AIMS Commentary

Atlantic Institute for Market Studies

Back to Work:
The Fall and Rise of Canada's Traditional Values in the Face of Demographic Change

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The Canada of 2020 is already foreshadowed by a thousand stories from 2008. Today, in Brandon, Manitoba, to keep their meat-packing plant operating at full capacity, Maple Leaf Foods has had to import workers from Mexico and Colombia, to whom the winters must seem a rude shock. In Prince Edward Island, there are dozens of Russian guest workers at a fish-processing plant, and a call centre recently left for want of workers. Despite the decline in manufacturing employment (a phenomenon shared with all mature industrialized countries), unemployment is still on a long-term decline, and manufacturers are reporting growing shortages of both skilled and even of unskilled workers, and wages are rising. Alberta saw its population rise by 3 per cent in 2006, and yet unemployment is still only 3.5 per cent.

Can this really be Canada, where not so many years ago a party won one of the biggest parliamentary majorities in history on the slogan of "Jobs, jobs, jobs"?

Yes, because that was then and this is now. When Brian Mulroney swept to power in 1984, it was more or less at the peak of the move of millions of Baby Boomers and women into the workforce. Year after year, barring recessions, a quarter of a million more people started looking for work.

The number of people of working age in the population rose from its long-term share of about 60 per cent in the mid-1960s to nearly 70 per cent today.[1] A sustained increase of nearly 10 percentage points is an economy-shaking event, one about to be mirrored by a corresponding decline when the working-age population peaks in 2008[2] and labour supply starts to dry up in earnest in 2011-12.

Canadians did turn their minds to what to do with too many workers. Our answers have re-shaped Canada profoundly in the last forty years; we will spend the next forty years, to 2020 and beyond, undoing many of those changes, because the policies that emerged are the exact opposite of what is needed in an era of too few rather than too many workers.

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[1] Office of the Chief Actuary's 21st Century Actuarial Report.

[2] With this important difference: before the Boomers, the dependency ratio was tilted toward those under fifteen. In the next forty years it will be tilted in favour of those over sixty-five.

The Boomer Revolution

The government liberalized unemployment insurance in the early seventies, overnight creating the "UIC ski team," a brilliant shorthand for paying people for most of the year in exchange for a token work effort. The real purchasing power of social welfare in much of the country rose significantly between the mid sixties and the mid eighties.

Many in those heady days benefited from programs such as Opportunities for Youth, Katimavik, and so forth, which paid young people for being, well, young. There was a massive ramping up of our universities, warehousing for a few more years young people we scarcely knew what to do with.

Expectations of being able to retire early were pushed sky-high. Compulsory retirement became government policy, and buy-out packages a major topic of conversation in the company cafeteria. The CPP gave the first generation of its beneficiaries benefits wildly disproportionate to the premiums they had paid.

We ran up an impressive national debt to pay for it all. But it wasn't just spending that got us in trouble; other things changed too. Immigration, for example, became less open, and we made it harder to bring in temporary workers.

Laws around the workplace changed. Trade unions and others saw an opportunity, at a time of anxiety about unemployment, to get gains for workers through political action. Minimum wages were driven up, labour-standards legislation gnawed away at employer prerogatives; protections against firing became more stringent.

In this same atmosphere, barriers to trade between Canadians and with the outside world were raised through measures like the Foreign Investment Review Act and government requirements that broadcasters use Canadian songs and programming on radio and TV. We eventually began to reverse course on protectionism with the Free Trade Agreement with the United States, but many barriers remain. In deference to the dairy farmers, who will brook no competition with butter, you still cannot sell yellow margarine in Quebec, even if it is manufactured elsewhere in Canada, and foreigners who have the temerity to try to sell us milk are charged tariffs of 270 per cent.

Public sector "employment" ballooned. Between 1960 and 1968, for example, the federal public service increased by over half and grew by a further 40 per cent over the next seven years. By 1977, StatsCan counted 330,000 federal employees, and another 144,000 in public enterprises. Transfers to the provinces shot up and had the desired effect, especially in low-growth provinces: today Ontario has 67 municipal and provincial employees per thousand residents, while Newfoundland has 99 and Manitoba 107. Much of this "pseudo-work" had little economic rationale but plenty of political payoff. CEO Paul Tellier was able to eliminate half the workforce of CN after privatization, because those workers were simply not needed to run a railway and had been there for political, not economic, reasons. Even today, as we teeter on the edge of a labour-supply cliff, burgeoning public-sector employment growth draws too many people from pursuits that are more productive.

One of the traditional motors of Canadian economic growth, labour mobility, was stalled by Employment Insurance(EI) and regional development policy until about 2003-04, when the huge wage advantage of working in places like Alberta started to outweigh the disincentives to moving we had created.

And in the face of all this policy designed to drive up employment and welfare dependence — whatever the cost in lost productivity — Canadian policy-makers still professed themselves mystified by Canada's poor productivity performance relative to the United States. America had a Boomer generation, but after some experimentation with big government in the sixties (remember the "Great Society"?), our neighbours largely returned to their traditional policy of reliance on the private sector and strong incentives for workers to get a job and get off welfare.

The result for them? Between 1960 and 1998, U.S. per capita income grew by 222 per cent. The result

for us? In Canada over the same period, it grew by only 126 per cent.[3]

And despite the fall in interprovincial labour mobility, relative population shifts of great significance occurred, as those regions most reliant on the private sector soaked up workers and put them to work creating real economic value attracted huge numbers of immigrants and had higher birth rates than regions mesmerized by the illusion that government-financed pseudo-work and welfare dependence were just as good as real productive work. By 2031, none of the StatsCan population projections shows the combination of Ontario, British Columbia, and Alberta having anything less than two-thirds of the Canadian population, and that likely understates the political and population shift ahead. Their already waning appetite for financing unemployment-absorbing transfers will decline steeply when their economies start spluttering in earnest for lack of workers. Quebec, on the other hand, will soon have less than a fifth of the Canadian population, and will frighten the rest of the country less and less as its relatively declining standard of living makes separation an a increasingly unpalatable proposition.

Out with the Old, in with the New

Worrying about unemployment is now *so* seventies and eighties. Today, newspaper accounts of labour shortages jostle on the page with stories about declining student numbers in the public schools. By 2020 we will talk about almost nothing else.The Boomers' legacy, however, is that we find ourselves still lumbered with a series of policies designed to mop up surplus labour at a time when we need to ferret out every worker we can find.

Today's falling unemployment is not merely some high in the economic cycle which will soon turn on us and drag us down again. We are entering a period of sustained and indeed growing labour shortages created mostly by bad policy, not market failure. We will find our growth constrained by our inability to find workers. Inflation will be an present danger in these tightening labour markets, as the Bank of Canada is already warning.[4] The standard of living of Canadians will be lower than it needs to be, just at the time we will need to find ways to pay for the retirement of all those Boomers. According to the federal Department of Finance, by 2030 or so, population ageing will have caused Canadians to forgo economic growth of about 14 per cent of GDP annually compared to our current (unimpressive) growth path. To put that in practical terms, we will forgo about $25,000 per person in economic growth every year creates a stunning loss of national wealth. At a time when the claims of older Canadians, particularly on the health-care and retirement-security systems will be on the rise.

The changes that are coming will not just be changes in this or that social program. We are about to undergo a values revolution or, more accurately, a return to many of the traditional values that underpinned Canada's great success in its first century.

For forty years or so, those traditional values — personal responsibility, a strong work ethic, an aversion to the corrosive effects that dependence has on individual character, and the centrality of family to civilized life — appeared to be on the wane. Our values adjusted to the bulge of workers by lowering our expectations of the contribution people should be expected to make to society. Traditional values appeared hard and uncaring in a world where real work was scarce, and the most socially vulnerable were the ones who fared the worst in the battle for jobs.

Shortly, however, it is the values of social-democratic welfarism that will seem a quaint echo of a fast-receding past. By 2020, and probably well before, the political high ground will have been captured by those who understand how the anxieties of Canadians changed. Unemployment will be yesterday's issue, as

[3] Michel Kelly-Gagnon, "Big Government Impoverishes Us All," *Montreal Gazette*, February 3, 2001.

[4] See for example the June 13, 2007, speech in St. John's, Newfoundland, by the then governor of the Bank of Canada, David Dodge.

the already anaemic rise in our standard of living is further diminished by the fact that many jobs are going undone, new investments are being passed up, and profits are not being made, all because not enough people are available to work.

If voters relax their now-instinctive assumption that "there are no jobs," paying people not to work or to do pseudo-work will be transmuted from a social necessity that decent people understand and support to a costly extravagance that causes political resentment and friction. Because work will *be* widely available and will *be seen to be* widely available, welfare reform and elimination of pseudo-work will not be seen as an "attack on the poor" or a way of "blaming the victim," but as a way to confer on them the individual and social benefits of working. Public employment will be squeezed to free workers for more economically valuable roles and the provision of public services more reliant on good management and technology than armies of underemployed bureaucrats. Massive waves of retirement will help the transition. Welfare in its various guises will not be eliminated, but will shift from an *alternative* to working to an incentive *to* work. This has already been seen in embryonic form in the welfare reforms of the 1990s in Alberta and Ontario. provinces notable for having had the most robust private-sector job growth and therefore the least dependence on the public sector over the last forty years. More recently we have seen announcements of baby steps in this direction in more government-dependent provinces, including Quebec,[5] while federally we saw the introduction in 2007 of a Working Income Tax Benefit, or WITB, guaranteeing that even people at the bottom end of the income scale will be made better off by working than by staying on benefits.

Social inclusion, darling of the progressive left in the 1990s, will become the rallying cry of a new work-oriented social ethic. Aboriginals, some racial minorities, and some women are still not able to work as much as they may want to, nor up to their level of skill and ability. Decades of welfare for aboriginals and public-sector pseudo-work for all these groups has done too little to change their status. A labour shortage, combined with a government's determination to open the benefits of work to all who are capable of it, will make economic necessity the driver of real inclusion.

Those hoping for a quiet retirement will not escape these pressures. In an era of labour scarcity, "older workers" will be seen as a valuable resource to be kept in the workforce or enticed back. That is already happening: while we have had a poor record among industrialized countries in putting those over fifty-five to work, very recently the numbers of those continuing to work have started to rise more quickly than in other OECD countries. That rise will surely accelerate. Older workers will be pulled back into work by the increase in incentives that will reward work richly. And since remaining active and feeling needed by others are closely related to longevity and good health, this will change the retirement behaviour and political expectations of older Canadians out of all recognition. The relative balance of their concerns will shift to the tax burden, economic competitiveness, and flexible attitudes of employers and away from state-financed retirement benefits and social services.

Immigrants too will be high on the new work-driven agenda, as it will be imperative to make it easier to enter Canada, but the immigrants who come will need more support to integrate successfully, because they will bring fewer valuable skills, on balance, than in the past. Canadians had their pick of immigrants in the postwar world. No more. Now almost every country is actively pursuing the highest-value immigrants, and countries like China and India, now huge lands of opportunity, are trying to bring home much of their overseas diaspora, including from Canada. Immigration cannot even begin to compensate for the huge changes coming in the Canadian population. Newcomers would have to arrive in about seven times their current numbers if we wanted to stabilize the age structure of today's population. Such a rise seems hardly plausible.

A country with too few workers is also a country compelled to be open to trade; trade allows us to use other countries' workers to produce what we want. Provinces begging for workers will tear down the

[5] Rhéal Séguin [this is technically the correct spelling. The Globe doesn't use accents...], "Quebec pledges nearly $1-billion to boost work force," . *Globe and Mail*, March 19, 2008, p. A11

barriers to domestic trade. The new TILMA (the Trade Investment and Labour Mobility Agreement) between B.C. and Alberta is only a precursor of a more liberal trade regime nationally. Free trade will be a touchstone of the new social and political order.

Reinventing work will become a social and economic imperative. This will include a re-examination of the old one-size-fits-all approach to labour legislation, workplace rules, and a host of other programs that will increasingly be shaped by the reality of labour shortages rather than the labour bubble of the postwar years. Working will be a more Protean idea, and workers will have more choices and more power in the workplace than perhaps they have ever known. Parenthetically, that will make antediluvian trade unions even more irrelevant than they are today.

Put all this together: the demographic reversal, the massive increase in movement of Canadians, labour shortages, the changing destinations of immigrants, the accelerating decline of regions caught in the past, the new political and economic power of growing and economically dynamic provinces such as Alberta, B.C., and Ontario (and, increasingly, Saskatchewan), a new congruence between traditional social values and the needs of the Canadian economy.

More work than workers will change everything. But the profoundest changes will not be economic. Rather they will be social and cultural. By 2020 the resurgence of individualism, self-reliance, and devotion to work will be deeply entrenched.We will be well advanced into an era that will be as economically, culturally, and socially different from the last forty years as vinyl records are from MP3s and rotary phones are from Blackberries. Yet ironically, it will be an era that will be based on a resurgence of traditional values that the Boomer era caused us to set aside. In 2020, we will wonder how we could ever have forgotten them.

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