

If many hands make light work, get ready for some very heavy lifting...

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Notes for a talk to the annual retreat of federal deputy ministers.

Ottawa, 29 June 2006

Thank you for the invitation to be here.

There is a proposal reported in *The Globe and Mail* the other day to build a pipeline to Alberta. Nothing unusual there, except when you realise that this is not to take oil or gas out, but to pipe solvents in. The purpose? To dissolve the oil sands to allow them to be piped out to places where the labour force is available to build and operate the treatment plants needed. At 3.5 percent unemployment (and falling), it is a real question whether Alberta can get the job done even as it sucks in new workers at a dizzying rate.

In PEI, there are 20 Russian guest workers at a fish processing plant, and there is a request for 20 more. In response to requests from businesses across the region, every provincial government in Atlantic Canada now has an immigration policy and I believe an agreement with Ottawa. Under these provincial nominee programmes, needed workers can be fast tracked.

I am a partner in a restaurant in Halifax, and our biggest single challenge, by far, bar none, is to find the workers that we need. The Canadian Restaurant and Food Assn. has just released a report projecting huge labour shortages throughout the industry. It is an industry, like many other services, that cannot be outsourced or offshored to China or India, but must be done by people right here in Canada.

The Canadian Federation of Independent Business in Atlantic Canada just reported that 2/3 of their members report their biggest problem is finding workers and dealing with em-

ployee related issues, and this is a big jump over previous surveys.

I am on the board of one of Canada's largest seafood companies, and the fishing industry in Atlantic Canada is already experiencing labour shortages that are projected to get steadily worse over the next 10 years. On current demographic trends, unemployment in Nova Scotia will, in 8 years' time, have fallen to 3%.

The average truck driver in Canada is something like 55 years old and everyone is increasingly concerned that we will not be able to bring needed goods to consumers because we won't have the people to drive the trucks to get them where they need to go.

I've just given you a smattering of the stories that are increasingly preoccupying business leaders across the country. The simple fact of the matter is that we are about to embark on a period of severe and worsening labour shortages.

One reason I mention this is because we still have a set of policies in place that assumes the opposite, namely that we have a large pool of excess labour that needs to be more or less carried by everyone else. This assumption arose during the arrival on the labour market of the Boomers, and so coincided with the liberalisation of UI in 1971, and the emergence of all those programmes I remember so fondly, such as OFY, Katimavik and so forth, as well as the massive expansion of the postsecondary education sector, widespread availability of early retirement, the creation of a lot of low-productivity

public sector employment, etc., etc..

Now 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. For example, the EI system still pays people not to work for long periods of the year, especially in seasonal industries, and pays them extra to move to areas of high unemployment, rather than paying them to move to places where the jobs are. It also discourages education, because students are not eligible for EI.

According to some work we did at my institute recently, if we were able simply to get the labour force participation rate in the 5 easternmost provinces to the current national average, we would put another 156,000 workers into the work force. If we got all the provincial governments to the national average of civil servants in proportion to provincial population, that would liberate another 133,000 workers.

The total for these two measures alone? 290,000 workers. If we removed the work disincentives created by high marginal tax and benefit clawback rates for low-income workers, this would bring additional labour into the workforce. Ditto for reform of the CPP and other pension schemes that would allow people more flexibility in when and how they take their retirement income.

I am with those who argue that we make too much of the ageing issue per se. There are lots of ageing societies, such as Sweden, that age gracefully and in style, because they have accepted what an intelligent policy in these circumstances is. The thing to remember is that in the context of an ageing population, a great deal of economic policy must be driven by the need to increase dramatically the productivity of our workers. An ageing population is no cause for alarm in itself, because labour and capital are quite interchangeable up to a point, but then you have to create the conditions in which capital investment is as attractive as possible, so that the smaller number of workers you have is as productive as it can be, and you need to make sure that you are not making the pool of workers smaller than it needs to be, by giving people perverse policy-generated reasons not to work as hard and as much as they can.

We also need to lose the assumption that everyone needs to be a software engineer or biotechnician. Many of the jobs that are already going begging in Canada are for skilled and semi-skilled blue collar workers. I've already mentioned truck drivers and fish plant workers and restaurant workers. If Canadians are unwilling to perform these tasks, we are going to need to think about how we will get them done, as many of them cannot be outsourced but must be done close to home.

My own bet, for what it is worth, is that not only will we become much more demanding about the benefits that immigrants will bring to Canada in our selection process (and we will likely want to increase the share that are selected by

rational criteria based on such benefit to the country, rather than the current situation where a relatively high share are self-selecting under either family reunification or refugees categories) but I also suspect that we will in the not too distant future take up President

Vincente Fox's invitation for Canada and Mexico to set up a guest worker programme. Mexico is the NAFTA partner we ignore, and yet as both Canada and the US enter a period of labour shortages, having a large pool of unemployed labour on our doorstep may prove to be a huge boon, especially since they do not pose any of the same security and US relations concerns as, say, large-scale immigration from Muslim countries.

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And, by the way, I have to say that, contrary to what I have heard some people say over the course of yesterday evening, my understanding is that immigration cannot be a solution to our ageing population, because the age profile of immigrants overall is not significantly different from that of the population as a whole. That means that immigration as we currently practise it must be supplemented with greater use of guest workers and other similar initiatives.

Moreover, just as employers are going to have to compete more for workers, Canada is going to have to compete more for the immigrants we do need, even if immigration is only part of the solution to our problems. The highest value immigrants are much sought after everywhere, and they have more destinations to choose from than ever before that offer opportunity, high standards of living and personal security.

It's not for nothing that the fear of Polish plumbers was one of the key explanations behind the defeat of the European constitution in France.

If you follow through what I have been saying, and recall what I said about the solution to this problem is higher productivity and therefore more investment per worker, and improving the incentives for people to enter and remain in the workforce and work as hard as possible once there, a few things follow.

First of all, we are going to have to lose the paternalistic attitude toward workers, trying by regulatory means to determine too many of the conditions of employment that should be left to employees and employers to settle between themselves. Remember that a labour shortage is a worker's best friend, and workers are entering an era of high and rising bargaining power, and not just on wages. Deregulation of many aspects of labour markets so that working conditions can be tailored to highly diverse needs is going to be essential.

Second, the problem, with all due respect, for governments, is not going to be whether they can hire the people they think they need, because I can tell you right now *nobody* is going to find the workers that they need. The problem is going to be whether they can modernise themselves, through the use of information technology, outsourcing non-core functions, more rigorous management, etc., thus allowing them to do their essential work while drawing far less on the country's labour pool. You actually need far fewer people to do what you really need to do, and you need to pay them much better.

And by the way, this has all kinds of implications, for example, for fiscal relations with the provinces. Frankly, given the way that provincial civil servants organise to capture e.g. equalization money, in the form of higher salaries and larger inefficient workforces, the very last thing you should want to do right now is give them even more money. And since the

fiscal imbalance between Ottawa and the provinces is a wholly fictitious and empty concept, there is no argument for such increased transfers other than the crass political one which I won't even dignify with a rebuttal.

Third, many of the political obstacles to the elimination of regionally-differentiated EI, regional development spending on business support, and many kinds of other business subsidies, is going to be much more muted as the labour shortages spread across the country. I've already explained that they are alive and well in the major cities of Atlantic Canada. It is no longer necessary to leave Mabou and Bathurst for Toronto and Calgary. It may be quite sufficient to go to Moncton or Halifax. And the political support in more developed regions for the old edifice of transfers is going to fall significantly, as it becomes increasingly clear that EI, regional development and all the rest are significantly damaging the economic progress of the country as a whole, as the OECD just argued in its Country Report on Canada.

It was one thing when people had some sympathy with the argument that there were no jobs, but in an era of massive labour shortages, the moral and the economic argument coincide. There is no case on either score for continuing to pay people not to work, or to try and create artificial employment at the cost of higher taxes, when genuine sustainable businesses are having to shelve development plans for lack of workers.

And by the way, all of this applies equally to many of the agricultural support programmes, marketing boards, wheat boards export subsidies and the like. These are all going to have to go, in part because the world trading system is demanding it, in part because we have lost great prestige and influence in international trade circles defending the indefensible, but most importantly, because these old bureaucratic interferences with the signals that consumers are sending to farmers are locking them into the low-value added commodity production in which we enjoy no competitive advantage,

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whereas the reason our food exports to the US have quadrupled and we have gone from a deficit to a \$2-bn annual surplus in such trade is because we are actually rather good at making sophisticated food products that consumers want to buy.

Finally (not because I have no more to say, but because I'm already well over time), all of this implies a major shift in federal policy from supporting consumption to investing in Canadians' productive capacity. This will include changes in tax policy to improve the climate for private sector productivity-enhancing investment, as well as public sector spending on genuine infrastructure investments that pass a tough cost-benefit test. I have some ideas of what those might be (post-secondary education and possibly early childhood education, good old fashioned rails, roads, ports, etc., including creating the conditions where private investors can invest money here, removing obstacles to the use of existing capital, such as recog-

nising the foreign qualifications of our immigrants, removing interprovincial barriers to trade —such as the ones that keep electricity an inefficient provincial fiefdom, except in those provinces where utilities have been privatised — improving international infrastructure links, especially at the border, etc., etc.), but we'll have to save that discussion for another day.

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It is an ambitious programme that I have laid out here, but then I think anything less will leave Canadians with a falling standard of living, massive economic bottlenecks, heightened intergenerational conflict and a needlessly growing tax burden. You, as the brains and the muscle behind public policy in the federal government, have the opportunity of a generation to put a whole new face on the role of government in this country, by bringing its policies, programmes and priorities into accord with today's problems rather than yesterday's. Time is short. Make the most of it.

Thank you.



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