



The future of work in Nova Scotia:

Why it's so hard to find workers and what we can do about it

A talk by Brian Lee Crowley, President, AIMS

To the ADIANS Workforce Strategy Forum

Dartmouth, 30 April 2003

Ladies and gentlemen,

Thanks so much to the organisers of this event, and especially Hal Davies, for the kind invitation to be here with you today at this important event.

My talk is about the choices we make as a society — the choices we make about work, about education, about immigration, and more. It is about how we think about ourselves and our opportunities. For if we are wrong about who we are, we will make the wrong choices for our future.

Let me illustrate what I mean by reference to a true story that happened to an acquaintance of mine. He was an aerospace engineer at the Pratt and Whitney plant here at the Halifax airport. His son, as part of an elementary school project, was asked to write a short essay about a Nova Scotia industry of his choice. Because of his father's work, he knew something about the aerospace industry, and so that's what he wrote about.

When he got his paper back, he had got a poor mark, and when he read the teacher's comment she had written "You should know that we don't have an aerospace industry in Nova Scotia. There were lots of real Nova Scotian industries you could have written about, *such as the maple syrup industry.*"

What is the subtext of this teacher's comment, what is the self-understanding that it betrays? That we, Nova Scotians, as not urban, educated, technologically sophisticated, working year-round in high-end manufacturing in global industries. Instead we are characteristically rural, working in seasonal natural resource-based jobs with little value added, likely with too many people trying to live from the limited resources, and so we need nationally financed welfare programmes to top up our low incomes.

But this very popular and widespread self-image has almost nothing to do with our reality — and yet we continue to make too many policy choices as if the teacher's view, rather than the child's, were true. Let me explain what I mean.

Let's start with what the figures actually tell us about the population and labour markets movements in Atlantic Canada in general and Nova Scotia in particular.

Population change

Population changes rather slowly, but the trends are powerful, building up momentum over the course of many years. As a famous economic demographer delights in repeating, one of the few certainties of life is that each year you are one year older than the year before.

I don't want to overwhelm you with figures, and leave you none the wiser when I am done, so let me just highlight for you a few trends that we identified at my Institute in our paper, published several years ago, called Population Change in Atlantic Canada (available on our website). The trends we identified there have recently been confirmed (again) by StatsCan figures.

Now bear in mind that, while a population doesn't change quickly, it does change. Any discussion about the future composition of the population depends on things like rates of in and out-migration, national immigration policy and the national distribution of immigrants, birth and death rates and so forth. Each one of these factors can change independently of the others. So all population projections should be treated with appropriate caution.

That being said, the general outlines are pretty clear. The region's population will grow, but more slowly than the national average, until about 2016, at which point it will start to decline. Over the following 20 years (until 2036), it will decline from about 2.46m to roughly 2.33m.

This pattern, while common to each of the provinces, will show noticeable variations.

Newfoundland, after the artificially induced population growth of the 1960s in particular, is already in population decline, driven both by outmigration and the lowest fertility (birth) rates in the region and the country. But the bulk of the outmigration will have likely occurred by the end of this decade, after which the decline in numbers will slow, but then speed up again. In 1996, the population was 565,000, while in 2001, the province had a population of just over 540,000, a loss of 24,000 in only 5 years. Ten years later (2011), it will have declined only a further 6000. But ten years after that, it will have declined a further 15,000, and so forth. By 2036, the population of the Rock should be roughly 100,000 less than it was just 5 years ago.

New Brunswick will show very modest population increases until 2016, after which it will decline, again modestly. Nova Scotia will continue to grow as well, a little more strongly, and for longer than NB. It will pass the 1m mark in about 2015, and will start to decline, albeit very slightly, in 2026, a pattern very similar to that of PEI. By 2036, the region will have about 60,000 fewer people than it did in 1996, and the population peak will occur in 2016, again, at roughly 2.46m.

This will be accompanied, I hardly need add, by a strong ageing of the population. About 12.2% of our population was over 65 in 1996 (the exact national average). By 2011, we will be nearly 8/10s of a percentage point higher than the national average, and by 2021 over 21% of our population will be over 65, while less than 19% nationally will be seniors. Only PEI will have a noticeably young population, beating the national average over the whole 40-year period, mostly by a good margin. But note that the dependency ratio will not be markedly different than it was in the 50s and 60s. It is just that the dependents will be old, not young.

Education and its impact

Looking beyond our paper, there are some other trends that bear remembering. While we don't have precise figures, it is almost certain that there will be notable changes in population distribution **within** the provinces, and this has a major bearing on where our workers will be coming from. For example, I fully expect that there will be many tens of thousands more people in Halifax within 10-15 years, but most rural areas will see their populations decline, meaning that there will be significant movement from the rural areas to the city. Thus, given our difficulties in attracting and keeping immigrants (a matter to which I shall return in a moment), our future labour force growth will come chiefly from rural areas throughout Atlantic Canada. Your future workers are not likely to come from the UK or the Philippines or China, but rather

from rural Cape Breton, the Acadian peninsula or the outports of Newfoundland. That is a reason for us all to be deeply concerned about the quality of the education being offered throughout this region, because it is the bulk of our future workforce that is being prepared there. As those of you who followed our Report Card on the region's high schools will know, we perform poorly on national and international scholastic achievement tests, and roughly half of our high schools are performing below expectations.

Indeed, if I had the time, I would tell you about how we could use education policy as an economic development tool and an alternative to the business subsidy strategy on which we have hung our hat for so long. I will just open a brief parenthesis here to tell you what we discovered, for example, about the US state of Georgia in our book *Road to Growth*:

Georgia's development programmes, instead of emphasizing subsidies, focus on "soft" services, like training, and investments in infrastructure, which remain in the state even if the assisted business fails. Because money is not passed on to the company, no firm invests in Georgia to reap a subsidy. But Georgia — in a renowned and much-copied programme — will provide training for a new company's work force, though they will not fund a company-training programme. This avoids companies settling in Georgia to seek a subsidy under the guise of training. Instead, company officials tell the state what skills they need and they work with state officials in setting up the programme, which is run by the state. Whatever happens to the client company, the skill level of the work force is improved.

Labour force development

Returning now to our main theme, what do the trends I've laid out for our region's population mean for the labour force?

In terms of crude numbers, the changes are noteworthy but not devastating in the medium term, but in the long term, the decline is pretty remarkable. Our labour force, conventionally understood, will peak in 2006 at 1.130m regionally, but it has already declined from its peak in Newfoundland. In ten years' time, there will be 7800 fewer workers in Newfoundland, 12,500 more in Nova Scotia, about 3000 fewer in New Brunswick and about 3000 more in PEI. But if we compare today with 20 years down the road, there will be 32,000 fewer workers in Newfoundland, 11,000 fewer in Nova Scotia, 35,000 fewer in New Brunswick and almost no change in PEI.

So at first blush we could be looking at significant labour shortages in the coming decades in the region as a whole, one that could be significantly deeper in the rural areas than in the cities. But before we reach that as a settled conclusion, I'd like to ask you to consider a few things.

First of all, the *total number of workers* is not the only determinant of the *supply of labour*, or of the ability to get work done. For example, if the same number of people work more hours, more work gets done with the same labour force. If people hold multiple jobs, the same thing occurs. Ditto if people end up retiring later rather than earlier. If the supply of labour declines, and production cannot easily be moved to where there is surplus labour, then that drives wages up, making it more economical to invest in capital, such as machinery, to improve the productivity of workers who are now expensive to hire. In fact, the labour shortages of the 1990s in the US themselves had a tremendous impact on the labour participation rate. Because workers were more

and more valuable, employers sought them out more and more aggressively. Every nook and cranny of the population was scoured for potential workers who could be enticed into the work force. Employment among seniors, for example, increased substantially, as people were offered conditions that were sufficiently attractive to entice them out of retirement.

In fact, a labour shortage is a worker's best friend. Employers were so desperate to find people that they began to devise strategies to allow them to put, for example, illiterate workers to work. That is why the fast food industry, to take but one example, began to design cash registers using only pictograms, not words and numbers, so that workers who could not read could nevertheless operate some fairly sophisticated machinery. For all these reasons, I believe that there is far more flexibility in labour force availability in this region than a simple analysis looking at population numbers will reveal. Bear in mind that Canada's participation rate traditionally lags that of the US (although, exceptionally, that is not the case today) and this region's rate significantly lags that of the country as a whole. In 1999 in the US, before this recent downturn, which has not actually changed the figures that much, nearly 2/3 of American had jobs, so that's not even counting those who were willing to work but had no job. Clearly, even given the differing composition of our population, we have room to put a whole lot of people to work at higher levels of productivity.

Welfare reform

Perhaps most importantly of all, there are whole segments of the population who, largely as a result of poor social programme design, have for several decades in this region been withdrawn from the labour market. As a result, we have traditionally had a far lower participation rate (the number of working age people actually participating in the labour market, by either working or looking for work) than nationally or than in the US.

In fact this is unambiguously the message of welfare reform in both the US and Canada: the labour force can be increased dramatically, with huge benefits for workers and the economy as a whole, by the reform of welfare programmes such as EI and social welfare.

This year marks seven years since Democratic President Bill Clinton ended “welfare as we know it”, and a little longer since Alberta and several US states introduced reforms that sharply tightened welfare eligibility rules. The results have been so striking that even many of welfare reform’s strongest critics have been won over. Wendell Primus, who resigned his Clinton administration post in 1996 to protest that year's welfare reform, admitted earlier this month that he had been wrong and "welfare reform is working better than I thought it would. ... The sky isn't falling anymore. Whatever we have been doing over the last five years, we ought to keep going."

And what they’ve been doing is worthy of a little examination. Welfare reform helps explain one of the great mysteries of the U.S. economy of the 90s - an explanation that is highly relevant for Canada, and especially Atlantic Canada.

Conventional wisdom says the United States, Alberta and Ontario were oh-so-lucky that reform came along when the job market was hopping and inflation low. In fact, welfare reform contributed to this favourable climate. It recreated one of the key factors that spurred economic growth after World War II - the entrance of millions of new workers into the labour force.

Rural workers flooded into the cities in the post-war era, moderating wage pressures even when the economy was red-hot. This maintained profits, creating the means and incentive for further investment.

This boosted living standards. As investment and productivity rose, wages rose too, but - with a flow of new workers moderating wage pressure - not so fast as to weaken profits and investment. By the early 1970s, the flood had slowed to a trickle, which helped bring on stagflation and the worldwide slowdown in economic growth.

This brings us to a recent economic mystery. How could U.S. job creation, before the present slowdown, have been so high and labour markets so tight with almost invisible wage pressure, at least until almost the very end of the expansion? Many factors contributed to this remarkable performance, but welfare reform helps provide part of the answer.

The numbers leaving welfare for work were huge. In 1993, 5.5% of the U.S. population - 14.1 million people - collected welfare. Recently released data show the number has been nearly halved, to 7.3 million. Some 69% of working-age welfare leavers are employed, according to an Urban Institute study. That's consistent with other U.S. studies, as well as findings in Canada.

Alberta began welfare reform in 1993, when 94,000 were on welfare. That's fallen to 33,000 beneficiaries. A 1997 Canada West study found that 68% of welfare leavers were working. A C.D. Howe study in the same year also pointed to employment as the major reason people left welfare. Importantly, the Alberta welfare reforms coincided with a one-time, unique jump in new jobs, particularly for young people. So the new increase in available workers **caused** an increase in employment, a theme for Atlantic Canada to which I will return in a moment. In my mind this is the real Klein revolution, and not the fiscal reforms for which he is so well known. Ontario launched reform in 1995, at a time when the economy was going well, and yet welfare recipients remained stubbornly high at 10% of the provincial population (1m people). By 2000, the number of beneficiaries had fallen by 412,000, representing a 40% reduction. A 1998 study by Ekos Research found that more than 60% of former beneficiaries were working.

The data understate the effect of reform, which discourages new entrants into welfare and encourages job attachment and training. Studies demolish the alternative view that prosperity drives reform's success. From the 1950s to the early '90s, case loads ratcheted up during recessions but never returned to pre-recession levels during recoveries. Two recent Heritage Foundation studies in the U.S. found no statistically significant relationship between a state's economic vigour and changes in the welfare caseload. Changes were related to the toughness of reform. Yet, the vast majority of former recipients found work.

All this is good news - not just for Ontario and Alberta, but especially for us in Atlantic Canada. In Nova Scotia, for example, like Ontario before reform, 10% of the population is on welfare, and another large number are regular recipients of EI, not because there is no work, but because the perverse incentives of EI penalise them for working and reward them for not working.

Regionally extended benefits immobilise a large part of the workforce. Prior to Employment Insurance (EI) reforms, twice as many people collected benefits as were officially unemployed in some months. The percentage can still be over 100%, depending on the month and province. A recent study showed seasonal workers have no interest in employment in the off-season when they collect EI, even if government gives out extra money for accepting such work -- there was no take up on an experiment the government wanted to run in this regard, and so the whole experiment had to be cancelled. Many of you will remember the controversy a year or two ago in Petit Rocher over fish plant workers who were unwilling to travel a few dozen kilometres to take up available work in a fish processing plant in a neighbouring town. Their view was that they were entitled to work in their own community, failing which the government owed them enough to make work, again in their community, to get stamped up for EI. Responding totally rationally to the incentives that have been created for them, they have been trapped in a destructive mentality

where work becomes merely the means to qualify for their main source of income: EI, rather than a means to earn their livelihood, as well as an end in itself.

This stifles regional growth, as employers consistently report an inability to recruit the workers they need at a time when the region still officially has an unemployment rate significantly higher than the national average. 50% of employers surveyed by the CFIB recently reported that they would hire more workers in the region today if they could find people with the appropriate skills who were willing to work at prevailing wages. It is this pent up demand for workers that helps to soak up the new workers that welfare reform makes available, and helps explain, for instance, the one time jump in job creation in Alberta after reform.

Nonetheless, welfare reform brings hardship to some. Some former recipients have trouble making ends meet. One recent study shows falling income for the poorest of the poor because of loss of means-tested assistance, demonstrating the need for well-funded programs to help working poor – **welfare reform, including EI reform, isn't about saving money**, but rather about giving people the assistance they need to be a success in the workplace, not to keep them immobilised on benefits. And even though the short-term effect of welfare reform is sometimes not a noticeable improvement in income, income grows over time as job skills increase. If people are brought into the work force, their starting wage is the first rung on a ladder, which will lead them much higher over time. Remaining trapped on benefits, however, guarantees that a person's income will always be no more than the prevailing welfare rates. Wisconsin led U.S. welfare reform, reducing dependency by 90% since 1985. In the same period, it halved child poverty.

What's more, most welfare recipients cautiously support reform, according to a study by Johns Hopkins University, which conducted a number of focus groups. As one female recipient in Baltimore told researchers: "I think it's a good thing for me, 'cuz if they're going to keep on giving

it to me I'm gonna keep on taking it. So I think I should just look at it as a good thing and get out there and work." Marvin Olasky recently reported on a meeting at the left-wing Brookings Institute in Washington, where a long list of former welfare recipients came to tell how being encouraged back into the workforce had given them a new sense of pride and self-worth.

Immigration

So I've touched on welfare reform, on the effects of looming labour shortages, and on education and its effects on the future quality of the work force. Let me now briefly mention immigration and the culture of opportunity that we need to create if we are to have even a hope of attracting the immigrants we so desperately need.

We are in competition with the rest of the world for immigrants, who do not have to come to Nova Scotia, and indeed have largely stopped coming. According to figures from MISA (the Metropolitan Immigrant Settlement Agency in Halifax), immigration to Nova Scotia has dropped dramatically since the mid-1990s, while other provinces have become more aggressive in recruiting newcomers. In 1998-99, for example, we attracted a mere 1,624 immigrants out of a total of 173,011 that came to this country that year — less than one percent of the total.

Of course, the provincial government needs to pursue this as a matter of urgency, in concert with Ottawa. This province has been one of the last to seek an agreement with Ottawa on a provincial nominee programme, for example, and it still lags today in devoting enough attention to recruiting new immigrants, even compared to other provinces of similar size, such as Manitoba, which has enjoyed noteworthy success in attracting skilled immigrants.

“Do we really, in our hearts, want them to come?”

But in keeping with my theme that the future is a matter of today's choices, and that today's choices depend on knowing who we are and what we must do, we err when we think that immigration is first and foremost an affair of governments. It is an affair of society, one that depends at least as much on each one of us and our values, as it does on any government policy. That's why I want to suggest to you that the key question we are really here to wrestle with today, is not “Why don't they come?” but rather “Do we really, in our hearts, want them to come?”

After all, are we not a relatively poor society with limited economic and job opportunities? Pollsters like Don Mills of CRA, who plumb the depths of our collective psyche on a regular basis, will tell you that Nova Scotians are actually quite resistant to change, because they believe it always works against them, never in their favour. We have an inferiority complex, in which we always claim that this is the best place in the world to live, but secretly resent the success of other places and know in our hearts that our reality doesn't match our self-congratulatory rhetoric, or we wouldn't be having this conversation here today.

Lots of people will tell you that, while immigration is all very well and good for Toronto and Vancouver, it is quite inappropriate for Nova Scotia, which has a serious unemployment problem. While they don't put it this way, they really believe that opportunity is a zero sum game, that if someone comes here and does well, it has been at the expense of someone else. We talk constantly, indeed I would say obsessively about how friendly we are, and yet I personally find that hard to reconcile with our society's obsession with the CFA, the threat they represent, and their vaguely unseemly intervention in local life which, while occasionally tolerated, is rarely celebrated and is almost always feared for the portent of change that it is.

Indeed, it is true to say that there has been a very great deal of well-intentioned policy put in place here, based on the notion that the primary public policy problem facing the region is local unemployment, and that we needed to preserve old ways and old jobs, and keep them reserved for the locals as much as possible. Now I don't think that this policy was ever justified, but I want to tell you why it is indisputably the wrong policy today. The world is changing and Nova Scotia is part of that change.

Demographic trends are such that most of the industrialized world¹ faces very significant labour shortages today and in the future. That, and not unemployment, is the public policy challenge of the future.

The key: a “culture of opportunity”

So how do we get them to come, these precious immigrants, these people over whom virtually the whole developed world is fighting? I am deeply skeptical that we can bring in the immigrants we need through compulsion or crude incentives; rather the key is to create a *climate of opportunity* that is attractive to immigrants. I cannot underline strongly enough that what I am describing is not an *immigration* policy. It is a *prosperity* policy. Doing what is right for Nova Scotians will also be the right thing for attracting immigrants, including a reduced tax burden, a culture of education, a lightening of the regulatory burden, including on newcomers' access to many regulated professions — all these would be powerful recruitment tools. Attracting highly skilled professionals and entrepreneurs from elsewhere will also both help to fill skills gaps while generating economic activity that can help employ less-skilled workers currently unemployed or underemployed in the less-developed provinces like Nova Scotia.

Let me give you just a tiny example of the practical obstacles to a local culture of opportunity in a competitive world. I recently tried to hire a young professional from Ontario to work for my Institute. When he compared Nova Scotia income taxes to Ontario's, he saw that on an income of \$52,000, he'd pay \$2160 more in income and payroll taxes than in Ottawa, where he now lives. His wife, an expat Maritimer, earns an equivalent salary, so moving here they'd run the risk of her getting a lower salary, because salaries *are* lower here, or maybe not finding work at all. If she did find equivalent work, you can double the tax penalty I've mentioned, a penalty, I hardly need to remind you, that is repeated annually, and becomes more onerous as you become more economically successful. And they'd also pay more for gasoline, wine, electricity and a whole host of other things. Apartments are just as expensive as many parts of Ottawa, and houses on the Halifax peninsula are no bargain.

They decided to stay put, creating value for the Ontario economy, and paying taxes to Queen's Park. Lots of young Maritimers find that proposition attractive too, driven in part by those big tax differences. And you know, immigrants can count just as well as anyone else. This is the opposite of a culture of opportunity.

Conclusion

In conclusion, ladies and gentlemen, we will not make the right choices for ourselves, the choices that will allow our region and our people to prosper, if we cling to outmoded stereotypes of who we are. We face, not massive unemployment, but massive labour shortages, and these labour shortages are largely self-inflicted by bad policy. If we are to turn things around we must, as top priorities:

- Reform social welfare policies at both the federal and provincial levels

- Radically improve the quality of our education system (and not let health care cannibalize all public spending as it has been doing for more than a decade)
- Encourage immigration
- Get our taxes to competitive levels.

In other words, we have to stop thinking like the victims of a bad economy beyond our control, and start thinking like the powerful people that we are, people who can make things happen and who have confidence in themselves and their future. When we realise that opportunities are not limited, and don't have to be parcelled out parsimoniously only to the locals, but instead see that opportunities are infinite and are limited only by our imagination and energy, then we will have created the climate of opportunity that makes business invest, workers work, immigrants come and our children stay.

Thank you.

ⁱ Evidence from the Centre for Strategic and International Studies (CSIS) Commission on Global Aging suggests that industrialized countries face an unparalleled transition brought about by rising old-age dependency and a shrinking working-age population. Not only will the care infrastructure for supporting dependent elders need to be improved, but also societal aging could have sweeping implications for global growth. A decreased labour force and a decreased overall national population, which will in turn affect the tax base for national economies, will all threaten global financial stability. For details please visit the CSIS website, <http://www.csis.org>, accessed in July 2002.