



**CANADIAN FEDERATION OF
INDEPENDENT BUSINESS**

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"INDEPENDENT BUSINESS--CANADA'S SLEEPING GIANT WAKES UP!"

Five years ago this month, I took a bath. It may not have compared to Cleopatra's but to me it was the most memorable bath I ever took--because, while sitting in the tub that night, I read the White Paper on Tax Reform by our former Finance Minister, Edgar Benson. Having some knowledge of what was in the original Royal Commission Report which had been issued earlier, and being a teacher of finance at Ryerson, next morning I wrote a letter of protest to Mr. Benson and had my father include the letter in one of his famous newspaper ads. Let me assure you that all his other ads have been his own.

The result was the formation of a group which we called, The Canadian Council for Fair Taxation. This organization acted as a catalyst for mobilizing public opinion against many of the White Paper proposals. Although most of the original White Paper proposals never saw the light of day, the horrendous complexities of the resultant legislation still occupies our attention today.

The great bulk of our supporters were small and medium-size, Canadian-owned businesses. It was their overwhelming desire that the organization continue on a permanent basis.

There was a strong rationale for creating an activist, political body representing the views of Canada's independent business community.

In an age of bigness and the multi-national corporation, there was no organization that could represent, for instance, the major integrated oil company as well as the independent gas station operator. There was no organization which could speak for the large supermarket as well as for the small, independent grocery store on the corner. There was no organization which could speak for the small, independent Canadian businessman who has to sell his products to large branch plants that receive instructions to buy from headquarters in Cleveland. There was no organization that could represent chain stores who wish to operate six nights a week as well as the local hardware dealer who wants to have some time to spend with his family.

Our examination of the workings of government revealed that much of federal policy is determined by a process whereby mandarins in the private sector talk with mandarins in the public sector. Invariably, the bulk of the expertise in the country is employed directly or indirectly by two hundred of Canada's largest corporations. Without any kind of conspiracy and more by default, public policy in the country was being determined by a few, very large, international businesses.

The concept of the Federation was formulated by myself and a friend and colleague, Raymond J. Sherk, who is presently responsible for the administration and field operation of the Federation.

We learned that there were over 650,000 businesses in Canada employing over 60% of all Canadians and paying over 50% of all taxes.

Truly, independent business was a "Sleeping Giant"!

The Federation

The Canadian Federation of Independent Business is a non-partisan, political action organization of small and medium-size, Canadian-owned businesses in every corner of the country. From a core of 2,500 original supporters, our membership has grown to over 20,000. The Federation has a steady growth rate of over one thousand businesses per month. We are projecting a membership of 50,000 for early 1977.

We now own our own head office building in Don Mills, Ontario, with facilities in Ottawa, Montreal and Vancouver. Our staff of over sixty operates in all ten provinces and in both languages. Our objectives are simple and clear-cut: To preserve and protect a system of free and competitive enterprise in Canada and: To give the independent a voice in laws that govern business and the nation.

We consult privately and confront politically, if necessary, forces in government, business and labour.

When we organized, it was obvious to us that our major problem would be communicating the thoughts and needs of small business to government and in many cases, vice versa. Our answer was a publication which we called The Mandate. The Mandate is published nine times a year. In it are questions which always begin by: "Are you for or against" and go on to explain the particular piece of legislation before the provincial or federal Parliament. The questions also outline the purpose of the legislation and the arguments for and against it. The Mandate provides space wherein the businessman can make a personal comment to his elected representative. He then

returns his ballot to us. They are then separated according to constituency and forwarded to the appropriate federal Member of Parliament. The National Summary of all the views of the members provides a mandate for political action. The Mandate, combined with a membership of large numbers of small businessmen in every region of Canada provides the Federation with a great deal of credibility.

It is very satisfying, after only three years, to see the small business community influencing tax legislation, manpower policy, competition law and legislation improving the provision of funds and financial services.

The Sleeping Giant Awakens

And Doesn't Like What He Sees

Our Mandate and publicity have had an electrifying effect on the small business community. In short, the "Sleeping Giant" is waking up and he doesn't like what he sees! Let me give you a few examples:

Inflation

Small businesses across Canada are carrying inflated inventories financed at high interest rates. Should there be too rapid a decline in consumer purchasing, bankruptcies will occur from coast to coast. Unfortunately, John Turner has limited options in dealing with inflation in the short run. We are a monopoly-dominated economy, heavily integrated with that of the United States. In the long run, small businessmen want government to develop more effective methods of dealing with inflation. At present, the in-

effectiveness of monetary policy results in small business paying higher interest rates for longer periods of time than should otherwise be necessary.

This means that the small businessman pays more than his share in the battle against inflation. For example, he pays 12 3/4% to the banks as compared to the 4.4% the provinces (excluding Quebec) are paying to borrow our Canada Pension Plan contributions. No wonder the provinces are spending money like drunken sailors!

Big business is less reliant on the capital markets and the chartered banks for their financing because of capital cost allowances and other types of tax deferrals granted by government. In effect, the largest businesses, with the best credit ratings receive the equivalent of billions of dollars of interest-free loans!

International Business

To independent business, foreign investment is a mixed blessing. It has brought us a high standard of living in a much shorter period of time than would otherwise have been possible. However, it is a major inhibitor to the development of Canadian business. Competing with a U.S. subsidiary, an independant pays higher interest rates at the bank as he offers only his own personal collateral and business assets, as compared to the guarantee of the parent corporation. In times of tight money, such as in 1969, independants had to curtail operations while branch plants received unlimited funds from their parent companies. As well, branch operations do not have the operating costs of an independant, because the parent provides marketing, technical and

management services.

Another common and heartbreaking reality for independants who import products is the threat of the loss of lines to branch plant competitors. U.S. multi-nationals, bargaining with European, Asian and South American exporters use the clout of the large U.S. market to make distribution arrangements that include Canada as part of their market.

Our status as one of the world's major suppliers of resources provides a minimum of benefits to independent business. A large *company in the forest industry* ~~pulp and paper company~~ will sell lumber to its own wholly-owned subsidiaries in a period of short supply and will sell the rest to profitable export markets and will cut off supply to Canadian independants. For example, Canada is a major producer of aluminum--yet, a small Canadian manufacturer of aluminum aerials had to wait five months last year for his supply. He tells me the delay is now only six weeks--only because the U.S. government released a stock pile during the current year.

In Canada, one of the most profitable moves that can be made is to buy a Canadian independant and convert it to a branch plant. The independant gets an offer he just can't refuse. Often the brokerage function is provided by Canada's chartered banks, with Canadian savings used to finance the purchase.

Energy

It wasn't too many years ago that the former Energy Minister, Joe Greene, was telling Canadian and American audiences that there was an unlimited supply of natural gas in Canada. As a result, Canadians were happy to see gas exported to the United States. It

now seems those former estimates of our reserves were overstated and, as a result, there is an urgency in building a large pipeline project to bring expensive Mackenzie Delta gas to eastern markets. These large projects can have a devastating effect on the viability of small business because of the heavy demand for capital, materials and manpower. For instance, welders are being offered twenty dollars per hour in Alberta today. What local garage can compete with that!

The new higher price for gas is another cost factor squeezing the profitability of small ventures. A large steel company, for example, can absorb higher energy costs because it has the market power to pass them on to its customers. A small, independent manufacturer may have his products priced right out of the market. In 1975, for example, Canadian natural gas delivered to Sarnia will cost approximately \$1.20 per thousand cubic feet. This will compare to Texas-Louisiana gas delivered to Detroit at a weighted average cost of approximately 60 cents per thousand cubic feet. Thus, products manufactured in the northern United States will have another competitive advantage. U.S. customers purchase natural gas from old wells at a lower price than gas from new wells. In Canada, however, prices of natural gas from both old and new wells have been cleverly raised. And now we have the federal and provincial governments cutting each other's throats for the biggest share of the pie. One would think the international oil industry and the federal and provincial governments are conspiring against the consumer and the small business community.

Regionalism

One of the most interesting discoveries that the Federation has made is the similarity in the attitudes of small businessmen across Canada. A study of over one hundred national issues revealed only a variance of about 1% in views of members from coast to coast.

In our opinion, many of the public utterances of our provincial premiers are deliberately designed to create divisions that do not exist. We suspect that many of these divisions in the country are fostered by vested interests with north-south, economic ties and are not reflective of the fundamental views of Canadians coast to coast! If we have done nothing else, we have proven that there are more reasons for Canadians sticking together than drifting apart.

Government

The independent is Canada's busiest unpaid tax collector. He collects federal and provincial income tax, federal and provincial sales tax, unemployment insurance and Canada Pension Plan contributions, Workmen's Compensation, real estate and business taxes etc. Think of the forms the small businessman must fill out.

Incomprehensible tax laws have increased the costs of legal and accounting services by as much as 300% per year since tax reform. However, many forms of government spending designed to transfer purchasing power from the major centres to the rural communities and slow-growth regions are of great benefit to small business. Spending programmes which transfer funds to those in

positions of dependency such as family allowances and old age security are the most effective and administered at the least cost. Unemployment insurance and welfare legislation, on the other hand, create dependency and are more threatening to small firms because of the impact they have on attitudes toward work.

The complexity of government and the growth of the civil service is the real threat to the independent business community, rather than the geographical spending programmes which provide markets in every corner of this country. The explosion of legislation, especially at the provincial level is almost totally incomprehensible to the small business community. For example, the large number of bills passed by the B.C. government, with little public dialogue, can be described as amateurism, rather than socialism. Bad legislation always weighs more heavily on small firms since they cannot afford to hire lawyers to fight back.

The Sleeping Giant Is a Political Animal

As the independent business community organizes, on a federal riding basis, in every province, the question most people ask is: "Are we planning to become a political party?" And the answer is an emphatic, "No". First of all, we couldn't find a home in any of Canada's political parties. To be effective, we must work at both the federal and provincial levels of government. We will attempt to influence public opinion and public policy, regardless of the party in power.

We do, however, have some key objectives:

Taxation

We will attempt to build a stronger tax differential between

Canadian business and foreign-owned branch plants operating in Canada, in order to recognize the incredible cost advantages that exist in a branch operation. John Turner's proposal to increase the retained earnings of small, Canadian-owned companies is a step in the right direction.

It is also our goal to provide tax incentives to direct the savings of individuals into risky, small businesses. Individuals are a more significant source of risk capital for new ventures than the conventional financial institutions. The real need for risk capital is at the \$50,000 level. Venture capital firms find it difficult to properly invest these small amounts because of the high cost of screening and servicing the investment. Every community in Canada has untapped capital and know-how that could be supporting the development of local businesses. Through the use of the tax system, it should be possible to marry an entrepreneur with someone in the community with know-how and capital. With this combination, it would be possible to then get better conventional financing from the chartered banks.

Self-sufficiency

Canada is a growing market in the world and it is foolish for us to believe that a great many products that we import could not be manufactured in this country. In other words, it would be possible to achieve a greater degree of self-sufficiency without being isolationist. It will be necessary first, however, to increase the distribution of imported products by Canadian firms. Our trading partners must be encouraged to distribute their products in Canada via Canadian-owned companies.

In order to build markets for domestic businesses, we will encourage the use of the purchasing power of the federal and provincial governments. A premium paid by the purchases of products from small, Canadian-owned suppliers would be an important first step in making small firms viable. A business must first be profitable before it can innovate and before it can export.

The Federation will push for a public debate on the Auto Pact in light of its impact on markets and opportunities for Canadian-owned businesses. We deplore the fact that Canada is becoming a nation of metal bangers and assemblers. For a country that in 1973 purchased more passenger vehicles and trucks than the combined world production of American Motors, Mercedes-Benz, Volvo and BMW, it would seem that it is time for a more serious consideration of policies that encourage the development of a distinctly Canadian automobile.

Financing

The banks are making a genuine effort to improve the provision of operating funds and financial services to the small business community. We will, however, attempt to improve the term financing of small business in Canada. We will aggressively promote the Small Business Loans Act which provides a fixed interest rate for ten years for loans of up to \$50,000 at interest rates below those normally provided by the chartered banks. We will ask the government to extend the Small Business Loans Act to provide inventory financing for small business. The present Act is designed essentially for financing fixed assets. It does not seem unreasonable that if government can provide 7% loans to

poverty stricken nations like oil exporter, Iran, to finance the sales of approximately twenty-five multi-national corporations through the Export Development Corporation and provide interest-free loans to other foreign countries, it can make it possible for domestic, small firms to get relatively lower cost financing under the Small Business Loans Act, whose interest rate is presently 10%.

Entrepreneurship

The Federation will focus public policy on new venture formation. There will always be a high failure rate during the first five years of a business' life. However, any analysis of failure rates will show that the highest failure rates are in the most prosperous regions. It is obvious that the freedom to fail is related to the freedom to succeed. Most entrepreneurs succeed on their second or third attempt. Policies should be directed toward removing the inhibitors facing new entrepreneurs. This requires policies that insure the free flow of capital, material and labour to Canadian businesses.

Regardless of the forces that small businesses encounter, there is a strong drive for independence among a significant portion of the population. The small businessman is an economic guerilla who survives by his wits. His entrepreneurial spirit exists all through society, even in the school system, despite all the public concern about young people's attitudes towards business. The teaching of business in our educational system must be geared toward kindling the creative spirit, with the emphasis on starting your own business, rather than on managing it for someone else. Too many of our business schools do little more than provide cannon fodder for the large corporations.

Conclusion

The immediate future is perilous for all of western society. Governments are powerless to prevent a world-wide recession.

The ingenuity of man and the market system, however, will result in the development of new sources of energy. But the rate at which the U.S. economy is gobbling up resources of all kinds represents a threat to all Canadians. Surely we must develop a lifestyle of our own that emphasizes the conserving of resources, rather than the consumption of resources. No free enterprise system can possibly flourish if we suffer prolonged periods of shortages of basic raw materials and energy.

In the long run it is possible for Canada to provide the greatest opportunities for its citizens than any other country in the world. However, the problem that faces all Canadians is the effectiveness of our political institutions. The "something for nothing" philosophy must be challenged. Concentrations of power must be diffused. A strong central government with the will and means to challenge monopoly forces wherever they exist is essential to prevent parliament from becoming redundant. Buying votes and putting band-aids on our problems of inflation, foreign ownership, regional disparities, industrial and resource policy, etc.etc.etc., cannot continue.

The independent business community wants to help fashion the society of the future. The Federation will be a responsible moderate voice and will seek a broad cross section of public support.

To the small businessman who works an average of seventy hours a week, gives of his resources and his time to his community, keeps his staff employed, even when business is bad, provides job opportunities in every remote region of the country and worries about his next payroll, we offer hope.

It is my firm belief that ten years from now all Canadians will be thankful that the Sleeping Giant awoke in time to do something for the future of this great country.