

▶▶ **THE TANSLEY LECTURE**

*Public-Private Collaboration:
The Key to Overcoming Some of Our Toughest
Challenges*

Presented by The Honourable John Manley, P.C., O.C.

*President and Chief Executive Officer, Canadian Council of Chief Executives
and former Deputy Prime Minister of Canada*

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INTRODUCTION

I am grateful to have been asked to give the 2014 Tansley Lecture for the Johnson-Shoyama Graduate School of Public Policy. Donald Tansley's contributions as a public servant in Saskatchewan, New Brunswick and Ottawa, as well as his work with the International Red Cross, were truly exceptional. It is an honour to be associated with such a renowned practitioner of public policy.

I never met Don Tansley, but I know something of the motivations that led him to seek a career in government. Public service is a calling, one best pursued by those who would make a positive contribution to their country and to the world. This is something easily forgotten today, in an age marked by scandal and cynicism. If we are to overcome the challenges the world keeps throwing at us, it is essential that we continue to attract our best and brightest to the world of public affairs and public policy.

Speaking of service to one's country, many of you will know that as a young man — he was not yet 20 — Don Tansley saw action overseas in the Second World War with the Regina Rifle Regiment. Near the end of his life, he chronicled his wartime memories in a book he titled, *Growing Up and Going to War*. He described his time in uniform as "the most defining, the most unforgettable, and perhaps the most satisfying experience of my life." It is a short book, but deeply moving in its depiction of the horrors, the drudgeries, the fears and the occasional

moments of exhilaration experienced by young Canadian soldiers during that conflict.

The issues that confront us today are obviously of a different order than the hardships endured by the “best generation,” the Canadians who came of age in the Great Depression and the Second World War. In many ways, that is a testament to the country they helped to build, a country that is among the most prosperous, tolerant and best governed in the world. Our job, simply put, is to keep it that way.

Tonight, I would like to speak about some of the most important challenges facing Canada in the early 21st century — challenges I believe can only be overcome through close collaboration between government and the business community.

Let me begin by sharing some of my own perspectives as someone who has worked on both sides of the public-private divide.

When I first sought political office in 1988, I did so with the conviction that good government could be a positive force and a constructive tool for Canadians, and that our country could provide a unique example to the world. I did not, and do not, subscribe to Ronald Reagan’s belief that government is the problem rather than a solution.

Government is not always all-wise and all-knowing—but if you don’t like government, just try anarchy for a while. To this day, there are parts of the world in which public order, safety and respect for the rule of law are aspirations rather than reality.

My generation gained its political awareness in the 1960s, an era in which government had great ambitions. It was the time of John F. Kennedy’s New Frontier, of Lyndon Johnson’s Great Society, of Pierre Trudeau’s Just Society.

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The 1960s were a decade of idealism and great accomplishments in Canada. They were the formative years of the welfare state, including universal health care and the Canada Pension Plan. It was when we adopted our wonderful and distinctive flag. It was the time of Expo 67 and the Montreal Expos. Even the Toronto Maple Leafs could win a Stanley Cup, and did so four times in the 1960s. In fact, the Leafs and the Montreal Canadiens won nine out of 10 Stanley Cups in the '60s. Canadians were, generally, deferential to authority and comfortable with activist government. We truly believed that government could define the great objectives of the nation, and then move forward with vigorous determination to achieve them.

I still believe this, but if 16 years in the House of Commons taught me anything, it is that the process of developing and implementing public policy is often painfully slow and tedious.

There is a reason for that. Public servants and elected officials face the challenges of society as a whole. On a daily basis, they deal with complex stakeholder issues, conflicting objectives and time horizons, and different ideas of what constitutes success. What power they wield rests on the public's perception of their legitimacy. The emphasis is on consultation and consensus-building, to the point where the public mistakenly assumes nothing is actually getting done.

Many people in the private sector have only a vague idea of how government functions and how decisions are made in the public context. CEOs, especially those who are engineers or whose thinking has been shaped by technical backgrounds and formal business education, tend to adopt a linear approach to problem-solving. Power flows from the top down and performance is measured objectively on the basis of metrics, such as total shareholder return or the profitability of your enterprise compared to others in the same sector. As George Shultz, who enjoyed careers in both government and business, once said, "I learned in business that you had to be very careful when you told somebody that's working for you to do something, because the chances were very high

he'd do it. In government, you don't have to worry about that." Politics, in contrast, is inherently non-linear. There is rarely any easily understood bottom line, and things don't often unfold in predictable ways. Public opinion can shift unexpectedly, driven by unforeseen events close to home or half a world away. In the political world you can be evaluated, and your career destroyed, on the basis of one errant remark or one ill-considered expense account claim, despite years of sound performance.

The perspectives of those in the public and private sectors are fundamentally different. In government, the best elected representatives and public servants see themselves as trustees of the public interest. When I was a minister in Ottawa, I took for granted that when a businessperson came to see me, it was out of self-interest. I can count on the fingers of one hand the number of business leaders who came to Ottawa to talk about the national interest, or who would contemplate for even a second putting the interests of the country as a whole ahead of the interests of their company. They usually came to talk about something granular and specific to their own firm, or at best to their own industry. Not that they didn't often pitch their wishes in terms of the national interest.

The distinctions between private and public interests can be blurry. In 1953, the then-CEO of General Motors told a Senate committee in Washington that, "For years I thought that what was good for our country was good for GM, and vice versa." His comment — frequently misquoted as "What's good for GM is good for America" — has been derided ever since as a sign of the arrogance of big business.

Still, the notion that a nation's economic success is linked to the success of its business community is not far-fetched. Economies are complex ecosystems. The presence of good public policy and sound governance creates an environment that attracts private investment and enables enterprises to grow and create jobs. In the absence of these, or in the face of corruption, the entire ecosystem withers. A recent cover story on

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Argentina in *The Economist* documents what happens when a country rich in natural and human resources endures generations of bad public policy and poor public governance. In 1900, Argentina's economy was bigger than Canada's and its population was better educated. Yet 100 years later, Canada is a G7 country and Argentina is a basket case. What's the difference? The difference is sound public policy and good governance over all those years.

Although Canada's experience has been much more positive, most of the business leaders I know would still prefer to avoid dealing with the public sector. They tend to view government, and politicians in particular, as fickle and unreliable. Businesspeople talk about the major projects they wish government would approve and the economic activity those approvals would generate. They know that if the political winds blow in a different direction, years of planning and millions or billions of dollars worth of investment can go down the chute.

It will come as no surprise to you that a lot of business leaders view the public sector as inefficient, remote, overly hierarchical, slow to respond to changing circumstances and hidebound by outdated practices. Competition in the marketplace forces companies to serve the needs of their customers; if they don't, those customers will take their money elsewhere. Citizens, in contrast, can't easily switch governments. It's more than a touch ironic that governments in Canada are constantly telling the private sector it needs to become more innovative. In business, innovation isn't an abstract concept or an excuse for yet another study, task force or two-day conference. It's how you generate sales, beat back competitors and survive to fight another day.

These inherent differences between government and business are a constant source of frustration to people on both sides, and they help to explain why public-private collaboration is rarely simple and straightforward. Government and business have different objectives and operate by very different rules. But in an era of fiscal constraint and increasingly complex, multi-dimensional problems, I would argue that we do not have a choice. Indeed, the need for closer collaboration is growing.

In my current role as head of the Canadian Council of Chief Executives, I spend a lot of time talking to senior business leaders in Canada and elsewhere. I ask about the big issues preoccupying them, issues that are likely to shape the environment in which they operate their businesses. What I find interesting is that, increasingly, the things they worry about—the challenges that keep them awake at night—are some of the same issues that loom large on the public agenda. These, I believe, are the issues where the need for cooperation and collaboration is most acute, where we need to arrive at a common outlook on both the right public policy response and the right private sector response.

There is a long list of these challenges, but I would like to highlight three issues I believe will have profound implications for both the public and private sectors in Canada. They are:

- 1) the massive shift of global economic power toward Asia
- 2) demographic forces and the impact of an aging population
- 3) the growing and potentially devastating threat of cyberwarfare

GLOBAL GRAVITY SHIFT

Dominic Barton, the Canadian-born global managing director of McKinsey & Company, has described the economic shift toward emerging markets as “the defining megatrend of our age.” The scale and speed of this shift are truly breathtaking. Over the next 15 years, the number of middle-class consumers around the world is forecast to double, with virtually all of this growth concentrated in Asia. Currently, only about a quarter of the world’s largest companies (firms with revenues of \$1 billion U.S. or more) are headquartered in developing countries. By 2025, that number will jump to almost half. Across Asia, more than a quarter of a million men, women and children migrate every week from rural areas to cities. Six of the world’s 10 largest cities are in Asia and within 20 years, so will be three of the world’s four

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largest economies. Needless to say, our nomenclature of “developing” and “emerging” economies is rapidly becoming inappropriate.

For Canada, Asia’s rise represents huge opportunities; it also creates an equally significant set of challenges. Most of us here grew up in an era in which Canada was one of a small handful of industrialized countries with well-educated populations and high standards of living. That’s why we are part of the G7. No one has called us on the fact that our economy is no longer among the world’s seven largest. (Currently, we rank 11th, according to the IMF and the World Bank.) Like the NHL’s “original six,” that world is now just a memory. The league of countries in which we compete continues to expand, and the pressures from newly industrialized economies grow ever more intense. If we thought Canada was a relatively small player in the global economy before, we had better brace ourselves for the future. As recently as 1980, Canada accounted for 2.5 per cent of world GDP. Today, we are below 1.8 per cent, and our relative economic footprint is sure to get even smaller in years to come.

That in itself is not a problem. There is no law that says small countries and modestly sized firms cannot compete successfully in global markets. But when scale is not on your side, you have to make sure you are doing everything else right, because your ability to influence the rules will be minimal at best. Trade strategy is critical: Canada needs to negotiate improved access to the markets where economic growth is forecast to be strongest, and companies need to work harder to build relationships where their presence is currently weak. We need to build stronger state-to-state relationships, and get over our fears about rising levels of Asian foreign direct investment in Canada. Finally, we need to recognize that over the next two decades, Asian producers will move into more direct competition with us as they develop their capabilities. To stay ahead, it is essential that Canada address its lagging productivity and become more actively engaged in value-added manufacturing and service global supply chains. In other words, every business needs an Asian strategy. If it is not directed toward supplying Asian markets, it at least needs to deal with anticipated Asian competition.

For government, facing up to this new era means paying closer attention to Asia in general and China in particular. It means more official and unofficial visits. Our government leaders need to get to know theirs. Every time a new president enters the Oval Office, Canadian journalists go into a swoon over which international head of government will be first to sit down with the new U.S. leader. Heaven help us if it isn't our prime minister. It has been more than a year since Xi Jinping was elected president of the world's second-largest economy. Has anyone mentioned that Prime Minister Harper still has not visited him in China? Have we noticed that Germany's Angela Merkel has visited China six times since becoming Chancellor in late 2005? Prime Minister Harper, in office almost as long, has gone only twice.

By the same token, business cannot simply rely on government to open new markets for Canadian trade and investment. Unfortunately, if understandably, Canadian companies tend to keep their gaze firmly fixed on the southern border. When the United States is enjoying strong growth and Canadian exports are welcomed, everyone is happy. When the U.S. economy turns sour, when protectionism is on the rise and "Buy America" is the mantra — or when Washington won't approve our pipeline while green-lighting dozens of their own — we suddenly remember why trade diversification matters.

To succeed in newer and emerging markets, a partnership with our home government is crucial for business. Good government-to-government relations are equally essential if we hope to advance Canada's national interests.

It is in this context that the recently concluded trade and investment agreement with Korea is important. It represents Canada's first trade agreement in the Asia-Pacific region. (Negotiations with Singapore began in 2002, but have been on hold since 2009.) If the Korea deal is followed by a robust Economic Partnership Agreement with Japan, and an ambitious Trans-Pacific Partnership agreement, the trade architecture will be in place for Canada to make significant headway in these markets. But success will only come if Canadian businesses make use

of these new trade bridges, if Canada makes the necessary investments in trade facilitation—and if we ensure our partners live up to their commitments.

Of course, Asia's growing importance extends beyond the economic sphere. The strategic relevance and geopolitical importance of China, Japan and the rising nations of southeast Asia cannot be overlooked in a hyper-connected world. Just as our businesses need a strategy to address the opportunities and challenges of this new age, our diplomats and political leaders must invest time and effort in building relationships and understanding the minds and motivations of those in power. Canada does not need to be a missionary state to maintain our clear support for democracy, human rights and the rule of law. But whether we like it or not, we will be living in a world in which “authoritarian capitalism” produces more global GDP than “democratic capitalism.”

THE DEMOGRAPHIC TIME BOMB

The postwar baby boom generation, which has been the demographic engine driving social change for close to 60 years, is now approaching the retirement stage of life. Today, there are 21 seniors for every 100 Canadians of normal working age. That figure will rise to 50 for every 100 by 2056. This shift will have a profound impact on almost every aspect of public and private life, from government revenues to patterns of personal consumption.

As Bank of Canada Governor Stephen Poloz noted recently, the long-term trend of an aging population has important implications for our economy. People who are approaching retirement tend to save more and spend less. While this is understandable, even commendable, every dollar funneled into savings is a dollar that does not get spent, at least not now, which translates into weaker consumer demand. At the same time, the departure of the boomer generation from the work force will exacerbate the challenge of labour shortages. We already see this starting to happen. In 2011, the growth rate of the population

of working-age Canadians fell below that of the overall population for the first time in almost half a century. Next year, the Bank of Canada expects that labour's contribution to potential GDP growth will be half what it was in 2007. When businesses cannot find enough workers, they may invest less or look for ways to shift activities to jurisdictions where labour is more plentiful. The inevitable result for Canada is an economy that expands at a slower rate than historic norms.

Another inevitable result is that government revenues are going to be squeezed at exactly the same time that demand for public services is going to rise. Proportionally fewer citizens will be working, paying income taxes and making pension contributions, while a larger share will be collecting pension benefits and receiving social assistance. Canada's retirement income system will be seriously tested, as will our publicly funded health care system, because older patients tend to require more frequent and costly care. Politicians who ignore these pressures will be taking a risk. After all, seniors tend to follow politics more closely than younger citizens and are significantly more likely to vote.

These are complex challenges for government as well as for business. Many require public policy responses, including decisions involving mandatory retirement ages, flexibility in pension funding requirements and the rules that determine when you can begin to collect pension benefits. Employers are increasingly worried about the availability of skilled workers and how to encourage greater participation in the labour market from under-represented groups. Concerns about Canada's labour needs are, to an increasing extent, shaping discussions about immigration policy, and leading some to call for dramatic, sustained increases in immigration levels. In all of these areas, there is an obvious and growing need for close engagement between the public and private sectors in defining our country's needs and building consensus around possible solutions.

We also need to bear in mind the international context. Population aging is by no means a uniquely Canadian problem, and the hyper-

connectedness of our world means the global talent hunt is sure to become more competitive. This is an issue that Canadian educators clearly understand. Our universities have done well in attracting foreign students (and their fees), and the federal government has wisely made it easier for foreign students to remain in Canada after they graduate, rather than sending them home and forcing them to wait years before they can return. We need to do more to attract the world's smartest, most skilled people to our shores. It is difficult to contest that Australians, among others, are eating our lunch when it comes to recruiting students abroad. The federal government's recently announced Global Markets Action Plan rightly identified this as a priority area, yet the amount of money allocated to improve our performance—\$5 million a year to promote Canada as a world-class education destination—is hopelessly inadequate.

Within the business world, the focus on attracting and retaining talent has never been stronger. Many of the CEOs I represent point to this as their chief preoccupation. For that reason, we recently launched a multiyear initiative called "Taking Action for Canada: Jobs and Skills for the 21st Century." Just think for a moment about the number of high-demand jobs that barely existed 10 years ago, from mobile app developer to digital marketing strategist, Zumba instructor to sustainability expert.

In Canada, we have traditionally relied on government to educate and train each new generation. For the most part, our public education system has performed well by international standards. Now, the job market and the nature of work itself are changing rapidly, underscoring the need for close collaboration between educators and employers. Whether we are talking about co-op programs, internships, apprenticeships or continuing education in the workplace, we need to recognize the role of employers in ensuring our labour force has the knowledge and skills required to sustain Canada's high quality of life.

CYBERTHREATS

Threats and opportunities are two sides of many coins. In our hyper-connected world, opportunities abound, but they are offset by extremely serious threats. Closer collaboration between government and the private sector is crucial to boost our defences against cyber attacks. The urgency of this undertaking cannot be overstated. Once the stuff of fiction (the term “cyberspace” was coined by Vancouver-based sci-fi writer William Gibson), cyber warfare is now a real and present danger to IT networks, IT-dependent systems and critical infrastructure in sectors such as transportation, communication, finance and utilities.

Earlier this week, the Canadian Council of Chief Executives distributed a paper to our members titled, “What Every CEO Needs to Know About Cybersecurity.” The paper points out:

“It was a mere 20 years ago that the Internet went mainstream. In the early days, cybersecurity was about locking up laptops at night with sensitive data on them. Today, everything is networked. We efficiently sell to customers across the globe. We precision-manufacture our products with electronically controlled machinery. We provide services and customer support online. Twitter is our newsfeed. Our cars, homes, and electrical grid are increasingly ‘smart’. Information technology is at the heart of our lives and data is the foundation of the modern economy. Everything that is networked, however, is hackable. A vast array of criminals, foreign governments, and activists are seeking to compromise company networks and steal their most valuable data. Like the web itself, these threats are global. When the bad actors succeed, they can compromise the very achievement of core business priorities.”¹

¹<http://www.ceocouncil.ca/publication/what-every-ceo>

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Such attacks threaten states as much as they do individual companies and organizations. Some appear to originate with foreign military and intelligence services; others are the work of criminal syndicates, terrorists or lone individuals. Eugene Kaspersky, the Russian-born information security expert, says his firm now analyzes an average of 200,000 samples of malicious program a day, compared to just 25 a day in 1994, 700 in 2006 and 7,000 in 2011. Some of these cyberweapons have the power to disable companies, cripple governments and, in Kaspersky's words, "bring whole nations to their knees." President Barack Obama has described cyberterrorism as "one of the most serious economic and national security challenges" facing the United States and other Western nations.

To put it mildly, this is a complex challenge. Any effort to strengthen our society's digital defences must balance national security interests, privacy concerns, intellectual property rights and individual freedom of expression. Some of the initiatives launched to date have been criticized as overly intrusive, and there have been too many instances in both the public and private sectors in which sensitive information has been handled carelessly and with inadequate concern for the privacy rights of citizens. For the sake of our national and economic security, however, we must work together more closely to boost the resilience of our digital networks and critical infrastructure. Neither government nor the business community can do this alone—a fact that both sides have begun to recognize. To its credit, the federal government has taken a number of steps over the past year to improve information-sharing and collaboration in this area. One such step was to ask for our help in creating a CEO advisory panel on cybersecurity.

CONCLUDING THOUGHTS

The list of challenges for which there is an urgent need for closer public-private collaboration is long. I have highlighted three in particular, but we could just as easily talk about climate change, environmental protection, water scarcity, food safety, the threat of global pandemics,

social inequality, the risk of another financial crisis and the political paralysis that is holding up important new investments in energy infrastructure.

All of these problems are complex, multi-faceted and involve a wide range of stakeholders and conflicting objectives. Many are interconnected and cannot be addressed in isolation. Each poses a risk to society as a whole, to the business community, and to specific firms and sectors. The scale and cross-cutting nature of these challenges demands that government and business work as partners in developing potential solutions. For business, this means recognizing the vital role of the public sector, moving away from top-down, linear decision-making and learning the value of the multi-stakeholder approach. For government, it means embracing the need for innovation and experimentation in the development and delivery of services, leveraging the capacity of the private sector where it makes sense and having the courage to take the long view on big issues that will shape our future. Each side must learn from the other. The scope and complexity of the problems we face leave us with no other option.

Finally, since I am here at the Johnson-Shoyama Graduate School of Public Policy, let me say how pleased I am that we have built a network of first-rate schools of public policy in Canada, and that some of Canada's smartest individuals have chosen to pursue those courses of study. Argentina might be behind us now, but we must never forget that as a country we are in a race. By collaborating to find answers to the complex challenges we face, we can continue to build on the foundations of prosperity, peace and good government that have made Canada a success.

Thank you again for inviting me here tonight.

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