

# Populism is not the problem

*How can business help address the underlying  
causes of discontent?*

Address delivered by

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**The rapid, sometimes uncomfortable pace of global change provokes extreme responses, from anti-immigration measures to economic protectionism. Simplistic answers to complex questions leave deep-rooted problems unaddressed. In Canada and around the world, political leaders and policymakers wrestle with growing dissatisfaction, yet they cannot be expected to meet this challenge alone.**

Thank you for that generous introduction, and good afternoon, everyone. I'd like to begin by sharing something I came across as I gathered my thoughts for these remarks:

"We meet in the midst of a nation brought to the verge of moral, political, and material ruin. Corruption dominates the ballot-box, the Legislatures, the Congress... The newspapers are largely subsidized or muzzled, public opinion silenced, business prostrated, homes covered with mortgages, labor impoverished... The people are demoralized..."

This is a thought that might occur to you as you switch off Peter Mansbridge's nightly newscast... or quit your newsfeed.

Followed up perhaps by: "It's only going to get worse."

Interestingly, those words are from the platform of the Populists – officially known as the People's Party, which was founded in St. Louis, Missouri, in 1892. This grassroots party represented the interests of farmers and other workers against the elites who controlled much of America's wealth, and the politicians who were all felt to be in league with them.

The Populists enjoyed some success in the election of 1892. But four years later, they were eclipsed and largely absorbed by the Democratic Party. And while the Populists' rise and rapid fall makes for interesting reading, today it's just a footnote to history, except for one legacy that's still with us – the label we apply to movements that pit everyday people against powerful interests they feel are conspiring against them.

In that manifesto from 125 years ago, what sounds so familiar, even more than the targets of complaint, is the sense of grievance. The movements we call "populist" today share this sense of collective resentment from people who are fed up with the established order. Who feel let down by the system and excluded from opportunity.

Such movements have come and gone before. And the knowledge that those original U.S. populists were quickly absorbed into the mainstream points to the single biggest risk presented by populism today: that we'll fail to take it seriously, dismissing it as an aberration that will soon pass.

But here is the problem: the underlying causes of populism (not populism itself) pose a very real threat to our collective prosperity – and until those causes are acknowledged and understood, the threat will only grow. Even in Canada, for all the pride we take in being a more moderate and tolerant place, we're not immune to a populist expression of discontent; and we're most certainly vulnerable to echoes from our closest allies.

Populism doesn't always manifest itself in the same way. We tend to associate it with reactionary views – anti-immigration, resistance to free trade, a fierce resolve to protect traditional jobs and industries. But if you think about it, in the run-up to the recent U.S. election, Bernie Sanders was leading a populist campaign on the left. And in fact his advocacy of trade protectionism was not all that different from President Trump's.

This is the nature of populism. It doesn't align with right or left. It doesn't discriminate between rich and poor. It's not just a rallying point for malcontents. It can be attached to diverse ideologies and agendas – from the brutal crackdown on crime we see in the Philippines, to the empowerment of indigenous farmers in Bolivia. What all populist leaders share in common is the claim that they alone represent the interests of the "real" people against perceived elites.

In the recent French election, we saw the defeat of an extreme form of xenophobic populism. But the winner was still an outsider, someone who appears to reject the old politics and present a new – and untested – alternative. Similarly, the winner of the U.S. election sold himself as an outsider, a disruptor – someone who could channel the pent-up anger of millions of Americans by simply shaking things up. And even in Canada's last federal election, while the old party labels still applied, victory went to a leader whose campaign slogan was "Real Change," and who leveraged a common perception that government was becoming detached from the concerns of everyday people.

## Populism is not the problem

This spontaneous rejection of the current order makes clear that populism itself is not the problem. We shouldn't be distracted by the actions of a leader who flouts the rules – or a sentiment aimed at convenient targets, unsupported by facts – not if it diverts us from what we really should be concerned about.

Populism is just the most visible symptom of deeper, long-term issues that prevail just about everywhere, and that coalesce into a call for change. A large segment of the population is apprehensive about how change is being managed, and whether its costs and benefits are being distributed evenly. They're uncertain of where things are heading. They're not even sure which problems are real.

They only see that change is gaining momentum, driven by the powerful forces of globalization, an accelerating digital economy and demographic shifts – whether from the migration of millions of people, or the suggestion that a third of babies born since 2013 will live to be centenarians.

Beneath the confusion is a deeper anxiety. It's what led a majority of Britons to shock the pundits by voting to withdraw from Europe – seeking a tangible cause for their discontent, they decided it lay across the Channel. Meanwhile in the U.S., that same anxiety has created a polarized political system in which consensus is thwarted at every turn by special interests – and an equally polarized society, in which the impulse to preserve the status quo paralyzes efforts to take action through effective policymaking.

Canada seems by comparison to be okay – for now. And that in itself should be a cause for caution. Because here, too, both younger and older generations wonder if there will be any safety net to protect them in their later years, and if their children will struggle to find a place in a changing economy. There's a suspicion that the future may not be as rewarding as we've been brought up to expect – even for people who work and save, and invest and build.

This is the real heart of what populism is reacting to. It's a protest not just against systems that have failed people, or leaders they no longer trust to protect their interests. It reflects a basic loss of confidence that tomorrow will be better than today.

## How do we respond?

One of the advantages of a long career—especially in the banking industry – is it allows you to see firsthand the many forms uncertainty can take: the factors that drive it, the barriers it creates, and most importantly, what's required to push through to the other side. I also have the good fortune of working for a bank that's in its 200<sup>th</sup> year of business – and which has thrived by always looking forward to be at the centre of both social and economic change.

Neither of those perspectives make the issues we face today any less urgent. But they may help to frame what we should be asking as we stand at another critical crossroads – the intersection of globalization and digitization of knowledge.

Over the past two decades, globalization has unquestionably brought improvements in areas such as health and education, while lifting more than a billion people out of poverty. And the rise of the digital economy, which continues to accelerate, has not only revolutionized the world we know, but opened up whole new areas of opportunity. Still, for all the benefits we can point to, it's reasonable to question how fairly those benefits are being shared.

In this context, it seems to me the obvious questions are: What actions do we take, and how fast can we take them? Who gets to decide what needs to be done?

So what I'd like to offer today is a way of framing our collective challenge – which for me comes down to two main themes:

First: when we examine the underlying issues that give rise to anxiety, what can we say is true? What is uncertain? And what is mere catastrophizing in populist narratives generated by people who are only looking at problems? What are the facts, and how can effective policymakers apply those facts and come up with solutions?

Second: who is responsible for sorting this out? As leaders in business, in the professions, in the institutions that define communities across Canada – what should we be doing to address the very real causes of discontent?

Clearly we have to listen differently – to understand why people are feeling uneasy, or left behind, or fed up. And then we need to speak out – because we see nations where political leaders don't necessarily speak for the people they lead. We have to talk about the fears reflected in populism, and its root causes, and any disconnects between what policymakers commit to do and what they're actually able to achieve.

Most critically, we need to get off the sidelines and say what we believe about building economic resilience, competitiveness and long-term prosperity – and then act upon it.

This is an ambitious agenda. But let's touch on a few points that are salient to the discontent that underlies populism:

- Trade, and whether it makes us vulnerable to economic risk.
- Immigration, which has also been portrayed as a threat.
- The changing nature of work, as traditional roles are eclipsed by new jobs enabled by technology.
- And lastly, economic growth and some specific actions we can take to continue to grow the middle class and expand their financial well-being.

Part of the inspiration for the ground I want to cover was a great speech delivered in March at Durham College by Governor Poloz (if you missed it, you can view it on the Bank of Canada's website).

The Governor took his audience through a series of episodes in Canadian history and showed that successful nation building has always required a fundamental openness to people, investment and trade – that is, to immigration, foreign capital and access to international markets. His thesis was clear and persuasive – in his words, "Canada fares better when we are open." And what made his arguments so strong was the evidence he drew from the historical record.

One of the risks of populism is its ability to spread fear based on incomplete information. And the best, but more difficult way to counter that fear is with facts. So let me drill down into my first area of focus: trade and the global flow of goods and services.

## Trade is vital for Canada

If we focus specifically on bilateral trade – which by definition should improve the standard of living for two countries – the benefits of any trading arrangement must be measured by how it has benefited both nations, by adding to GDP – and by how it has benefited individual people through the lower cost of imports and higher employment.

Since the year 2000, the average cost of Canadian imports has risen just 27%. Compare this to a 39% rise in the Consumer Price Index, and a 52% increase in the cost of services. Lower import costs have held down inflation and made day-to-day life more affordable for many Canadians.

Now let's look at employment. When the North American Free Trade Agreement came into force in January 1994, Canada's unemployment rate was 11.4%. It dropped steadily after that, and even though it rose again during the Great Recession, we've never come close to the jobless levels of 20 years ago.

And if we look at the U.S. – the unemployment rate when NAFTA took effect was 6.6%. It declined over the next few years to a low of 4.0% in 2000. It only spiked again at the end of 2008, when the recession hit particularly hard south of the border. And with U.S. unemployment currently at 4.3%, it's difficult to argue that free trade is killing jobs.

While NAFTA is a contentious topic at the moment, Canada as a trading nation benefits enormously from open borders. Current trade agreements give us access to markets representing 55% of global GDP – compared to 17% access for Japan, and 36% access for Germany, France, Italy and the U.K. together.

We have about half a percent of the world's population – yet we contribute nearly one-and-a-half percent of global GDP.

The facts reinforce that the free flow of imports and exports has been good for this country, and this will continue to be true. There will always be problems to sort out with our partners. But we have to contextualize narrow issues that are magnified by media attention.

If you're casually observing Canada-U.S. trade issues, you could be forgiven for thinking that the only things we export are dairy products and softwood lumber.

Canada's dairy industry – whose supply-management model has been very important to the family farm – is responsible for less than 0.1% of our total exports to the U.S. And softwood lumber – a source of disagreement between Canada and the U.S. since the 1930s – accounts for 1.3% of our total exports to the U.S. and 0.4% of Canadian GDP.

The amount of attention devoted to the tariffs on softwood lumber diverts our focus from where it really should be: first, the actions that Canadian companies can take – and have taken – to increase their U.S. production capacity. Second, the ability to pass tariffs directly through to purchasers of Canadian lumber. And lastly, what can be done to help affected firms and their employees as the industry adjusts when new duties are imposed.

Last week, the Canadian government responded with a financial assistance package that includes additional loans and loan guarantees for forestry companies, as well as retraining and increased insurance benefits for workers who are displaced.

And Canada is right to continue diversifying our trade options – if not through multilateral agreements, which are hard to orchestrate, then in bilateral and regionally focused deals.

And at a micro level, there's plenty to do at home. The recent agreement on interprovincial trade is a big step forward in removing domestic barriers to the flow of goods and services. And we look forward to seeing restrictions removed on professions and various specialized jobs as well. If we're going to advocate for the free movement of people, we should apply the same principles at home.

Which leads me to the second area I want to highlight this afternoon – again because much of the public discourse is not fully anchored in evidence – and that's immigration.

### Immigration drives prosperity

A fact that no one disputes – at least no one with a basic grasp of history and economics – is that a growing population is essential to maintaining economic prosperity. Where opinions differ is on where that population growth can and should come from.

Canada, like most developed countries, has a relatively low birth rate. Over the past decade, 70% of our population growth has come from immigration. And in the U.S., the situation is essentially the same.

We have to safeguard Canada's longstanding reputation as a country that welcomes newcomers – not only refugees fleeing conflict, but migrants from around the world looking to build a better life. As with trade, successive federal governments – while differing on points of policy – have recognized the importance of immigration to growing GDP. But today what's more evident than ever is the opportunity we have not only to expand our numbers, but to deepen the national talent pool.

Populist narratives encourage a misguided impulse to erect barriers against outsiders – and Canada can only benefit from its reputation for openness and tolerance. We need to continue offering a faster immigration track to international students at our colleges and universities. Many of those students focus on the STEM disciplines that help to drive innovation. They've shown their interest in Canada and are well on their way to being part of the community. Why not make it even easier for them to stay on and make a lasting contribution?

We can also do more to foster the talent of newcomers who are seriously underemployed. Based on estimates in a recent study from the Munk School of Global Affairs, making better use of their educational and managerial experience could inject about \$11 billion annually into the Canadian economy.

StatsCan estimates that new Canadians and their second-generation offspring – who together represented 38% of the population in 2011 – could account for nearly 50% by 2036. Gaining experience in every kind of enterprise in every sector, many will launch ventures of their own. Our history is filled with examples of entrepreneurs who came from elsewhere and built successful businesses from scratch – including, two centuries ago, eight of the nine founders of the Bank of Montreal.

Of course, when we talk about boosting prosperity, we also have to look at how it's distributed. And that brings me to the third issue I want to highlight: the changing nature of work as we transition from old jobs to new jobs, and come up against the challenge of income inequality.

## The changing nature of work

This is a problem that every one of us is worrying about – because it contradicts our basic notions of fairness, and because we don't really understand its causes or what to do about it.

In several decades' worth of research exploring the complex relationship between income inequality, social development and economic growth, a common conclusion is that growing disparities in income are characteristic of fundamentally inefficient economies. A recent study of 159 countries showed that an increase in the Gini index – a standard measure of inequality – has a worrisome correlation to slower growth.

We often hear the argument that in mature economies, at least, social mobility will close the inequality gap over time. To some degree that appears to be the case. A study last year by the Fraser Institute found that in the decade after 1993, 88% of Canadians who'd been in the bottom fifth of earners moved up at least one income level. And by 2012, nearly half of those who'd started at the bottom were now in the top two income groups.

That trend continues. When Evan Siddall, CEO of Canada Mortgage and Housing Corporation, spoke to this club last week, he pointed out that in terms of intergenerational mobility – that is, the likelihood that children will enjoy greater prosperity than their parents – Canada is at the top of the scale, alongside several Scandinavian countries, and ranks significantly higher than the U.S., the U.K. and many European nations.

But findings like these, however reassuring, don't adequately reflect how the world looks to people who haven't managed to secure good jobs, and who don't believe opportunities will be any better for their children. And more significantly, the arithmetic of future mobility doesn't do much for the millions of people who find themselves stuck in the middle, as part of an economic group that's being redefined as globalization and the digital economy transform what kind of work gets done where, and by whom – and what work no longer needs to be performed by humans at all.

It's in the middle class – in some ways even more challenged by change than those with the lowest incomes – that we find deeply felt discontent. We see young people just starting out – well educated and working hard, but with little economic security and a deep fear that the future won't be much better. And alongside them, the well-established people in mid-career who suddenly find they've stopped advancing – or worse, are at risk of losing their jobs – because they lack the skills required by a fast-moving, technology-driven economy.

It's when we look more closely at how change is affecting people's lives that we realize the depth of the anxiety driving populism – with an impact that's felt both at the ballot box and in shifting social attitudes. And here I'll point to the insights being generated by the Persona Project, a research initiative of the Martin Prosperity Institute at U of T. Rather than studying social attitudes in aggregate, they're looking at the specifics of individual lives, and showing how viewpoints that can seem at first glance naïve or illogical may be based on premises that are quite reasonable, at least to the people living them.

It's about de-averaging humanity – embracing people's unique attributes, personal biases and legitimate worries as a way of finding solutions that don't gloss over differences. If you're not familiar with the Persona Project, I recommend taking a look at its granular approach to informing better collective outcomes.

At the same time, if we want to give new hope to people who feel overlooked, we have to be offering quality jobs with a future. Jobs that are performed better by technology will not be coming back. The more important question is: what can we offer in their place, as organizations in every sector find they have a surplus of skills in some areas and a shortage in others?

You may be familiar with the Good Jobs Strategy developed by Zeynep Ton of MIT, who also works at the Martin Prosperity Institute. She's shown how smart companies are cross-training employees and empowering them to make a wider range of decisions – and when this is done right, it increases both customer satisfaction and profitability.

This creates more meaningful work for everyone involved. It also translates into higher wages. The challenge lies in allowing people who've been freed from routine tasks to take on more complex assignments, requiring new skills. It's here that we need to focus attention – on guiding and rewarding people to help drive innovation, provide great customer experiences and create value that didn't exist before.

Which brings me to my final area of focus: how we can use education and innovation to foster economic growth, especially in support of a more vibrant and growing middle class.

### Keys to economic growth

Obviously training and development have a critical role to play in expanding economic opportunity. And when more than 70% of Canadian business leaders still perceive a significant gap between the skills they need and what the market offers, I know I'm preaching to the converted. At BMO, we're often challenged to fill positions requiring skills that shouldn't be difficult to attain. Last year we invested \$78 million in education – carrying on a level of investment we've sustained over decades. And we see a high return in the calibre of talented people we're attracting and developing across the organization.

But the foundation for our collective efforts remains the public education system. One encouraging sign is that growth in postsecondary enrolments rose steadily from 2001 through 2014. And interestingly, the growth rate was highest – at 25% – among families with the lowest incomes.

At the same time, we see comparable growth in continuing education, as employees and employers alike recognize that learning never stops. Ontario's community colleges report that the number of university graduates complementing their degrees with additional programs has risen more than 40% over the last five years.

This is where we need to invest: in continuing education that responds to the needs of the labour market. Not in protecting jobs that in the long run can't – and shouldn't – be saved. Studies of European countries show that a 1% increase in training days correlates to a 3% increase in productivity.

Continuing education benefits individuals, helping them advance in the new economy. And it benefits all of Canada, as we strengthen the critical thinking skills that help knowledge workers grapple with complex problems, along with disciplines that spark innovative breakthroughs.

Our ultimate goal is growth in GDP – which we define as population growth multiplied by the increase in individual productivity. Innovation as a driver of productivity has not been a strength of Canada's economy. But as renewed focus in this area becomes part of the national agenda, it has heightened expectations that companies will invest in research and development, and in the use of new technologies, to transform business models.

In this country, both provincial and federal governments have taken immediate, practical steps to provide assistance. Recognizing the success of innovation hubs like Communitech in Kitchener-Waterloo and the DMZ at Ryerson – where BMO has partnered on the launch of a fintech accelerator program – the federal government is investing in larger, regional "super-clusters" to dramatically scale up the impact of these micro-economies.

And recognizing Canada's natural strengths in a transforming economy, the government has identified specific sectors such as clean tech and agri-food for a dedicated fund that targets promising opportunities to boost growth and productivity.

These kinds of initiatives are vital catalysts for innovation. But equally important is the ability of established companies to respond creatively to a fast-changing environment. When fintech first emerged and collided with the banking industry, there were dire predictions that it would be the end of the banks. Instead, that collision has been good for our business. A case in point is BMO SmartFolio, which customers can use to tap into personalized investment management in just minutes. It was designed, developed, built and launched in only six months – a fraction of the time it would have taken just a couple of years earlier. It would not have been possible without our family of intelligent ETFs to provide the low cost investment engine these customers need. Having a robust underlying IT platform was critical – but so too was having the experience, resources and scale that large enterprises bring to innovation.

The larger point about innovation is that it's not a single phenomenon – it's many factors working together. We need investment in new ventures; in new ways of serving customers; in R&D; and in collaborative initiatives led by government, to help achieve for everyone what a single company couldn't accomplish on its own.

There are many other dimensions to innovation – and to all the areas where public policy and private initiative can be aligned to boost competitiveness. I'll touch on just one more, and that's infrastructure.

The federal government has established the Canada Infrastructure Bank, a new tool for financing projects in partnership with private-sector investors. As the Canadian Press reported after an interview with Minister Morneau this week: "The bank would look to fund projects that are too costly for governments, too risky for the private sector to cover alone, and which generate revenue to provide a return on investment for all involved." This will grow the universe of dollars available for infrastructure development, making it possible to move ahead on large, transformative projects. At the same time, private-sector participation will help to ensure that every initiative is supported by a sound business case.

The intent of this investment is not simply to inject cash into regional economies. It will facilitate sustainable economic growth through large-scale projects that benefit the entire country. By way of example, Kevin Lynch, a vice-chair of BMO and formerly Canada's most senior public servant, has proposed an "energy transportation corridor, stretching from coast to coast, which could include pipelines, electrical grids and other forms of energy transport."

Now, we all know pipelines continue to be a topic of heated debate in this country. It's equally important to have a respectful dialogue – and reach a conclusion. I'll just note that such projects have undeniable economic benefits. There's the immediate impact of added construction jobs, along with increased demand for primary materials and heavy manufacturing. But the real impact will come as Canada is able to diversify its export markets for energy and support a more robust east-west flow of commerce within the country.

This is how we should be evaluating all major infrastructure projects, whether it's airports providing Canadian companies with global connections, high-speed rail linking manufacturing and high-tech centres or public transit serving key employment clusters.

And to fully realize the potential of these projects, the great work of Sue McIsaac when she led United Way showed the value of Community Benefits Agreements. Whether through procurement from local suppliers or apprenticeships in the skilled trades for at-risk youth, they ensure a fair distribution of benefits.

When government tackles challenges like infrastructure, it must weigh the concerns of specific groups—some of them passionately vocal – against the general good. These issues are complex. You can't create policy in 140 characters. Neither can you decide multi-layered questions by plebiscite.

This is the strength of our representative democracy: we elect people to apply their collective knowledge and experience on behalf of all of us, digging into the details to find workable solutions.

Sometimes we don't like the legislation that results. But rather than grumbling after the fact, the business community needs to recognize that governments ultimately will act in areas where no one else is coming forward with better ideas.

In other words, as I said at the outset, the business sector needs to ask: if this is the program, what can we do to make sure it's effective?

### What can the private sector do?

We've covered a lot of ground. I hope it's been helpful to connect some of the facts around issues that we know really matter.

Returning to the opening quote... it's not the case that we're "on the verge of moral, political, or material ruin." But what exactly can we be doing to help address the social and economic challenges that give rise to populism?

It starts with acknowledging that these challenges are real – especially for those who feel caught in the middle of accelerating change, and who don't see any reason to hope that their problems will be resolved in the medium term.

The next step is to listen, engage and take action. When a draft paper is released by the CBA or the Business Council of Canada, read it. Think about it. Comment on it. That's the only way to ensure that the most important issues get elevated, and the essential facts are discussed.

If you've been hanging back, hoping government will take the lead – or simply focusing on day-to-day priorities – it's time to get off the sidelines. Business leaders have an opportunity to bring clarity, reduce apprehension and help tackle the big, systemic issues. We need to proactively offer our views on public policy, along with concrete proposals for improving it. And we need to follow through with action. A representative democracy requires active participation from the people it represents.

The people in this room are leaders. You have the privilege of access. Use that unique privilege to influence positive change. Access is not just a perk that comes with success. It's a responsibility we all have, individually and collectively, to help close the gaps and correct the imbalances that populism points at, but never resolves.

And I am hopeful that the facts will win the day.

Thank you.

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