

Canada must put entrepreneurs first to get the stagnating economy back on track

Thomas S. Caldwell: Wealth-creating dreamers are the drivers of the enterprise system. Our government has forgotten that...

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Many young Canadians want to emulate famous entrepreneurs including Mark Zuckerberg, founder and chief executive of Meta Platforms.

There is one primary driver of economic, technological and human progress — the entrepreneur. Yes, the dreamer: the person who can imagine, discover and build new and better ways to do things.

Most of the great technology companies of today did not exist 40 or 50 years ago. Ultimately, all of them started with a dreamer. IBM Corp. and the corporate giants of the past did not drive the creation of the new companies and products that now dominate the current technology space, companies such as Microsoft Corp., Google LLC, Meta Platforms Inc. and Tesla Inc. Large, established companies tend to become bureaucratic and fixate on their existing product lines and markets. Their environments are often not conducive to revolutionary innovation.

When the first Trudeau was in power, cellphones, the internet and social media did not exist. Seeing the economy as static, he viewed government's role as simply redistributing wealth, not encouraging private enterprise to create more of it. That view still exists in many government circles and with the public. For example, since December 2019, public sector employment in Canada has seen significant growth, with nearly 657,000 new jobs added. In comparison, the private sector saw an increase of 662,000 jobs in the same period.

Competing for talent with the public sector represents just one of the challenges facing entrepreneurs, who encounter hurdles at all levels of government. Increasing taxation and complexity at the federal level, regulatory hurdles at the provincial level and a war on transportation at the municipal level are just a few examples.

Some aspects of the private sector also present problems for the entrepreneur, such as banks and other large corporations that drag out their payments to small suppliers, thus starving them of needed cash for salaries, supplies and rent.

Looking south of the border, what has made the United States so strong economically is its active encouragement and celebration of entrepreneurs. Even their bankruptcy laws encourage a second chance for those who initially fail, the most famous example being Walt Disney. In Canada, our bankruptcy laws seek total obliteration of those who don't succeed in their early efforts.

Further, Canada's public capital market for new enterprises is effectively non-existent. Initial public offerings (IPOs) on the Toronto Stock Exchange, our largest public equity market, have fallen to a 30-year low. The grand total of one IPO in all of 2023, a royalty company, and one so far in 2024, paint a grim picture. The regulatory burdens of becoming a public company also deprive investors of early-stage opportunities. Extensive compliance requirements limit the number of startups willing to pursue an IPO, ultimately narrowing the investment landscape and reducing potential investor returns.

Private financing is now seen as a refuge for new companies, but even that source of capital has been declining. Since 2021, the number and total value of venture capital deals in Canada has fallen from 843 deals (worth \$15.5 billion) in 2021, to 763 deals (worth \$10.4 billion) in 2022, to 674 deals in (\$7.1 billion) 2023, and 279 deals (\$3.6 billion) in the first half of 2024.

The new capital gains tax regime promoted by the current Liberal government, which effectively increases the tax rate by 33 per cent, is also disincentivizing risk taking. These barriers must be reduced.

Many young Canadians want to emulate entrepreneurs such as Bill Gates, Larry Ellison, Jeff Bezos and even Mark Zuckerberg, who all started and built spectacular companies by risking failure. Entrepreneurs will seek out supportive environments in terms of financing and markets, and the default choice has been the United States, something we are seeing now with artificial intelligence.

The basic role of any government is to provide the conditions necessary for its citizens to achieve their own greatest potential. If not, many will leave or simply not even try.

A thought to consider: If we had kept all the entrepreneurs who left our country to go to America, Canada might be one of the wealthiest countries in the world. Instead, we are fed more ineffective government programs.

We should consider nurturing Canadians who want to build something better. In May, Shopify Inc. co-founder and chief executive Tobi Lütke said Canada had to overcome its "Go-for-bronze mentality."

"We take the thing that's most important and send it somewhere else," Lütke said. Canada may be a great place to start a new business but it is not a great place to build one.

The old government giveaways simply do not work anymore, and many Canadians are beginning to see that. I would hope that Mark Carney, in his new role promoting growth, might consider these thoughts.

Entrepreneurs, as wealth creators, are the highest level of the free enterprise system. Without them, economies stagnate. The evidence is clear.

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