling a given percentage of my firm to the public. That makes my cost of equity higher. It makes it more difficult for me to found a new business. It makes it more difficult for me to enter.

Second, a lot of entry in the United States and elsewhere is funded by venture capital funds. Venture capital funds typically back a whole bunch of firms hoping that maybe one out of 99 will be a runaway winner and the other 99 are going to be losers. In that winner they want to have a big equity stake, because that's the way they recoup the losses they made on all the other 99 ventures they backed. Foreign ownership limits keep foreign venture capital firms out of a sector like this. That means that if I want to set up a new Canadian firm to compete in Canada, I can't get foreign venture capital. Now, unfortunately, there isn't much of a Canadian venture capital industry, and such venture capital as we have here is actually hard to get, badly allocated, and sort of expensive. So I have a problem there, too.

Third, if I want to borrow money to set up a new company, I have to worry about the cost of my debt. The reason foreign ownership restrictions increase the cost of debt is that people who lend me money are going to worry about what might happen if I go bankrupt. If I go bankrupt, what typically happens is they seize my company. They become the new shareholders of my company after the bankruptcy. A foreign lender doesn't want to lend me money, because if they become the owner of my company, they have to turn around and sell it right away, and fire sale prices tend not to be really high. But basically foreign ownership is forcing any foreign lender into a fire sale immediately after bankruptcy.

Even a Canadian lender would think twice about lending me money, because if the Canadian lender gets my company in bankruptcy, they either have to hold on to it—and most banks in Canada probably don't know how to run a telecom firm—or they have to sell it. If there are Canadian ownership restrictions on the company they're selling, they can't sell it to just anybody. They have to shop around and find a Canadian who will buy it. That might not be the highest price the lender could get in bankruptcy for my company. That means the lender is going to be more cautious and probably demand a higher-risk premium from me.

● (0905)

All of those things make entry more difficult, and making entry more difficult cuts productivity growth because it lets incumbents rest on their laurels, become friendly with each other. The result is poor costs and poor quality products, at least potentially, and I think there's some evidence that we face that problem in Canada.

I just read an OECD study that says we've fallen very far behind in the ranks in almost every dimension of quality and cost, and there's an even more recent study by Harvard's Berkman Center that corrects some of the methodological criticisms of the OECD study and shows probably even a worse standing for Canada now in terms of Internet and next generations, telecoms penetration, price/quality trade-offs, capability, and so on. We really have slipped badly.

The second thing that Adam Smith talked about in addition to competition was specialization, and there's a related concept called spillovers. Adam Smith wrote that it isn't from the beneficence of the butcher, the baker, or the brewer that we get our dinner, but from their self-interest. Now, the most obvious thing you take away from that is that the economy runs on self-interest, whether we like it or not. That's true, but the second lesson from that quote from Adam Smith is that we all depend on lots of other people who specialize in things we don't do. We don't make our own bread. We don't make our own cold cuts, and so on, and by having people specialize, we get much greater overall wealth, because we can each do one thing really well and we can trade with each other. That's important, but the cost of this specialization is that we really depend on each other.

How does that connect with telecoms? Meat packers, butchers, flour millers, bakers, and brewers, not to mention engineers and automakers, and even government departments like Industry Canada, all depend on being connected to each other. That's what makes the whole system go, and the telecoms industry and the Internet and everything else connected to it are the ways, increasingly, that we connect with each other. So putting a tax on these connections adds to the bottom-line costs of virtually every industry in the country.

So taxing telecoms, increasing the cost of telecoms, decreasing the quality of telecoms, the Internet, and so on, is not just a tax on one industry; it's a tax on almost the entire economy and that's because of this interconnectedness that's very real. I refer you to the work of Jerry Hausman, who is a first-rate economist at MIT. He looks at this interdependence, how one industry can affect other industries, and he tries to figure out the costs and benefits and trade-offs in these interactions. Specifically, he has a bunch of papers, articles, book chapters, and so on, looking at telecoms. What he finds is that deregulation, innovation, and so on, in the U.S. telecom industry dramatically affect overall productivity across a whole bunch of industries. So increasing the productivity, increasing the efficiency of telecoms, doesn't just affect the telecom industry; it affects the whole economy in ways you don't see for other sectors.

I've also done work jointly with Hyunbae Chun and Jung-Wook Kim in South Korea, looking at developments in information technology, and what we find is that developments in the IT industry have major repercussions that you can see in the share prices of firms in every other sector in the economy, from breakfast cereal to automaking. The telecommunications/communications costs are really important, all across the economy.

Every new technology wave is different, of course. Hausman's work looks at past developments in IT and telecoms and shows this effect, but I still think—in fact, I'd be willing to bet several cases of Molson Canadian beer—that if you wanted to retard the growth of every industry in Canada, there would be few more promising ways of doing it than by imposing inefficiencies on telecoms.

Those are the two things Smith talked about in *The Wealth of Nations*, competition and specialization. More recently, in the past three decades especially, we've learned about innovation, and a huge body of empirical evidence now shows that this is far more critical to productivity growth than we thought back in the 1970s when I was a student.

● (0910)

In particular, it looks like the Austrian economist, Joseph Schumpeter, is right about a whole bunch of things that he wrote way back in 1911 in his book, entitled *Theorie der wirtschaftlichen Entwicklung*. Part of the reason it didn't get attention was that it wasn't translated into English for a few decades. But basically what he argued was that if a firm finds an innovation.... An innovation is a way to take inputs that don't cost so much and produce an output that customers value more. So Research in Motion can take the same kinds of inputs that Nortel used to make its cellphones but produce a BlackBerry instead of an ordinary cellphone. Customers pay more for a BlackBerry, so RIM makes more profits than Nortel.

That's the kind of innovation that Schumpeter talks about, and productivity is exactly the value of the outputs minus the value of the inputs. So innovations that give us more valuable outputs for the same inputs, or the same outputs for cheaper inputs—process innovations—are the things that boost our productivity, just by simple arithmetic, by the definition of what productivity is: value of outputs minus of inputs.

Canadian firms have a productivity gap that people in Industry Canada have been tracking for well over a decade, or longer than that. For some reason, Canadian firms seem unable to seize these opportunities to find more valuable outputs to produce from inputs than companies in other OECD countries. Instead, our companies tend to buy foreign technology, often after a long delay, and ease it into use in our economy. Somewhere in there lies the source of our productivity gap.

The cost of innovation is mostly upfront. For example, the R and D cost of a new smart phone might be $100 million, but once the plans are drawn up and you're in production, basically the unit cost is really low. So the more smart phones the company produces, the faster they recoup their R and D losses. That's why bigger is better in high-tech industries.

My past work with Bernard Yeung of New York University and the National University of Singapore looks at foreign ownership in this light. What we do is look at U.S. firms that choose to go multinational and U.S. firms that don't go multinational and just stay in the U.S., and we find that some U.S. firms become very successful multinationals when they go abroad. Others choke; they absolutely fall apart when they go abroad, and they run back to the U.S. with their tails between their legs. The difference is that the successful U. S. firms that go abroad tend to have a recent track record of very high R and D spending.

What is going on? Well, we think moving into a foreign country is naturally a disadvantage. You don't know the market. You don't know the laws. You don't know the regulations. You don't know the customs. You need something to boost you to get over all those problems, and a technology advantage is one good way to do that. What that means is that successful multinationals, the ones that move into a foreign country and hang around, are the ones with the technology. Unsuccessful multinationals, the ones that come in and leave, are the ones that don't have the technology. So there is kind of an important technology transfer role that multinationals seem to play. Any country's most successful multinationals are also moving their technology abroad. That's one way the Canadian economy could get access to foreign technology.

In Canada, our telecoms dip their toes in foreign markets, but they tend not to go abroad. They tend to move across industries to get economies of scale. So our cable firms provide telephone services and buy television channels, and so on, and that is probably a less desirable way to get these economies of scale.

Despite a lot of convergence, it's still far from clear that our technology innovation in cable TV translates into making TV content. What's basically going on when we have this movement across industries is that we're losing the advantage of specialization. Our butchers are making bread and brewing beer and our bakers are making cold cuts, and they're probably not necessarily as good at each of these things as they would be if they specialized.

Do you want me to continue?

● (0915)

The Chair: Thank you very much, Professor Morck.

We'll now go to Professor Hejazi from the Rotman School of Management at the U of T.

Go ahead, Mr. Hejazi.

Dr. Walid Hejazi (Associate Professor of International Business, Rotman School of Management, University of Toronto, As an Individual): Thank you for the opportunity to appear before this committee. I apologize for not being able to appear in person. So because I'm using video conferencing, I guess I'm not an old-fashioned economist. That was a joke.

I'm an associate professor at the Rotman School of Management, University of Toronto. As a professor, I do extensive research on issues related to international trade, foreign direct investment, and international competitiveness, and I've published extensively in this area. I have undertaken many studies for Industry Canada, Foreign Affairs, and CIDA.

In January 2010 I released a study with the IRPP in Montreal, entitled “Dispelling Canadian Myths about Foreign Direct Investment”. In 2008 I wrote a study entitled “Foreign Direct Investment and the Canadian Economy” for the Competition Policy Review Panel Secretariat. I also worked closely with DFAIT and EDC in the preparation of “Assessing the Costs and Benefits of a Closer Canada-EU Economic Partnership”, which was tabled at the 2008 Canada-EU summit. All of these studies relate directly to foreign investment and rules around entry.

In my opening comments this morning I'd like to address three themes. The first relates to Canada's recent experience with foreign direct investment. The second is to highlight the importance of telecommunications as a key infrastructure industry that is special, and enhanced foreign participation would likely yield significant benefits to the Canadian economy. And third, the idea that this sector should be kept in Canadian hands comes at a cost, that cost being reduced competitiveness and prosperity.

On my first theme, Canada's experience with foreign direct investment, Canada as a destination for foreign investment has diminished over the past few decades. If you look at Canada's share of world FDI, Canada's share has fallen. If you look at Canada's share of the developed world's FDI, Canada's share has fallen. If you look at Canada's share of G-7 foreign investment, Canada's share has fallen. Canada's share of North American foreign investment has fallen. The bottom line, regardless of what benchmark you use, is that Canada has become less attractive as a destination for foreign direct investment.

Over the same period, Canada has seen its relative productivity fall, and we've seen the prosperity gap with the United States and other countries increase. Although there are many factors that underlie the slipping productivity and prosperity, one of the factors that certainly contributes to this is Canada's slipping FDI, foreign direct investment, performance.

FDI into the Canadian economy has been shown to bring with it advanced technology and management techniques, and enhanced competition, which Professor Morck alluded to earlier, which is critically important to innovation. All of these have resulted in this slipping performance that has resulted in a reduction in Canada's prosperity and its relative productivity to our main trading partners.

Industry Canada has been tracking this for several decades and has been working very, very hard to develop policies to make Canada a more attractive destination for foreign multinationals, but they have also been thinking of ways to bring those multinationals into Canada so that the impact on the Canadian economy, broadly based, would be maximized.

I must also mention that there is no rigorous evidence to indicate a hollowing out of the Canadian economy. To the contrary, Canada continues to generate global leaders, as demonstrated by the research done by the Institute for Competitiveness and Prosperity. And head office activity is more robust at foreign, in comparison to domestic, head offices, as shown by research done at Statistics Canada.

I must contrast Canada's falling share on the inward side—that is, Canada is becoming less attractive as a destination for foreign investment—to Canada's stellar performance on the outward side. Canadian firms are doing very well globally. We are increasing our reach into the global economy, and this is enhancing our competitiveness, as Canadian companies expand globally at a much more rapid rate than foreign companies are expanding in Canada.

Restrictions on foreign investment tend to have negative outcomes. As my research has concluded, as well as a wide body of related research, the best way to protect Canadian companies is not to restrict foreign ownership. The best way to protect Canadian companies is to create an environment that's conducive to innovation. By exposing Canadian firms to international competition, they will be forced to rise to the challenge of that competition. If it turns out to be the case that a foreign company can serve the Canadian market more efficiently than a Canadian company can, then what is the rationale for preventing entry? For the sole purpose of keeping that industry in Canadian hands? As a result, Canadian consumers are forced to pay higher rates and receive fewer services of lower quality. If Canadian companies cannot compete internationally, then Canadians lose.

● (0920)

Our data on outward investment, the fact that Canadian companies are expanding globally at a much more rapid rate than foreign companies are coming into Canada, shows that Canadian companies are doing well, broadly based, in international markets. They don't need to be protected.

I've also argued that restricting entry on foreign firms removes the discipline on Canadian companies. I don't have time to go in depth on this issue, other than to say that the financial markets impose a discipline on managers to perform up to global standards. In the absence of the possibility of a foreign company to take over a domestic firm, then the discipline imposed on management in Canada is simply to be the best in Canada, not the best globally. And that hurts Canadians.

My second theme is that telecommunications is a key infrastructure industry that is special. Enhanced foreign participation would lead to significant benefits. Telecommunications together with financial services and transportation are critically important infrastructure industries that impact the efficiency and competitiveness of all other industries in the economy. These three industries are different. If Canadian firms and individuals are not able to access such services, both in terms of depth and at low costs relative to those in other countries, then this impacts our ability to compete in the global economy.

If it is the case that Canadian firms are operating in the most efficient way possible, they really have nothing to fear about foreign entry. Foreign firms will not be able to compete, if it is the case that Canadian firms are operating to a global standard. On the other hand, if there is room in Canada for more players, then Canadians will be the beneficiaries. Relaxing restrictions on foreign entry into Canada's telecom industry will do two things: it will enhance pricing and customer service for Canadian individuals and businesses, and in the process it will make Canada more competitive. It must be reiterated: telecom is a critically important sector of the Canadian economy.

There's also evidence demonstrating a strong, positive relationship between broadband access and productivity and GDP growth. It's imperative that we ensure that the Canadian telecom industry has the investment in technology that is necessary to ensure Canada is up to global standards in this industry.

I should also add that the largest source of employment growth in Canada is from small business. The Internet and computer technology have reduced the cost of entry in many of these industries. For these businesses, the Internet and related technologies are key. We must ensure that these firms have access to low-cost yet internationally competitive technologies.

It must also be stated that there's evidence indicating that Canada is one of the most restricted countries in the OECD when it comes to FDI, in large part because of these three restricted sectors I alluded to earlier. Also, Canada has been shown to be very costly when it comes to costs relating to telecom services.

My final point I'd like to make this morning is the idea that this sector should be kept in Canadian hands. This policy comes at a cost. The cost of this policy is reduced competitiveness and prosperity for Canadians.

I have given many lectures in Canada and globally. The process of optimal policy design, as you know, requires that the costs associated with any policy must be set against the associated gains. My research has shown that, in general, restrictions on foreign ownership result in sub-optimal outcomes, and this result underlies the general move globally for governments to pursue policies that attract foreign investment.

Thank you.

● (0925)

The Chair: Thank you, Professor Hejazi.

We'll now begin with questions and comments from members of this committee, beginning with Mr. Garneau.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

I'd like to thank both Professor Morck and Professor Hejazi for their presentations.

I would characterize your presentations as primers on foreign direct investment—foreign direct investment 101. It's a sort of theoretical exposé of the benefits of foreign direct investment.

However, this committee is focused on some very specific situations, namely the telcos, and the highly converged telcos, which of course include not only the transfer of information but a very important content that is linked to the Canadian identity. That is the issue we're grappling with.

We have a telecom act, as you know, and we have a broadcasting act.

I'll ask my first question to Professor Morck. You say the current telecom situation that exists in this country is inefficient. So that I understand what you mean by that, could you elaborate a little more on the current situation?

Prof. Randall Morck: There have been two major recent studies of the quality of telecoms, Internet access, third-generation networks, and so on, across countries: one conducted by the OECD and one by Harvard's Berkman Center.

The Berkman Center is the one with which I'm more familiar. It accepts some criticism of the OECD report but still ranks Canada rather badly. Canada was number two in penetration after South Korea in 2003, I think, in a previous OECD report. We had more households and more people connected to the Internet than any country except South Korea. By 2008, we had fallen to number 10.

In the top speed available to customers over the Internet, we were 19th in the OECD report by 2008. In the price of low-speed connections, we were the 21st best country in the OECD report. In the price of medium-speed connections, we were the 23rd best country in the OECD in 2008. In high-speed connections, we were the second worst. Only the Slovak Republic imposed more costs on Internet users for high-speed connections than we did.

We weren't even ranked in the very high-speed category because none of our major national providers provided that service.

The Harvard study looks at specific firms, and then it draws diagrams of clusters, because different firms have different plans at different prices. You get these diagrams with all sorts of dots where the different plans offered by different firms cluster. Our Canadian firms tend to cluster in the low-quality, high-price parts of almost every single graph in the Harvard study.

I think Harvard rates us number 19 among OECD countries in terms of overall price/quality trade-off. Those are pretty sad things. You can always find one good thing. If I look at the Canadian Internet sites, they say they're the best in dollars per minute. There are all sorts of ways of doing this. If we're bad in terms of the value and price of unlimited packages, then we can look at dollars per kilobyte.

If our connections are really slow, then we can look at dollars per minute. You can always slice it in some way that makes Canada look good, but it's hard to make a case that we're where we should be.

● (0930)

Mr. Marc Garneau: As you can probably expect, as an MP, I've had Bell and Rogers and Telus and the wireless association in my office. They have all heavily challenged the metrics that were used in these studies.

They argue that if different metrics had been used—more than just the one example that you bring up—the results would have been different. You can understand there's a bit of a challenge for us as MPs to figure out who's telling us...or who is doing the best thing.

Prof. Randall Morck: None of the telecom companies objected when the OECD ranked us number two in 2003. Then they thought the same methodologies were absolutely wonderful.

Mr. Marc Garneau: I understand. I'm not going to comment on that.

With Public and WIND and DAVE Wireless, the new entrants, would you say we have a situation today...? Some people have presented the argument that we have quite a few new players in the market now, and we know these new companies are going to try to achieve convergence themselves as they begin their operations.

What about the argument that some people have presented that we have quite a few in here and we should wait and see how it shakes out before going any further? Do you say the more the merrier, and let's keep building it up?

Prof. Randall Morck: In general—this goes back to the 101 thing you were rightly commenting on—entry seems to be the best way to get competition. Given that, the Berkman report has some long discussion of Canada and their opinions about why we fell behind. They argue that we did unbundling of local loop access rather badly, that we put sunset clauses in place so that entrants who were planning to use incumbents' fixed-wire systems to get into people's homes only had a certain number of years. Then they would have to either get their own local loops or leave.

We changed the rules. According to the Berkman Center, our incumbents charge the highest cost in the OECD for local loop access, that is, for access to homes, the final little bit where you have to go through copper.

It looks as if we've deregulated and allowed entrants in, but there's still some question as to how viable those entrants are compared to entrants in other OECD economies because of the way we've done it.

The Chair: Thank you very much, Mr. Garneau.

We'll go to Monsieur Cardin.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): We started with a motion that mentioned Globalive and that served to show that the government had issued an order to get around the Telecommunications Act, which does not allow foreign control. Now we are getting into pure economics and international trade, almost. As Mr. Garneau said, we must never lose sight of the fact that, when the Telecommunications Act was put in place, it protected Canadian ownership in order to safeguard Canadian sovereignty and identity. As my colleague will probably tell you later, he who controls the medium also controls the message. So it is even more important to protect Canadian ownership in telecommunications.

We have heard a lot of testimony about research and development, innovation and competitiveness. Of course, some witnesses are still doing a significant amount of research and development. Take Bell, for example; we have been told that they invest more per dollar of sales in research and development than ATT. While participants have told us that we are significantly behind in innovation, I have seen no concrete evidence that we are behind in technology.

As for looking for more players in telecommunications through foreign ownership, a number of participants—especially those who are looking at the situation from the outside—do not seem to be considering the link between competition and territory. Population density counts. In Europe, everyone more or less lives in a 100 km^2 area. Setting up or developing in an area that size is not all that difficult.

In broad terms, how far behind are we in technology really? Are we really behind in research and development?

● (0935)

[*English*]

The Chair: We'll start with Professor Hejazi, because he hasn't said anything yet, and then we'll go to Professor Morck.

Go ahead, Professor Hejazi.

Prof. Walid Hejazi: The evidence is very clear on the prosperity gap between Canada and the United States. Industry Canada, academics, and policy makers have been trying to understand for the last few decades what underlies this rising prosperity gap, why Canada's productivity continues to lag that of other countries.

There's no silver bullet answer to what underlies this poor productivity performance in Canada, but one of the main factors has to do with R and D spending.

If you look at R and D spending as a share of GDP, Canada lags other G-7 countries significantly. I understand the point you make that if you cut the data differently, maybe the Canadian companies would look better. To that I would respond that if the Canadian companies believe the methodology in the OECD study and other studies is flawed, then that means they believe they're best in class. That means they believe they're as good as telecom companies in other countries, to which I reply: why, then, would they fear the entry of foreign companies? It doesn't add up. The idea here is that if they are internationally competitive, if they're up to international standards, why is it the case that they would be so concerned about foreign entry?

One thing that has been shown to be very clear is that it's not just the dollars spent on R and D that matters. It has to do with the competition that the companies undertaking that R and D are involved in. What the evidence clearly shows is that for industries exposed to more competition, the R and D spending goes a lot further towards leading to innovation.

Thank you.

[*Translation*]

Mr. Serge Cardin: Mr. Chair, I would like to comment right away so that I do not get too far away from this gentleman's comments.

I do not believe that any of the companies who have come here to testify—and I am sure that my colleagues will confirm this—are actually afraid of competition per se. Some want the competition, others are more careful, precisely in order to protect our culture and identity.

I will move to Mr. Morck.

[*English*]

Prof. Randall Morck: Please forgive me that I'll respond in English. *Je parle français, mais pas très bien.*

My colleague responded to the R and D issue. I'll just add that R and D is an input to innovation; the output from innovation is productivity growth. You could actually spend a lot on R and D, but if it's not well spent, you don't get the productivity growth.

I'm not saying Bell is not spending its R and D well. I'm not going to talk about any given company. We have some companies in Canada that are very good, but the problem is economy-wide.

The point I was trying to make is that by regulating and taxing, implicitly or explicitly, the telecom sector, we're adding to the costs of every enterprise in Canada, including government, and that affects our productivity.

You made two other points. One was about population density, and I think that's a very legitimate issue. We may need to think about something akin to the rural electrification projects that we had many decades ago to get Internet access to smaller, more remote areas. But I think the way to do it is to use general federal tax revenue to subsidize it—not to tax the communication between different companies, basically tax the circulatory system of our economy. It's better just to tax general income, when you have something like that, rather than tax something that's so critical to so many industries.

On the Canadian culture issue...I'm a big fan of Canadian culture. I read Canadian history. I love reading about Louis Riel and I love reading about Jean Talon. Frontenac was much more interesting than George Washington, and the United Empire Loyalists are far more interesting than most Tudors and virtually any New England Puritan. One of the things I'm kind of disappointed about with Canadian culture is that our Canadian culture is stuff like *Stargate SG-1* and programs about crusading coroners and sitcoms set in New York but produced in Canada. So I wonder whether our current policies really are all that effective at getting what we really want.

Now, they're certainly expensive. By taxing the telecom sector we're imposing huge costs on our economy, all across the economy. That's the work that Hausman has presented from the U.S., and I think it applies to Canada. Industry Canada certainly has economists capable of getting that data and giving you those exact numbers.

If we wanted to protect Canadian culture, I suspect that if we got rid of all of our regulations, our Canadian content rules, and our foreign ownership restrictions, our economic growth and productivity increase would support such an increase in tax revenue that you could probably increase the budgets of Radio-Canada, the CBC, and the National Film Board many times over and we'd still come out way ahead.

● (0940)

The Chair: Thank you, Professor Morck.

Merci, monsieur Cardin. Je suis d'accord avec vous: c'est une bonne idée.

Mr. Brown.

Mr. Gordon Brown (Leeds—Grenville, CPC): Thank you very much, Mr. Chairman.

I find our presentations and the answers to the questions from our witnesses, who I want to thank for being here today, very interesting. I think many Canadians would find what they have to say very interesting.

I first want to start with Professor Hejazi.

Back on January 26, in the *National Post*, you wrote that the notion that restricting foreign investment will make Canada better off is a myth. You also said that Canada's being hollowed out is a myth.

Why are these beliefs held in our country, do you think, and why do you say they are myths?

Prof. Walid Hejazi: Thank you for that question.

Whenever I give lectures to MBA students, I always start with a question, and the question I ask is: give me an example of a foreign company operating in Canada. The lists are long and they come quickly. Then I ask them the question, give me examples of Canadian companies operating globally. A few names come up, but then the lists are short and they take a long time to come up.

I think generally Canadians have a fear of being taken over by the U.S., by foreign companies coming into Canada. But they really don't see, they don't appreciate how well Canadian companies are doing globally.

When I show them the data that clearly shows that by 1997 Canada's investment into the global economy exceeded foreign direct investment in Canada, they're really surprised. Canadian companies are doing very well in the global economy, and they're expanding globally at a much faster pace than foreign companies coming into Canada.

Whenever there is a foreign takeover in Canada, it gets a lot of media hype. Whenever there's a Canadian takeover of a foreign company, it doesn't make the media that much; it's not as exciting. Canadians have this fear of being taken over, but it's a myth, because if you look at the data, Canada now has something like 25% more investment abroad than there is foreign investment in Canada—over $600 billion invested abroad. So it's a myth.

Secondly, the argument that the best way to protect Canadian companies is to throw up barriers to foreign ownership is old-fashioned, and it doesn't square with the reality, the reality being that globally, virtually every country in the world is creating policies that will attract multinationals or attract foreign investment.

The best way to protect domestic companies is not by putting up walls to protect them from foreign entry. It's by giving them an environment in which they can rise to the international challenge to be globally competitive, so that in the face of foreign competition they're able to stand up, provide value, provide innovation and prosperity for Canadians.

So that's why I say they're a myth: because the evidence does not support either of those two claims.

● (0945)

Mr. Gordon Brown: Thank you, Professor Hejazi.

I have one more question on that, concerning the benefit consumers could see if we removed the foreign ownership restrictions. What do you think the benefits for consumers might be?

Prof. Walid Hejazi: I go back to the argument that if it is the case that the Canadian telecommunications companies are operating at a globally competitive level, there really wouldn't be room for foreign companies to come into Canada. On the other hand, if Canadian companies are not operating to an international standard, then what will happen is, consumers will have a wider variety of choice. So the first benefit we get is to get a wider variety of choice. Second, if foreign companies come in and are not able to provide lower costs or higher quality, individual Canadians will not switch from a Canadian provider to the foreign provider.

On the other hand, if a foreign provider comes into the Canadian market and is able to provide lower costs and/or higher quality, then you'll see switching. So I think the first benefit we will get is increased variety, an increased selection of choices; second, I believe we'll get higher quality and lower costs.

But thirdly and most importantly, and Professor Morck alluded to this, the enhancement in competition would drive innovation in that sector, and telecom is fundamentally different from many other sectors: it's critically important to all other firms in the economy. So the general benefit that Canadians would get is enhanced competitiveness, enhanced innovation across the entire economy, not just in telecom.

Thank you.

Mr. Gordon Brown: Thank you.

I'd like to move over to Professor Morck for a second.

You talked a little bit about the rural electrification program from many years ago to make electricity widespread in rural parts of Canada. I represent a riding south of Ottawa that has a fairly large piece of geography with not that many people. Broadband access has been an important issue there, and governments, both provincial and federal, have been supporting the improvement in broadband access.

Recently, we're hearing from all parties about how they want to see that access improved, and of course our government recently funded the program that's going on for massive improvement in rural broadband access in eastern Ontario. You talked about how government should subsidize it.

What more should the government be doing than it is doing now?

Prof. Randall Morck: The way we've tried to impose public policy goals on this sector is through regulation. We say to the cable companies or the channels or the telecom providers, "Do this: provide Canadian content, provide access, and in return we'll kind of give you monopoly profits." That, I think, is the understanding that we'll protect you from competition if you do these public policy things. That hasn't worked well, because what they do is try to give the minimum possible they can towards the public policy goals while making profits.

I think the lesson from all of this is that if government wants something done, government should simply do it. We want certain things done that don't make a profit; therefore, we have a government to do those things. That's just the way it is. So if we want to have Internet access in places where it's not competitive for a private company to put it in, we'd probably need to have government simply pay for it, rather than try to regulate companies or protect them from competition in all kinds of crazy ways that drive up everybody's costs and sort of, kind of, make the companies do it. It's just not an efficient way to do public policy.

● (0950)

The Chair: Thank you very much, Mr. Brown and Professor Morck.

Mr. Angus.

Mr. Charlie Angus (Timmins—James Bay, NDP): Thank you.

I'm very glad to be sitting here this morning. I'm not an economist. My father was an economist, though. At the age of 40, a working-class kid, he went back to school and became an economist. So I used to ask my dad about economic theories, and he said, "Well, son, the one thing you should remember is it's all horseshit. You have to see what's out in the real world." So I am always a little careful when I—

Mr. Mike Wallace: Is that on the record?

Mr. Charlie Angus: Yes, I'd like that on the record.

So we go back to the Adam Smith thing, that there are butchers and there are bakers and this little model village that is economic theory. But the butchers can't get their stuff at the independent grocers because they can't get shelf space because it's controlled by a few large giants. If you run a little milk company, you're going to get put out of business pretty quickly. If you set up a small cattle operation, Cargill can sit on 10,000 head of cattle and they can drop the price just like that. So we don't have competition unless it's sometimes regulated. Sometimes we have to make competition in the marketplace. I think this is one of the things we have to start to look at.

We have a few very large players in our market, and they don't tend to give us very good service. I pay extremely high rates for my cable, and my daughter said she got better wi-fi service in Rwanda than she did in downtown Ottawa, so obviously we have a problem.

But the question is, is simply opening this market going to bring in a lot of competition, or are we going to see what's being speculated in *The New York Times* right now, that we're looking at a whole new wave of major buyouts, where we've created these two, or three, or four very large entities that are actually fairly small on the global scale, but they could then simply be picked up by somebody much bigger? So we then don't end up with any more competition; we just end up with a much bigger player controlling our market from someplace else. How do we actually ensure competition?

Prof. Randall Morck: I agree with you. Economics, like most academic fields, has a high scatological content.

Is that going to be okay for the minutes?

A voice: It's on the record. You're okay.

Prof. Randall Morck: And I think you're completely right about incumbents. But government can make the problem of entrenched incumbents better or worse.

The reason I think you're right is that I published just last year some research with one of my PhD students, Kathy Fogel, and Bernard Yeung of New York University, where we looked at the list of leading companies in every country in the world in 1975, and then we looked at how many of them died. What we found is that countries whose leading firms of 1975 were more likely to die during the subsequent decades had much higher productivity growth than countries that kept the same leading firms decade after decade.

What that says, I think, is that Joseph Schumpeter is right about innovation. Innovation where creative firms rise up and destroy stagnant firms is where growth comes from. So both the rise of RIM and the fall of Nortel are signs of a healthy economy.

Government can come in with regulations that entrench incumbents, and you asked, for instance, is this going to be the only thing we need to do? Absolutely not. We have to look at the way we regulate the whole telecom industry, because we can allow foreign entrants, but if we give incumbents the power to exclude people from that final loop of copper wire into people's homes or to charge exorbitant rates for it, the entrants aren't going to do much good.

We need to look at how other countries do this, how other countries allow joint ventures between the owners of the copper wire and other companies to upgrade equipment, and so on. But I do think foreign ownership is a first and very important step towards getting our telecom sector to become more productive, and I do worry that our foreign entry restrictions make the incumbent entrenchment problem worse than it would otherwise be.

Mr. Charlie Angus: I guess one of the problems we're dealing with in telecoms is this—and again, as economists you like to just look at the widgets and not necessarily the cultural inputs. Telecom was allowed to become very concentrated, and government supported that at every step of the way. So if telecoms wanted to buy up newspapers and get into radio and television, they were allowed to do that. Now we have, again, a few very tightly concentrated entities that, while providing our cable, basically control the media in Canada.

You made a suggestion to throw it all out and it will all work great, and my God, all of the Conservative members were nodding and cheering; they think getting rid of any of the Canadian content rules is a great thing. But there's a public policy issue here. I come from the music business, and in the seventies you could never hear a Canadian song on radio until it became public policy that you were going to hear it. Now we have a market that is international in scope because public policy made it.

So if we're going to allow foreign entrants into the telecom market, are you suggesting that we simply allow them to take over, or ditch the Canadian content requirements? Because they're not going to meet them. If you're suggesting that the present ones don't like meeting them, how can we expect that they're going to meet them out of Europe or the U.S.? Should they be carved off, or should those obligations just simply be removed?

● (0955)

Prof. Randall Morck: Well, I worry that the CRTC is like generals fighting the last war. The biggest and most important websites in the U.S. now include things like Hulu and Netflix. What is Hulu? Hulu is a place where you can point and click on any TV show you want and then watch it on your computer. And you can connect your computer to your big screen TV, so you can watch it on your big screen TV without going through a cable company, or Comcast, or satellite TV. Netflix does the same thing for movies. Hulu pays for it with commercials that you have to watch when you watch the thing over the web; Netflix charges per viewing. In a world like that, how are you going to have Canadian content percentage restrictions, where instead of listening to a radio station or looking at TV channels on a cable lineup, people simply point and click and listen to whatever they want?

I think technological change means that if we're going to protect Canadian culture, we have to think about it in new ways. What I said before wasn't intended to be flippant. I think you could get rid of the regulations we have now, which impose a huge economic cost, and I think the increased economic activity would let you raise the tax base sufficiently that you could fund direct production of Canadian culture through the CBC, the National Film Board, or whatever.

Canadian music.... It seems to me that's an industry that doesn't really need protection anymore. It's grown up. There is an argument in economics that you protect infant industries, but once the industry grows up, you have to let it go out on its own. You don't want to have these 30-year-old industries living in your basement.

The Chair: Thank you very much, Mr. Angus.

We'll now go to Mr. Rota.

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): Thank you.

I want to thank both of you for being here this morning. It was interesting studying history, Frontenac, as you mentioned earlier. I went to a French school, so I got a different view of Canadian history than those who went to an English public school. One of my favourite quotes was *Je répondrai par la bouche de mes canons*, which was basically Frontenac answering the British cry. He was protecting what he had at the time, Canadian sovereignty or New France sovereignty, and the fight was over resources, and resources were somewhat limited, much as they are today. He understood the importance of sovereignty and control.

As parliamentarians, what often happens is that we try to do what's best for all Canadians, not just a select few who are good at financial markets and do extremely well in trading stock and building up wealth. But that concentration isn't exactly healthy. I'm sure once you get past Economics 101 you will agree with me that the concentration of wealth is not necessarily good for the economy, and in the long term may hinder the economy, especially when that wealth is concentrated outside a country.

One of my concerns, and I'll throw this out, is if we allow foreign ownership at a level that concentrates all our major telecom companies, if they get bought out by foreign owners—it's not foreign investment. Foreign investment, in my mind, is when a company comes in, invests in R and D, builds infrastructure, and there's something there. What I'm seeing more and more of is foreign ownership buying out existing companies.

What I've heard as well, either from OECD or others who have presented, is that in Canada there should probably be two or three providers nationwide for telecom, let's say, wireless, not the numbers that Adam Smith would speak of that would create very good competition. Things have changed from the 1700s, when Adam Smith wrote *The Wealth of Nations*, to what's happening in the 21st century.

My concern is, how do we regulate that? Or if we open ourselves wide open, what's to stop a foreign owner doing whatever he wants with the Canadian market? He has maybe 90%, 80%, or even 50% of the Canadian telecommunications coverage, but it really only represents 3% of his global holdings. How do we protect ourselves from that?

● (1000)

Prof. Randall Morck: You've asked several questions.

How do we protect ourselves from an abusive, monopolistic provider? We have an anti-combines act, the Competition Act, and we should use it.

Mr. Anthony Rota: Regulation is the way to go then.

Prof. Randall Morck: Absolutely. If no regulation, if no government, were the way to get a prosperous economy, surely Somalia would be the richest country in the world, not having had a government for 20 years.

Mr. Anthony Rota: I make the same argument about some of the southern states in the United States.

Prof. Randall Morck: Sure. I think the point is quite right. Firms in Massachusetts are not flooding into Arkansas because the taxes are lower. The problem is, you get government services for taxes, and good government is about providing cost-effective services for the taxes. That's what we need to think about.

In terms of the concentration of wealth, I think you're also right. I've done some work on this. Economists like to talk about an efficiency-equality trade-off, that if you have a little bit more inequality, you can get more efficiency and the economy grows faster. It turns out my research shows that's true if you look at inequality due to new wealth, due to entrepreneurs like Bill Gates or like the guys in southern Ontario who made Research in Motion come true. If you look at old money wealth, if you look at the amount of inequality that's due to inherited wealth, you get both inequality and inefficiency at the same time. You escape that trade-off, and not in a way anybody would want to.

I worry that by restricting Canadian ownership.... We're now seeing our cable companies passing on to second- and third-generation control; they're becoming old-money family companies. I'm afraid the evidence is that old-money wealth isn't a good way to do corporate governance. My own research shows that old-money inherited corporations, both in Canada and around the world, tend to perform relatively poorly—barriers to entry entrenchment, just what the previous question was about, I think.

Mr. Anthony Rota: We see a lot of that globally, old money that just keeps going on and expanding and just buying up. It's exactly what you're saying. You're saying that what we're doing is buying up new companies with old money. The old inefficiency, let's say, just gets plunked on to the new takeover.

How would we as Canadians be able to regulate that when it's coming from another country? That could be either to you or Professor Hejazi.

The Chair: Why don't we go to Professor Hejazi to answer that?

Prof. Walid Hejazi: There are several points I'd like to make here.

First, by allowing foreign companies to come into the Canadian market—as you mentioned, these large global multinationals—the evidence clearly shows that when you have a foreign company operating in Canada, they're able to use the R and D, the innovation that's in the network. So they're able to access these global networks of R and D and of innovation that Canadian companies in and of themselves cannot do. That's point number one.

Secondly, I think the way to regulate it.... As Professor Morck said, when you have an abusive monopoly, we can regulate that because that kind of activity should be regulated and shouldn't be allowed. This is the point I tried to make earlier, and I think it's fundamentally important. The way to protect Canadian companies is to provide them with an environment where they can be globally competitive, where they can be innovative. So when you restrict foreign entry, what happens is the discipline imposed on these Canadian companies dissipates because there is no other Canadian company that's able to buy them up.

When you look at financial markets, when managers do a good job, stock prices rises. When managers do a bad job, stock prices fall. The way financial markets discipline managers is that when managers are doing a poor job, other companies could come in and buy up those companies and replace management. That cannot happen in a concentrated industry like telecom when you're restricting foreign entry.

So the best way to protect Canadian companies is to allow them to be globally competitive so that in the presence of the possibility of a foreign company coming in, they are the ones that are making acquisitions globally, as opposed to foreigners necessarily buying up the Canadian companies.

I think you're just making the assumption automatically that Canadian companies are scared, that the Canadian companies are not going to be able to compete. The evidence clearly shows that Canadian companies are doing well globally, and I would like to think that in the presence of foreign competition our Canadian companies could win.

● (1005)

The Chair: Thank you very much, Professor Hejazi.

Mr. Braid.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you to both of our witnesses for being here this morning.

Professor Morck, if I could start with you, you mentioned in your presentation that a tax on connections in the process sort of adds cost to the entire process. I presume that would include and that argument would also apply to a tax on iPods and BlackBerrys. Would that be correct?

Prof. Randall Morck: I haven't really thought about iPods; BlackBerrys and iPhones, maybe.

Things that let us use new technology to advance our businesses are important. For instance, the report I alluded to—it was either the OECD or the Harvard study, I've forgotten which now—had a discussion of small business connections to the Internet and the use of the Internet.

Canada actually looks pretty bad on that. Our small businesses aren't using the web nearly as much as small businesses in other countries. Perhaps it's because the service is slower, less reliable, more expensive—I don't know. That's the sort of thing that I think actually does add to our cost, reduce our competitiveness, and compromise our standard of living.

On the foreign ownership thing, I think there really is a case to be made that some takeovers are indeed megalomaniac foreign CEOs trying to build empires. But a lot of corporate takeovers.... My research with Andrei Shleifer at Harvard and Robert Vishny at the University of Chicago shows that a lot of corporate takeovers are people buying fixer-upper firms. So you find a bad firm that's badly run and its earnings are low, dividends are low, share prices are low, and you buy it. You fire the old management; you bring in new technology and new management. You fix it up the same way you fix up a house. Then you sell it back to the shareholders at a higher price and you make a profit. And you do it again and again. A lot of takeovers are like that.

If we block takeovers by foreigners, we are going to block the empire-building megalomaniac CEOs—whose corporate empires will probably fall apart anyway as soon as they retire—but we block the fixer-upper takeovers. Those fixer-upper takeovers are important for the quality of governance in an economy.

Mr. Peter Braid: Thank you.

Professor Hejazi, you explain that Canadian companies are becoming more competitive and more successful globally. What are some of the unique characteristics or qualities of those Canadian companies? What makes them capable of competing successfully internationally?

Prof. Walid Hejazi: When you look at the broad economic data, increasingly we're seeing Canadian companies move beyond the traditional market, that being the United States. If you look back, the share of foreign investment, the share of all investment by Canadian companies operating outside of Canada, outside the United States, has been growing.

I think basically companies are moving to less traditional markets beyond the United States, beyond Europe, and moving into economies like Asia. So even though Canada still lags other countries in terms of our depth of penetration in the global supply chains, what we do see is that companies that are doing well are companies that are looking beyond the traditional markets in the United States and Europe and going much beyond that.

I should say that about 40% of Canada's investment abroad is actually in finance and insurance, so financial services. It's not just traditional manufacturing. A lot of it has to do with financial services and business services.

I should mention that I spent the last month in the United Arab Emirates, in Abu Dhabi. Actually, I went to a reception that we had put on by the Ontario government at the British Club in Abu Dhabi. There were many Canadian business people there. CMHC was there. There were a lot of Canadians there that were helping the United Arab Emirates build its infrastructure. I raise that because that's a market I know well. When you look at the industries that are doing well there—infrastructure, oil and gas, transportation, business services—you see Canadian companies there in a big way. There are 28,000 Canadians operating there, and those are the companies that I see that are doing well.

● (1010)

Mr. Peter Braid: Thank you.

I'll go back to our three big telecommunications players. What are the reasons for the fact that they aren't operating outside of Canada? Can you comment on that?

Prof. Walid Hejazi: I don't know the answer to that, but I would say that Professor Morck alluded to this. If you look at the indicators, again, you can cut the data whatever way you want, but another source that Professor Morck didn't allude to is the World Economic Forum.

When we look at the indicators of quality and how competitive our telecom sector is, we lag a lot of other companies in other countries. Why is that? In my opinion, I believe it's the lack of foreign competition. I believe because there's concentration in the industry and because the discipline imposed by being globally competitive is not there, the Canadian telcos are more focused on being the best in Canada. They're not focusing on being the best globally, and I think that is the reason they're not operating on a global scale.

If it was very clear that international competition was coming, I believe the major players in the telecommunications industry in Canada would rise to the challenge; they would adjust their behaviour.

The Chair: Thank you, Professor Hejazi.

Thank you, Mr. Braid.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chair.

Welcome to both of you.

I feel that we can describe you as being in favour of opening Canada to the outside and wanting more foreign telecommunications companies to set up shop in Canada. I see that you are also in favour of less regulation.

There is a lot of talk about Canadian culture, but, in the Bloc Québécois, we want a CRTC for Quebec. That, of course, is in order to protect our French-speaking Quebec culture. Canada wants to protect its culture as well. Of course, there are major economic factors. You can produce columns of figures and so on, but the broader concerns, including social and cultural aspects, seem to me to be just as important.

Do you believe that your philosophy and your policies in favour of deregulation and of encouraging much greater openness to foreign companies could have adverse effects on the protection of Quebec and Canadian culture?

[*English*]

The Chair: Go ahead, Professor Hejazi.

Prof. Walid Hejazi: I don't see it as an either/or. I don't see allowing for foreign entry into this sector as necessarily resulting in the demise of Canadian culture. I haven't studied the Canadian cultural industry in depth, and I couldn't say we should eliminate the regulations around that. But one thing I will say is there is a general principle in economics, which is essentially that if you want to fix a problem, you fix it as directly as possible. It seems to me that by making Canada as competitive and as innovative as possible, it will result in an increase in prosperity, an increase in GDP, and an increase in tax revenue.

I would argue that the increases in tax revenue that would result from policies that drive innovation and competitiveness will allow the government to address the issue of Canadian culture directly. Regulating this entire sector and impacting every company that operates in Canada, because they need to use this sector, is an indirect way of getting that culture, and in my opinion it's far too costly. In creating optimal policy, you look at the objective and you look at the alternative ways to achieve that objective. In my opinion, I believe in achieving the objective of Canadian content and Canadian culture. I believe the government should not take its eye off that goal, but I also believe that restricting foreign entry is probably one of the most costly ways to achieve that objective.

Thank you.

● (1015)

[*Translation*]

Prof. Randall Morck: Can I answer as well?

Mr. Robert Bouchard: Yes, go ahead.

[*English*]

Prof. Randall Morck: I may not have made myself clear. I'm not against regulation. I want regulation to be sensible. I think good government is not government that has no regulation; it's government that chooses its regulation carefully and considers the effects and the costs of that regulation. So if at any time I've given anybody the impression that I'm against the government imposing regulations where they're needed, I want to correct that.

Also, as I said, I'm a big fan of Canadian culture and the cultures of distinct societies, such as Quebec and Alberta.

Mrs. Carole Lavallée (Saint-Bruno—Saint-Hubert, BQ): The nation.

Prof. Randall Morck: Yes, absolutely, Alberta.

Oh, you meant Quebec.

Mrs. Carole Lavallée: Quebec is a nation. We were recognized.

Prof. Randall Morck: There's an economist named Anne Krueger. I lost money on her because I bet that Anne Krueger would become the first female to win the Nobel prize, and she wasn't; somebody else won it last year. But I think she'll be the second. She came up with a very easy way of thinking about when regulation is doing what it's supposed to and when it isn't. Basically, you think of a company that has a million dollars. It could invest it in R and D, or innovation, or doing something creative, or the company could take the same million dollars and invest it in lobbying politicians, or lobbying civil servants, or contorting itself so that it qualifies for subsidies. All those things are expensive, and a company can do either one or the other, and it will do whichever is more profitable. If we set up a system of regulations so that lobbying for favourable regulations or twisting and contorting oneself to qualify for tax breaks or subsidies is more profitable than investing in innovation, then our companies are going to twist and contort and lobby. They're not going to innovate.

I think what government needs to do is say, okay, we want to protect the culture of our three nations. How are we going to do that in a way that doesn't cause companies to invest money in twisting and contorting and lobbying, rather than in innovation?

I worry that our Canadian content regulations and our foreign ownership regulations are encouraging companies to twist and contort and lobby, rather than innovate.

The Chair: Thank you, Professor Morck.

We'll now go to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): This is fascinating stuff. We have a little bit of fun going between us, but you're absolutely right, companies will follow the money. That's the problem with governments when they amass too much of a fortune. All of a sudden companies just start vying for that. I agree with you 100%.

I quoted Adam Smith here, not quite as well as you did, but I had that same phrase. I'm not an economist, but I did read *The Wealth of Nations*. It's been a long time.

Prof. Randall Morck: I'm very impressed. The “pin factory” is very hard to get through.

Mr. Dave Van Kesteren: Well, it's a beautiful quote.

It's part of the argument. I'm going to get off on a tangent here, but I really want to hear.... I'm not an economist, but I've heard of the Austrian school, and Keynes. I think Mr. Angus' dad, at that period, might have been a student of Keynes, too.

My dad wasn't an economist. He was an immigrant businessman. He told me a story about a wise king who told his sages to come with the wisdom of the ages. Maybe you heard this story. They compiled a great big 12-volume set, and he said, “Nobody will read it. Condense it.” So they came with a book, and he said, “Too much.” They came with a page, and he said, “That's too much, too. Give me one line.” So they came up with one line, which was, “There's no free lunch.” And that's really what it boils down to.

I'm concerned. We read recently in the paper that Canada's total national debt is, what, 83% of GDP, or something like that? It's just huge. We're seeing what's happening in Greece, and all these bad policies cost money.

I remember Mr. McTeague was one of the first ones in this committee—I give him credit—to alert us to the housing bubble that was happening in the States about three years ago.

Are you concerned that all these bad policies that we've adopted have laden governments with such an enormous debt? Do you see maybe that same danger on the horizon, too, that we're going to see?

I look at the reaction of the Greek people, too, that incredible attitude of entitlement.

Do you want to comment on that? I'd just like to hear something about that.

● (1020)

Prof. Randall Morck: I truly don't understand what's going on in Greece. You can demonstrate all you want in the streets, but two and two still add up to four, and if you don't have money to pay for something, it's just not there.

I do think Canada is better positioned at present than most OECD countries, because we've had, actually, fairly good government from both the Conservatives and the Liberals in terms of keeping the books relatively in balance. I think that has positioned us so that we can run a deficit now when the economy is in recession and keep our economy going. But we do have to worry about these issues. These are long-term economic issues.

Keynes certainly believed that the economy should be pushed along by government borrowing and government spending, but only during a recession, only briefly, and he thought that when the economy picked up again, the government should pay off its debts, and over time, the government should, on average, run a zero deficit.

People like to quote Keynes on how government should run a deficit. They don't like to quote him on how government should pay off the deficit as soon as it can afterwards.

I do think what you say also relates to the question that was raised by Monsieur Bouchard. What government needs to do, I think, is attend to the tax base. We need to make an economy where people make lots of money and companies make lots of money so the government can collect lots of taxes to do all the things we want the government to do. We can't impose government mandates for spending and for entitlements without worrying about where the money comes from, and that means we have to worry about having enough taxpayers out there who are making enough money that we can tax them to pay for all the things we want to do. That's where I think the Greeks kind of missed the boat.

The Chair: Thank you very much, Professor Morck.

Do you have another question?

Mr. Dave Van Kesteren: I thought maybe if the professor—

The Chair: Professor Hejazi, do you have a comment on that?

Prof. Walid Hejazi: Yes. I think the only issue for Canada.... I agree with everything Professor Morck stated, but in terms of Canada, the issue of whether there's a structural deficit or not is something that we have to keep our eye on going forward.

It is true that Canada's finances.... In 1992-93, Canada had a horrible situation where our deficit in that one year alone was over $40 billion, almost entirely going to interest payments on the debt. What that means in real money is that in 1992 the Canadian government had to borrow $42 billion just to pay interest on the debt. So 25¢ of every dollar in tax revenue was going to finance the debt.

By 1997-98 we went into a balanced budget. We've had a balanced budget, and now that we've sort of had this global crisis and the Canadian deficit is up around $40 billion or $50 billion—I'm not sure what the last count was—I think the real issue we need to think about going forward is, once the economy does return to a normal path.... Whether the budget will be balanced or whether we'll have to make some structural changes to get us back to what we call a structural balanced budget, not a deficit, the jury is still out on that.

But I think what's very important, what's fundamentally important, is that this is an opportunity for Canada. Barack Obama said it best: “There's opportunity in every crisis.” Now is the time for Canada to look from a position of strength. We are admired globally for our fiscal responsibility and for the fact that the financial crisis essentially almost skipped Canada, had relatively little effect. We need to think about ways to make the Canadian economy more innovative and increase prosperity.

I just want to throw one number out. The prosperity gap between Canada and the U.S. is such that if we could close the prosperity gap between Canada and the U.S., raise Canadian incomes up to their U. S. levels, that would generate for the same tax rates—so leaving tax rates the same, closing the prosperity gap between Canada and the U. S.—so much additional tax revenue, it would wipe out the deficit. It would allow governments to have enough money to pursue a lot of the goals they want to pursue in a direct way, not indirectly by restricting foreign investment and so on.

Thank you.

● (1025)

The Chair: Thank you, Professor Hejazi. Thank you, Mr. Van Kesteren.

We'll now go to Mr. Angus, and let's make sure we don't use too colourful language here. It is a parliamentary committee.

Mr. Charlie Angus: Oh, certainly, sir.

The Chair: My five-year-old does watch his father on the Internet.

Mr. Charlie Angus: For Mr. Van Kesteren's sake, I think my Dad's talk about the horse dung was more about Milton Friedman than Keynes.

The Chair: Just let me say that these are publicly televised, and my five-year-old does watch his father at committee on the Internet from time to time, and I don't want to have to cover his ears. Look, we all—

Mr. Charlie Angus: As long as this isn't coming out of my time, you can talk as long as you want.

The Chair: We can all emit a string of blue expletives, and certainly when I'm in my shop replacing a ball joint on my car, I can let loose with the best of them, but it's a parliamentary committee, it's a public forum, so let's try to keep it....

Go ahead.

Mr. Charlie Angus: Okay, as long as it's not coming out of my time.

The Chair: It's not coming out of your time. Go ahead.

Mr. Charlie Angus: Again, I want to get back to our theories of economics. You know, I look at foreign investment. DeBeers came into Canada, and they are an old company. They want to control the diamond market for the next hundred years. They like the climate here, in terms of it being a good market. They invested a billion dollars and they built Victor diamond mine, and they're going to build a number of mines here.

Falconbridge was a great international company. It wasn't a fixer-upper. Falconbridge was very competitive; it was very smart. Inco was very smart.

We didn't have companies buying low and fixing them up. We saw companies that bought extremely high because there was a lot of flush money out there in the market and people were grabbing up companies. Xstrata—there's a company with no history, no record. They were just buying up companies, so they were allowed to.... The Conservative government just rubber-stamped it, didn't really look at their track record.

Now we see a lack of investment. We see copper refineries being shut down. We see the long-term potential of deposits.... I mean, mining is a long-term investment. These guys are high-grading the deposits; they're going to be out of Canada in 10 years, and the synergies that are lost from a takeover like that will never be recovered in the mining industry.

So the question we always come back to is, where is the net benefit to Canada? It's not to say there's going to be no investment, but there will have to be some conditions because these are not just private markets; these are public resources. With telecom, we deal with public airwaves; there's a public interest.

Professor Morck, how do we maintain that balance of ensuring that Canadians actually benefit from these deals at the end of the day?

Prof. Randall Morck: You're raising real issues. Capitalism has booms and busts. Capitalism has stock market bubbles. Capitalism has ego-driven takeovers. I said, when I was talking about multinationals, that lots of American firms that try to become multinationals fall flat on their faces precisely because they go abroad, buy high, don't buy the right companies or companies they know how to run, and they screw up, and their own shareholders back in New York suffer.

So I'm not saying this is perfect. I'm not saying this is the one thing you have to do and everything will be wonderful, but in my own research.... Again, I have done a string of papers with Andrei Shleifer at Harvard and Rob Vishny at the University of Chicago, where we look at this issue of takeovers. There is no question that a lot of takeovers are misguided, but enough of them are fixer-upper takeovers that you're better with takeovers than without them. That's what our research says.

Mr. Charlie Angus: So when you have a problem, is that the role of government then?

Prof. Randall Morck: Can government do everything? Do we want government to come in and say, this takeover can go ahead and that one can't? Think of the lobbying opportunities that would generate if government actually put itself in that position. Maybe we have to accept some errors on one side to get the good benefits on the other. That's what we're in: government is about choosing the least bad policy sometimes, I think—

● (1030)

Mr. Charlie Angus: I wanted—

Prof. Randall Morck: If I could just finish, I think with something like takeovers and foreign takeovers, we have to accept that there are costs and benefits, and we have to say a good policy is one where the benefits outweigh the costs.

Mr. Charlie Angus: I see.

I'm running out of time. I just want to follow up on a few things.

Prof. Randall Morck: I think the chairman gave you extra time, if I understood.

Mr. Charlie Angus: Well, it didn't come out of my time. I won't say anything about Milton Friedman, so he doesn't cut me off again.

Prof. Randall Morck: Actually, I knew Milton Friedman, so if you want, I can respond.

Mr. Charlie Angus: No, it's okay. We'll talk afterwards.

Voices: Oh, oh!

Mr. Charlie Angus: Talking about effects on the telecom industry, my colleague, Mr. Braid, was concerned about the iPod levy under a compensatory regime for copyright. However, at the same time, his government is negotiating under the proposed anti-counterfeiting trade agreement on issues where they were looking at eliminating the safe harbour regimes for ISPs, so that ISPs would now be liable for lawsuits for whatever the consumers download.

I'd be very concerned that opening up cable companies to massive lawsuit infringements because they run the pipes would be seriously detrimental to people's willingness to invest in that market and to put forward more to try to capture more of the market. Do you think getting rid of ISP safe harbour liabilities would be a problem for our region?

Prof. Randall Morck: I think you've put your finger on another economic scatology here. There are these economists who run around saying that intellectual property rights need to be stronger, because having some copyrights promotes innovation. To an extent that is true. If you're an innovator and you have no patent protection, you're not going to innovate. If you're a musician and you have no copyright protection, you're maybe not going to write your songs. But copyright protection and patent protection can both easily be too strong too.

Mr. Charlie Angus: Right.

Prof. Randall Morck: If the patent protection is too strong, then a drug company may develop one drug and then rest for 100 years and not do anything more; or the musician may write one great song, live off it for 100 years, and not write the next song, because he doesn't have to.

Economists really have no idea—absolutely no idea—how strong intellectual property rights should be. We know that if they're too strong, it's bad. If they are too weak, it's bad. But we don't know what the right number is, and I am very worried that a lot of people in governments all over the world just think that stronger property rights are better, and that is just clearly not true. But where it should be, we don't have those numbers. We don't know.

The Chair: Thank you, Professor Morck.

Thank you, Mr. Angus.

Prof. Randall Morck: That was a bit off topic, I admit.

The Chair: Now we go to Mr. Wallace.

Mr. Mike Wallace: Thank you, Mr. Chair.

I want to thank our guests for excellent presentations, and there were also good questions from everybody on this particular issue.

I have three questions. One is for Professor Hejazi. You talked about Canadian companies investing elsewhere around the globe. Are they facing obstacles in other countries? Are other countries putting up barriers to entrants and foreign investment like we're seeing here in Canada? Are there domestic content rules they are facing, or are we a little behind where the rest of the world is?

Prof. Walid Hejazi: I can't speak to the domestic content rules globally, but in terms of restrictions on entry, yes, the OECD study rates Canada as one of the most restrictive developed countries.

When you start thinking of developing countries, they tend to be more open to foreign investment, but that openness often comes with additional rules around joint ventures. The idea in China, for example, is that when a foreign company comes in, it needs to partner with a local company. One of the reasons for that is the transfer of technology.

Just to answer your question directly, among the developed countries, Canada is ranked as one of the more restrictive, mainly driven by these three key, closed infrastructure sectors: telecom, finance, and transportation. So we are restrictive.

Mr. Mike Wallace: The other thing we've heard at this committee in our other meetings is that the telecom business is integrated—though not fully—with other organizations, including the broadcasting side. Is the integration of that industry an issue for you at all in terms of foreign investment?

Prof. Walid Hejazi: No, not at all, in the sense that you have to think about government regulation and where it allows entry and where it doesn't. For example, if the broadcasting and telecom industries have different sets of regulations, then obviously that's going to impact the kinds of investment you're going to see coming into Canada.

What it may also do—and again, this is something that needs to be looked at carefully—is it may drive foreign participation in some parts of the sector, but not as much in others. What's really interesting about that possibility is that you get these joint ventures or alliances between foreign and Canadian companies. They're able to work together so that the Canadian company, through its partnership with foreign companies, is able to access technology that's developed on the global stage.

So we'd have to think more carefully about that.

● (1035)

Mr. Mike Wallace: I have a completely off-topic question for both of you.

I'm not sure if either of you has taught in other countries, but is there a difference between business students in Canada and the entrepreneurial spirit here compared to business education in the other countries you've experienced? And what difference might that be?

The Chair: Go ahead, Professor Morck, and then we'll go to Professor Hejazi.

Prof. Randall Morck: I've spent most of my career teaching at the University of Alberta. I've also taught at Harvard and Yale in the United States. I've taught at the National University of Singapore, and I've given shorter courses at various places in Europe, from time to time.

No, I'd say that the students in Alberta are very enthusiastic entrepreneurs, and the quality is actually quite high—not that much different from Yale. It may be a tad below Harvard.

Prof. Walid Hejazi: I've given lectures and short courses in probably a dozen countries in South America, the Middle East, and Asia. In July, I'll be in China interacting with MBA students for a couple of weeks.

There is one thing that I would say about Canadians that's different from what I see globally, and I speak here of the experience at the Rotman School. Something like 87% of our 400 or so MBA students who graduate take jobs not in Canada, but Toronto. So from my University of Toronto experience, it seems that Canadians tend to like to stay in the Toronto area, and they don't really like to go global.

At the Rotman school, we now have a new course called an international study tour, where we take students globally. We take students to China for two weeks. We take students to India. I took students to Turkey and the United Arab Emirates and Jordan. Currently, we have 15 students in Brazil. The whole idea is to give these students an international perspective.

I think our students are very good, but they're not necessarily as adventurous as those I've seen in other countries.

The Chair: Thank you, Professor.

Thank you, Mr. Wallace.

If you have a brief question, go ahead. We do have enough time.

Mr. Mike Wallace: I have one brief question, and it's for Mr. Morck on the definition of productivity.

You talked about the value of inputs and the value of outputs. General Motors produces cars, and Mercedes-Benz produces cars. The value of a Mercedes-Benz is higher than the value of a General Motors vehicle.

Are they more productive because the value of their vehicle is higher?

Prof. Randall Morck: No, your output is the price of that output times the amount of output you produce. So it's your revenues from selling your output, minus the cost of all the inputs you use.

Mr. Mike Wallace: So you can be highly productive but produce a low-cost item?

Prof. Randall Morck: Yes, as long as the revenues you get are more than your costs, you're contributing to productivity for the country.

Mr. Mike Wallace: That's a clear fact. Thank you very much.

The Chair: Thank you very much, Mr. Wallace.

Mr. McTeague.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you, Chair, and I thank the witnesses for being here.

I want to look at this question of foreign investment from a rather different perspective, not what it might mean in terms of a boon for consumers, Canadians, and investments here in Canada, but from the other perspective that perhaps there is an abundance of technology within this country that would be a prize target for some large corporations around the world who, in one fell swoop, could acquire many of those assets.

I think, Professor Hejazi, you talked a little earlier about hollowing out, and I don't quite see it that way, but perhaps as rendering the Canadian telecom industry into something of a branch plant economy for the communications sector.

Knowing that the Telecommunications Act was created many years ago to ensure such things as every Canadian receiving a telephone, for example, as a matter of public policy, the next objective under the act would be to see everybody having access to wireless. What guarantees are there that an opening up of foreign investment would not prevent the possibility of new Canadian innovations and technology simply being acquired and of course jobs being lost here?

There are concerns about the Privacy Act with respect to the U.S, including, for instance, a company like AT&T purchasing several Canadian assets and then subjecting Canadians to the Patriot Act, or at least challenging the Privacy Act under the U.S. Patriot Act. How do you see the possibility of concentration through leveraged buyouts at a time when of course optimizing profit as opposed to public policy seems to be what is behind many of the initiatives you're suggesting through the benefits of foreign direct investment?

● (1040)

Prof. Randall Morck: Who would you like to answer...?

Hon. Dan McTeague: Mr. Hejazi, perhaps.

Prof. Walid Hejazi: First of all, the issue of the Privacy Act is very important. At the University of Toronto, we do a lot of work on outsourcing, the whole idea being that when you have these U.S.-affiliated companies getting access to servers, and so on, with Canadian information on them, all of that can be transmitted to the U.S. government. There are lots of issues of privacy with that. It is something that we would need to look at very, very carefully, the idea being that an American company could buy up a Canadian company and this would compromise the Privacy Act. That would put a lot of Canadians at risk, and I think it's something that we need to think seriously about.

But the other thing I would say is that we shouldn't think about all investment coming into Canada as just being U.S. investment. It's a big world out there, and when you look at the share of investment coming into Canada, increasingly it's coming from countries other than the United States.

The other thing I would say is that when a foreign company comes into Canada, they're coming into Canada to buy an asset to maximize its value. They're not simply going to buy an asset in Canada and somehow just strip it down and then move away. Why would they do that? They're going to take that asset and operate it in the most efficient way. If the most efficient way for them is to gut it and take everything to the United States, then I don't see that happening.

What I see happening is foreign companies coming into Canada, participating in this sector, and enhancing our access to capital and technology—because foreign companies get access to technology through their networks—and as a result, the Canadian economy is going to become more competitive. I should say that industries that have more foreign participation in them are more productive than industries that do not.

Thank you.

Hon. Dan McTeague: Just before I go to Professor Morck, on that very point, what guarantee is there that we won't lose Canadian innovation or R and D? That is really the reason for which the investments from a foreign company would be made.

More importantly, why does a company have to have control of that new Canadian asset in this scenario of a liberalized telecom sector, when in fact they can currently own all the debt they want? Is there a problem currently with the access to capital that telecom companies are expressing? I understand that many of them have not even used up their foreign content under the current guidelines.

Prof. Walid Hejazi: Well, investment, for example, in broadband access in Canada lags that in other countries. That's what the World Economic Forum has demonstrated.

But I think, as was alluded to earlier, that Canadian companies adopt new technologies at a slower rate than foreign companies do. Canadian companies invest, on net, less in innovation. What the evidence clearly shows is that when a foreign company comes into Canada, that foreign company is able to deploy its technology more quickly and to a greater extent than a Canadian company does. So it is possible that when a foreign company comes to Canada, the R and D may or may not be done in Canada. I don't know what the impact will be, but one thing is very clear: the R and D the company will have access to will go up and the R and D and innovation will be more effective.

Thank you.

The Chair: Thank you.

Hon. Dan McTeague: Professor, I have a comment to make with respect to the government's position on the question of forbearance two or three years ago, when it in fact cut off at a very premature level—certainly in my opinion—the possibility for more competition. That leads us to the idea that maybe we have not explored fully and completely the possibility of greater innovations, greater competition, within Canada before casting our nets a little wider to attract foreign investment.

Prof. Walid Hejazi: That's a very good point.

I was at Industry Canada back in January, where we had a round table discussion on exactly this issue. There are many areas in which there can be improvement. One of them has to do with the idea of Canadian businesses having the capability to make the business case either to get funding for innovation, or, once an innovation is undertaken, to make the business case to move it to commercialization.

So your point is a good one, that allowing in foreign competition is not the silver bullet. In my opinion, that is one of many areas where we can improve the competitiveness of the Canadian economy.

● (1045)

The Chair: Thank you, Professor.

Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair, and thank you to both witnesses for coming here today.

Mr. Morck, I think what I heard you say is that University of Alberta business students are the best and brightest in the world—

Voices: Oh, oh!

Mr. Mike Lake: —particularly the class of 1995.

Is that correct?

Prof. Randall Morck: Yes, that, or very close to it.

Mr. Mike Lake: Thank you.

If I could, I just want to touch on the issue of the prosperity gap and venture capital, something that both of you brought up.

Could you maybe speak a little bit to the correlation, the cause and effect, between the two? I know it's not specifically related to what we're talking about, but I did find it an interesting part of the discussion.

Prof. Randall Morck: Well, this is actually a really good example of government policy gone incredibly bad in Canada. We had a nascent venture capital industry, and then the government got the idea that they should subside venture capital by setting up labour union-sponsored venture capital funds with huge tax breaks. By setting those up, they drove the existing real venture capital funds out of business. So we ended up virtually with only the labour-sponsored venture capital funds.

Now what does a venture capital fund do? Well, venture capital funds are very good at talking to people with PhDs in things like electrical engineering and molecular biology. In fact, they have their own staffs of PhDs in those areas, and they tend to be quite specialized. So a venture fund in Silicon Valley might specialize in a particular type of electrical engineering. It might have a staff of its own PhDs, or PhDs on call in that area, to evaluate proposals. That lets the venture fund offer fairly generous financing to people with good ideas and to screen out bad ideas.

Now what happens if you put a labour union in that position and ask them to do that job? Well, it's probably going to be very hard for them to screen out the bad ideas and to offer generous terms to the people with good ideas. In fact, they're probably going to have great difficulty telling one from the other. What happens is you're going to get the Canadian firms offering the same terms to everybody. The U. S. firms will offer generous terms to people with good ideas and will turn away people with bad ideas. The Canadian firms will offer roughly the same terms to everybody.

What's going to happen next? All the guys with good ideas go to the U.S., and the Canadian venture capital funds end up with the guys the U.S. ones wouldn't fund. So we end up with huge failure rates and, generally, a devastated industry.

There's a very nice work by Josh Lerner and Paul Gompers at Harvard comparing venture capital around the world, and they discuss the Canadian experience at length.

Mr. Mike Lake: Professor Hejazi.

Prof. Walid Hejazi: I don't have much to add. I agree with everything Professor Morck has said.

It's well known that these labour-sponsored venture capital funds in Canada do exactly that: they don't do a very good job at screening. So what ends up happening is that the good projects are subsidizing the bad projects, and you get bad outcomes.

I think this feeds into the general consensus that the ability to identify good projects, to make the business case for them, and to take them to market is another area that needs to be worked on in the Canadian context.

Thank you.

Mr. Mike Lake: In thinking about this prosperity gap, and more specifically the particular discussion we're having right now on telecommunications, is it fair to say that the latter is a smaller piece of the overall prosperity gap, and that if we were to take a look at other sectors they would just add to that?

Then, to maybe take it even further, I think you were saying that the telecom sector actually has a compounding effect because it impacts on the gaps we might see in other areas.

Is that fair to say? Maybe you want to elaborate on that a little.

Prof. Randall Morck: Well, as I said, my research shows that developments in the telecom industry, and information technology more generally, have ripple effects on the stock prices of firms in just about every other industry in the economy. The development economists call these “general purpose technologies”. They're things that are used by everybody, from forestry companies to meat packing companies. So there are some industries that have these general purpose roles in the economy and are different from other industries. They're the ones that provide these interconnections. So an inefficient telecom industry has this impact, not only on itself but also on every other industry that depends on it.

That, I think, is the key thing to come away with. So things that screw up the telecom industry are very, very expensive—much more expensive than a similar measure, say, for foreign ownership in meat packing, which would matter to meat packing but not much else. Foreign ownership restrictions in telecom, or other policies that limit the efficiency of the telecom industry, affect everybody.

● (1050)

Mr. Mike Lake: Professor Hejazi.

Prof. Walid Hejazi: Yes, I completely agree.

I would add that there are three sectors that I call critical infrastructure sectors. These are telecommunications, finance, and transportation.

I'm just going to give a quick example of transportation. I know it's off topic, but if you think of the recent debate in Alberta, there are a lot of people from Alberta going to Dubai or to Abu Dhabi, because there is a lot of investment going on between these two locations. So the Emirates want to do a direct flight from Edmonton, or Calgary, to Dubai or Abu Dhabi. The flight would be by Etihad, but Air Canada is preventing that. Air Canada is saying, “No, we want people to go from Alberta to Toronto, and then Toronto to the U.A.E.”

The question I ask is, why doesn't Air Canada provide this flight itself? Why would it want to prevent another carrier from flying it? As a result, everybody in Alberta who wants to do business in the gulf area, where we have a lot of synergies, has this huge cost of having to stop in Toronto. Toronto is a great city, but they only see the airport, and they sit there for four or five hours before they make their transfer to another flight over to the U.A.E.

So there are three sectors that are critically important, and when you raise the cost for business of using those three sectors, you have a ripple effect that impacts the entire economy. I would argue that those three sectors contribute to a large part of the prosperity gap. Restrictions on entry to those sectors explain a large part of the prosperity gap that Canada sees and a hit to our competitiveness.

Thank you.

The Chair: Thank you.

I think Mr. Lake would want to know what those three sectors are, Professor Hejazi.

Prof. Walid Hejazi: They're telecommunications, finance, and transportation.

The Chair: Okay, thank you.

We will now go to Madame Lavallée.

[*Translation*]

Mrs. Carole Lavallée: Normally, I do not sit on this committee, but on the Standing Committee on Canadian Heritage, since I am the Bloc Québécois critic for heritage matters, specifically for arts and culture.

The cultural community in Quebec is extremely concerned about opening telecommunications to foreign ownership. It is very clear to us in Quebec that telecommunications and broadcasting are increasingly the same thing. This is already the case with some telecommunications equipment, but, overall, it is increasingly the case and will be the case even more. He who controls the medium controls the message; that is very clear to us in Quebec. You know McLuhan better than I do, but that is what he said. It is still true, in my view, and it will become even more true in the future.

I am sure that you have a third-generation smart phone. I am sure that you also have free applications, including some cultural ones. Your wireless company, which essentially comes under the Telecommunications Act, has made some cultural choices for you: CBC television, for example, or CBC radio, or Maclean's magazine or even Disney videos—because Disney has free applications too. Bell provides applications of that kind when it provides its wireless equipment. In other words, telecommunications companies are making cultural choices for you in Canada. They are making different ones in Quebec, and they are not subject to the Broadcasting Act.

Even in France, wireless telephones will carry television programs. I would remind you that, even in the United States, you cannot acquire a telecommunications company any way you please. Their legislation says that you have to establish your credentials, for national security reasons among others.

So telecommunications and broadcasting are moving closer and closer together and getting harder and harder to tell apart. Mr. Hejazi, earlier, you said that the telecommunications sector is critical. Mr. Wilson, the author of the report that has prompted our present study, also says that it is very difficult to separate telecommunications from broadcasting. The CRTC president sat in the chair where you are now, Mr. Morck, and told us that, because telecommunications and broadcasting are so intertwined, we have to combine three acts: the Telecommunications Act, the Broadcasting Act, and the Radiocommunication Act.

But we must also protect and promote the cultures of both Canada and Quebec. This is so true that Canada was one of the first countries to sign the Convention on the Protection and Promotion of the Diversity of Cultural Expressions precisely in order to protect those cultures. We also know that the foundations of Canadian culture are shakier than Quebec culture on a number of levels.

Are we afraid of being bought up by foreign companies? Yes. The world of culture is afraid of being bought up by foreign companies, because we know what happens when it is. We also know what happens when there is no regulation. There is no regulation over cinema screens, for example, meaning that 98% of the screens in Canada are showing foreign films, in particular, American ones.

In Quebec, the situation is a lot less noticeable given the strength of our nation's culture, as you know. We have even managed to take on so-called American blockbusters. Last summer, for example, the Quebec film *De père en flic* took in more at the box office than all the American movies showing at the time, including Harry Potter, as an example.

You might say that lack of regulation is, in general, not an economic principle, but a political one. When there is no regulation, companies do nothing. They sit here, they beg us not to regulate, and they say that they will do it themselves. Of course, they do nothing and I could give you a number of examples.

So, there you go. Those are my comments. I just want to add one more thing, Mr. Morck. You said earlier that singers do not produce more songs when they have had one big hit and have made a lot of money. That is not true. That would mean that guys like Luc Plamondon, or singers like Céline Dion would not record songs anymore. Those are examples that you are familiar with, but I could also give you examples like Fred Pellerin, Karkwa or the Colocs.

● (1055)

What you are saying is not true. Singers and the world of economics are not motivated by the same principles. Those artists do not sing just to make money necessarily; they sing to express their emotions and their souls, if I may put it like that. They are in a different ballpark entirely.

I would like to hear your comments on that.

The Chair: I have to ask you to be brief, Mr. Morck.

[*English*]

Prof. Randall Morck: You need to have a look at what our copyright laws actually are for songs and written works. The international standards now allow the revenues from a song to persist from copyright well beyond the lifetime of the person who actually wrote it. So people who want to use that song and download it, etc., have to continue paying for copyright privileges, perhaps for a generation after the person dies. Is that really going to encourage more singing?

You may well be right that maybe these people will keep singing no matter what, in which case we don't need any copyrights on songs, do we? You have to find a median ground here that makes sense and rewards people who are innovative and creative, but that doesn't saddle the rest of us with paying for the privilege of using their innovation and creativity forever—and which doesn't let them rest on their laurels.

I'm willing to believe—

The Chair: Thank you, Professor Morck.

Briefly, Professor Hejazi, and then we're going to adjourn.

Prof. Walid Hejazi: I'll just make two quick points. First, there is a lot of evidence to show, even with charitable giving, that when taxes on charitable giving change, there is a big change in actual charitable giving. So I do agree with the general point that the financial incentive and how people respond differ between singers and artists and business people, but I think that just reinforces the point we are trying to make, that having one policy that makes all of us pay to protect Canadian content is the wrong way to go.

The right way to go is to create an environment that is productive and innovative to increase the amount of GDP and increase the tax base, so that we get more tax revenue that we can use to directly encourage Canadian content in the arts, and so on. I think that is the right way to go.

● (1100)

The Chair: Thank you, Professor Hejazi.

Thank you to both of our witnesses today for your testimony. It will help us in drafting our report.

I want to thank members of the committee.

This meeting is adjourned.

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