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Chasing the Jobs

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The provincial government spends a lot of money on economic development, not all of it wisely.

The provincial government pursues economic development through a number of agencies and departments including the Departments of Economic and Rural Development and Tourism (ERD) and Nova Scotia Business Inc.

NSBI is an agency operating at a short arms length from government with an independent Board of Directors drawn largely from the private sector.

NSBI has an able and hard working staff. They have a clear idea of what they are trying to do and have been imaginative and strategic in many of their choices. The province is fortunate that so many able and experienced leaders from around the province have agreed to serve on the board.

But it operates in a flawed policy context.

1. The payroll rebate system is a good way to support employment growth. The money is meted out gradually and only if the jobs are in fact created and retained. It is unfortunate that programs approved by the board, after thorough debate and analysis, need to wait for cabinet approval, which often takes many weeks or months. It makes sense for cabinet to have notice of a decision and an opportunity to intervene if it wishes to be proactive, but it makes no sense to have the protracted approval process. Cabinet's role should be on policy, not transactions.

2. Many of the employers being sought for the payroll rebate program are great strategic choices—for example in financial services, aerospace and defence, information and communications technology. But too often they have been for low wage jobs in unstable industries such as call centres.

3. Both NSBI and the Department of Economic and Rural Development use nonsensical "rate of return" measures to evaluate projects. These compare the investment with the expected taxes to be paid as a result of the created jobs. Although the relative numbers are helpful—100% is certainly better than 50% — the suggestion that this is a measure of government revenue win is nonsense. The good jobs that NSBI facilitates are not filled by unemployed aerospace engineers or accountants languishing in Nova Scotia but by people who would otherwise live elsewhere. When they move here they consume the same amount of health, education, and other government services as others, which turns out to be about equal to the taxes they pay for all but the highest earners.

4. Neither the government (through ERD) nor NSBI should be in the venture capital business. That business requires a player to be both nimble and hardnosed. They are neither. It is sometimes argued that there are no alternatives, but why would there be if the private players have to compete with a government entity doing deals on less than commercial terms? It would be better for NSBI to act as a facilitator between Venture Capitalists and provincial businesses looking for capital. As it is taxpayers have a great deal of capital at risk for very few jobs.

5. Likewise ERD should not be involved in loans. The history of these loans is littered with disasters. It often happens that a borrower, dissatisfied with NSBI's already soft terms, will go to Economic and Rural Development and get a loan on even softer terms. If NSBI declines a deal it is safe to say that it has a very weak case. Yet government often does the same deal directly using the Industrial Expansion Fund (IEF), leaving NSBI in an impossible negotiating position for subsequent transactions. The most recent example of this was the $4.75 million loan to Scanwood which went into default very soon after it was made, with little prospect for recovery. Not surprisingly the Auditor General has been highly critical of the operations of the IEF while giving generally good marks to the operations of NSBI.

Again NSBI could provide a facilitator role with banks and other lenders, and could even subsidize the interest rate using a rationale comparable to that for payroll rebates. Perhaps some loans for rural manufacturers could be provided by NSBI but a more rigorous approval process is required. Many of NSBI's largest loan accounts are to organizations that could get money from the banks; many others are going to result in substantial or total losses.

There will be times when it is necessary to contribute to large capital intensive employers such as Michelin (still a frequent receiver of government funding) and DSME in Trenton. But if so this is best done as grants whose cost is reflected immediately rather than loans or equity investments for which the cost is put off to later accounting periods, perhaps after the next election.

NSBI has not done a good job of aggregating and reporting all costs, including rebates, staff costs, and loan losses, weighed against the actual number of jobs created.

The NDP government is no worse than its predecessor on any of these points but neither has it been better. The decision to abolish the IEF appears to be a good one but we should withhold judgement until we see what will replace it.

Ultimately the economic problem being addressed is not the most important one. Over the next twenty years Nova Scotia will lose 100,000 workers. It will be impossible to avoid a corresponding shrinkage in our economy. Our problem is going to be jobs without people, not people without jobs. This can only be mitigated by an aggressive increase in immigration rates, and much better and more vocationally relevant education for our young people.

TOUGH CHOICES

When important employers falter governments react with unusual speed. They often get it wrong at considerable cost to taxpayers. Great discipline is required.

In 1965 privately owned Dominion Steel and Coal Company indicated that it would be getting out of the coal and steel business in Cape Breton. The provincial and federal governments rushed to respond to the situation and both businesses soon became crown corporations. Given the devastating impact on Cape Breton's economy and social fabric it is hard to imagine any other reaction. The plan was to resell to private interests within a year.

But that plan was never realized. Thirty-three years and more than $1 billion of taxpayer money later governments finally gave up and turned to the costly business of environmental clean-up of the steel plant. Cape Breton's challenge was postponed, not solved. With the benefit of hindsight it is evident that governments did not get it right.

Nevertheless the scenario has been frequently repeated. To name just a few examples: Eastern Protein Foods (chicken processing), Eligna (wood pellets), hog farmers, Trenton Works (railcars), and most recently Scanwood (furniture manufacture). In every case the businesses failed in spite of government investment of millions of dollars.

This is usually not the fault of the workers or their managers. Rather it is because the fundamental economics of the businesses deteriorated. The steel plant was hurt by rising coal costs, distance from market, and a deteriorating plant. Wood pellet prices have softened while energy costs rise. Hog producers lost their federal feed subsidy. In recent years all have been hurt by a rising Canadian dollar.

This does not mean that government should never intervene, but considerable discipline is required.

The present situation is the NewPage paper mill in Port Hawkesbury, a hugely important source of jobs in the Strait area. The available information suggests that the problem is considerable . There is a pension deficit of $84.3 million or $130.4 million, depending on the measurement basis. NewPage claims it lost $50 million last year . And this is in spite of $10 million per year cash flow from an initiative by the previous government as well as concessions by workers and suppliers.

The paper business is difficult everywhere. Demand is shrinking as readers get more and more of their information electronically. Energy costs to producers are rising rapidly. Nova Scotia gets the vast majority of its electricity from fossil fuels, putting it at considerable disadvantage to provinces like Quebec with hydroelectric sources providing low and stable costs.

At the same time the mill has excellent technology, a capable and flexible workforce, access to high quality timber, and a conveniently located deep water port.

The government has made a good beginning by making it clear that provincial ownership is not an option while putting in place a short term plan to help suppliers and search for a buyer. But the hard part is to come. Several principals need to be followed in the coming months:

1. Financial sustainability: Support during transition is appropriate but ultimately the business needs to be self-sufficient. That means no permanent cash subsidies but does not preclude favourable tax rates or easy terms for access to crown timber.

2. A capable owner: Any new owner must know the business, make a substantial initial investment of working capital, and be financially capable of withstanding considerable fluctuations in financial results as prices for both paper and energy fluctuate. Otherwise the problem will repeat itself after a year or two.

3. A fresh start: Successor rights for unions, which preserve collective bargaining outcomes through a change in ownership, make good sense for a successful company. But they do not make sense in the case of bankruptcy, particularly when taxpayer dollars are being used to help the transition. The province should require that a new buyer of NewPage should be able to negotiate new contracts that will make the business viable. Any payments for past or future pension obligations should be part of that negotiation.

4. Transparency and fairness: Consideration should be given to more stable and competitive electricity rates. But there should not be an explicit subsidy from other power buyers — effectively that would be a tax disproportionately affecting low and middle income households. The full extent of government support must be visible to taxpayers and other employers. Government must be willing to provide comparable arrangements to other paper mills, subject to the other principles here being observed.

5. Contingency plan: Given the paper industry's challenges there is a very real possibility that no satisfactory solution will be found. A plan to deal with that possibility must be developed . It will be evident within twelve months whether that plan will need to be implemented.

All Nova Scotians should support the government's efforts to manage a successful transition to new private sector ownership. But the end result must be viable, financially sustainable, and self-sufficient.

CHASING THE RESOURCES JOBS

In a troubled world economy Canada has performed relatively well. But the good news has not been evenly spread.

Strong performances have been largely based on natural resources — for example mining in Labrador, Saskatchewan, and British Columbia; oil in Newfoundland, Saskatchewan and Alberta; grains in the prairie provinces. These all provide good jobs and support vibrant rural communities. But equally important most of them generate large royalty payments for provincial treasuries. The revenues from Sable gas have been extraordinarily important to Nova Scotia.

Meanwhile manufacturing has struggled, particularly in southern Ontario.

What does this mean for Nova Scotia, particularly outside of Halifax? There are areas where manufacturing is important—such as the three Michelin plants, the new DSME plant, and numerous smaller facilities. But some of these lead a precarious existence and, as is common in other jurisdictions, many are recipients of taxpayer support. Meanwhile efforts to advance resource based industries are frequently resisted.

The most recent manifestation has been the oil prospect in Lake Ainslie being drilled by Petroworth, who think there might be 30 million barrels of oil to be found. There have been vocal protests, mostly about the possibility of "fracking" which is not part of the license they have sought. Likewise there were objections in Shelburne and Digby to large scale aquaculture projects. There is resistance almost everywhere to open pit mining. Uranium prospecting is banned throughout the province.

Our best prospects for stronger rural economies are resource based. This does not mean that environmental considerations should be ignored, but government can signal its support by providing a clear policy framework and prompt responses to applications:

1. Aquaculture and fisheries are strong resources. Aquaculture proponents should have clear rules to work with. Public consultations should be for information and to test adherence to the policy framework, not to remake it.

2. Why should uranium mining be prohibited? In Saskatchewan both NDP and conservative governments have established safe working environments for this important economic contributor—in fact safer than those in potash, gold, or coal. Any viable global plan to reduce greenhouse gases has to include nuclear power. (This is not to recommend building a nuclear power plant. Having only one is a bad idea, as New Brunswick's experience with Point Lepreau has proven.)

3. Open pit mining has earned a bad reputation in Cape Breton because of inadequate remediation of past projects. But it can be profitable and is safer than underground mining. It should be permitted, with adequate funding for reclamation funded throughout the project.

4. Xstrata has invested substantially in an effort to resurrect the Donkin coal mine. Every effort should be made to facilitate a restart of that mine.

5. We need a reasonable and efficient regulatory regime to facilitate oil and gas exploration, including "fracking" in areas with little or no population. As well as good paying jobs this can provide substantial royalties to the provincial treasury. It took more than a year for Petroworth to get a response to its application. That is not the way to encourage the development of a promising industry.

Resource based industries can provide good jobs, and they often provide royalties to the province. They rarely need subsidies. They can generate spin-off jobs for rural manufacturers.

They have been the engines of growth for Canada's prosperous provinces and should be embraced in Nova Scotia with the same enthusiasm that was brought to the ship-building contract.

CHASING THE JOBS AWAY

A very broad coalition of Nova Scotian employers has expressed concern about the proposed binding arbitration for first contracts.

The premier says that their concerns are ridiculous. He should pay more careful attention to them and to the employers who we don't hear because they have decided against being here.

For restaurants and other employers entirely dependent on local business the possibility of an externally imposed wage settlement threatens their viability if the cost cannot be passed on to customers. The public sector award of 7.1% to nurses will make it even harder for health authorities to deal with their 3% cuts. It illustrates the separation of the arbitration process from economic realities.

But a much bigger concern is with multinational employers who have lots of choice about where to put their plants. In a globalized economy these companies must evaluate all of their future costs when choosing a location. Attracting them to Canada with its relatively high wage rates and expensive currency is not easy. It can only hurt our efforts if legislation adds considerable uncertainty to future labour costs.

The premier has argued that similar legislation is found in many other provinces. Perhaps he has not noticed that the manufacturing sector in Canada has been shrinking rapidly in those provinces. Our competition is not so much in Ontario and Quebec; rather it is in Latin America, Eastern Europe, China, and Southeast Asia.

Thus it is reported that Michelin, arguably our most important rural employer, has expressed concern about the proposed legislation and downgraded Nova Scotia in its attractiveness ratings. If there is another economic downturn where will they look first if a plant has to close? If things turn up why would they invest more here?

Attracting DSME to Trenton had to overcome the ridiculous application of successor rights to a location in an entirely different business that had gone bankrupt years earlier. No wonder buckets of taxpayer money were required to get them to set up shop.

This kind of legislation might be good for unions but not for employees. In the last decade union-friendly Michigan has become an industrial wasteland as GM and Chrysler went bankrupt and Ford nearly so. In the meantime BMW, Mercedes Benz, Honda, Kia, Nissan, and Volkswagen have all built new plants in the more accommodating environments of Alabama, Georgia, and Tennessee.

This step by Nova Scotia's government is part of a pattern (no doubt to be continued) of union-friendly legislation. If a major industrial employer was considering the establishment of a Nova Scotian plant it might begin by talking to Michelin and DSME. They will hear that our labour legislative environment is unfriendly and likely to get worse. These are voices we will never hear from because they will invest elsewhere.

Is the proposed legislation solving a problem so big that it is worth these risks?

INDUSTRIAL SLUSH FUND

The government has spent $50 million trying to save the Bowater mill. The track record of rescue missions like this one is very poor. Did they get knowledgeable advice?

In May the Auditor General produced a scathing report on the Industrial Expansion Fund. The essential conclusions are worth repeating:

"IEF has few processes, controls or documentation to support the review and evaluation of applications for loans or other assistance. The only substantial documentation consists of confidential reports to Cabinet. This enhances the risk of inconsistent or inequitable treatment of applicants, inaccurate or incomplete analysis and recommendations, and poorly informed decisions. A recently established Advisory Committee has no oversight role. Confidential Cabinet review and approval is the only significant control or oversight of this program.

Similarly, following approval of assistance, IEF has inadequate processes, controls or documentation supporting ongoing management of loans. Few procedures exist to monitor compliance with loan conditions, repayments, or arrears."

In response the government announced that the IEF would be abolished, to be replaced by a new agency which presumably would do better. In fact nothing has changed except the name. Even the fig leaf of an independent review committee and improved documentation offered by Minister Paris seems to have been dropped.

Any suspicion that things may have improved were dispelled by the latest transaction on behalf of Bowater Mersey, which followed precisely the same route as the disgraced IEF. Puzzled that some found this dissatisfying the Premier asked the following question: "What better place to get advice than to have all the members of the House engaged?"

This is nonsense. If and when the Premier wants advice from his own members he gets it, in private, in caucus meetings. If, surprisingly, he wanted it from the opposition parties, he would include them in the negotiations. If he wanted advice from people knowledgeable about business investments and risks he would not bypass the very mechanisms set up for that purpose.

It is thus difficult for observers to evaluate the deal. There are fewer than 200 jobs left at Bowater Mersey. Yes, there are more in suppliers of fiber and services but for the Premier to suggest that there are 2,000 affected families is a huge stretch.

Taxpayers are spending $50 million to keep those jobs for five years. This is on top of over $200 million spent in the past four years on other players in the forest products industry, with no doubt more to come for Newpage.

It is also on top of major concessions by workers, suppliers, and municipalities, and electricity price cuts that will have to be paid for by other NSPI customers.

The forest products employers are very important to rural Nova Scotia. Even these enormous expenditures might be justified if the end result was a sustainable industry. But paper use is continuing to dwindle and competition from South American suppliers is intense. House construction in the United States continues to be at record low levels. So the long term prospects are bleak.

It is not only the cost that is a cause of concern. Propping up unprofitable businesses postpones the day when more promising alternatives are developed.

The track record of rescue missions, from Sydney Steel to Scanwood, is not good. The province needs a disciplined process for making choices. It is marching in the opposite direction.

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