

Rags to Riches

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Guest Commentary

Everybody has views about what's wrong with Atlantic Canada. When Canadian Alliance leader Stephen Harper, a westerner, blamed a regional "culture of defeatism" last year, he was roundly criticized for perpetuating western Canadian stereotypes about the region. Yet former New Brunswick Premier Frank McKenna, and Nova Scotia MP and Tory leadership hopeful Scott Brison, for example, have both deplored the region's culture of dependency. Being local boys, though, they escaped a Harper-style hiding.

Of course there is a lot of uncomfortable truth in these observations about the region. And a lot of us are struggling to articulate an alternative to the bad old ways, recognizing that the region needs regional prosperity, not "regional development". Over forty years we've seen far too much heavy-handed government intervention. Thus far, according to research for my Institute, these efforts that were supposed to aid regional development have actually contributed toward a retreat from growth. Fourteen years of regional development, led by the Atlantic Canada Opportunities Agency (ACOA), has resulted in an average economic growth rate that lags the rest of the country by 5 percent and a job creation rate that is 20 percent lower than the national average.

Three federal programs are most closely linked with regional development efforts in Atlantic Canada: employment insurance, equalization and ACOA. But rather than encouraging growth, these programs have fostered the region's climate of dependency. And many of these programmes have exacerbated a local mismatch between skilled workers and job opportunities. In fact, contrary to conventional wisdom, there are and have been shortages of skilled labour in Atlantic Canada; this, plus significant population shrinkage, helps to explain why most industries predict big challenges in meeting their employment needs in the near future. These are not the labour shortages of an overheated economy; instead, Atlantic Canada's labour shortages co-exist with high unemployment. Regional development policies are at the root of these problems.

Labour market madness

When employment insurance was first established it was intended to support employees when they lost permanent jobs; however, in this region it became a system for supporting seasonal workers between seasonal jobs. Though it was not an intended effect of EI, the program has contributed toward artificially high salaries in Atlantic Canada and labour market shortages. Private-sector employers not only had to bid against government-employment opportunities and the multitude of make-work projects and government-subsidized jobs, they also had to bid against an EI system that gave many months of generous benefits for a few weeks of work. Short EI qualifying periods and governments willing to lay on make-work projects to get people fully "stamped up" has meant a significant share of the labour force is in effect not available for work. This has contributed to the mismatch in job skills; many workers see limited incentives to learn new skills, young people get drawn out of school by the lure of easy EI money in the short run, and skilled workers see no incentive for relocating to Atlantic Canada.

The equalization trap

Equalization was originally designed with the best of intentions: to provide reasonably similar public services in the absence of equal strength in local tax bases. However, equalization now provides incentives to remain dependent, and provides incentives to keep local taxes too high. When the local

economy grows, generating new tax revenue, the federal government reduces equalization payments almost dollar for dollar – creating an equalization “poverty trap”. On the tax side, equalization both rewards provinces for keeping their taxes too high, and compensates them for the underdevelopment this helps to cause. Rather than promoting a climate of low taxes and growth, dependency festers.

Return to prosperity

Despite all these problems, there is a formula that will help return greater prosperity to Atlantic Canada. Reforms to employment insurance, along with equalization and tax reform would all help to redress the structural challenges. In addition to these reforms, creating a climate that encourages investment in economically successful industries (not politically-connected ones) will also contribute to greater prosperity. That means abandoning ACOA-style programmes that still assume that governments can pick winners and can keep local politics out of the distribution of government largesse to business.

Making work pay

There are a number of steps that could be taken to help put the region back on course to prosperity. To begin, EI must be reformed in a way that puts an end to labour shortages. There needs to be annual reductions to EI benefits for repeat claimants, so that long-term employment is encouraged. Experience-rated premiums should also be adopted, so an employer’s premiums rise when workers are repeatedly laid off, thus rewarding full-time, full-year, sustainable jobs, not seasonal work. Reforms like these would encourage stable and sustainable employment growth in Atlantic Canada.

Tax and equalization reform

The federal government should wind down regional spending programs, like the Atlantic Canada Opportunities Agency, and replace these with lower federal business taxes in the region. Similarly, the federal government and the provinces should agree to cap equalization and reform the programme to remove incentives to dependence and over-taxation. The combined impact of lower federal business taxes and greater leeway to lower provincial taxes would be a more favourable climate for investment. Atlantic Canadians would be able to keep more of their hard-earned dollars, many of which would be spent and invested in the region. Lastly, consumer choices would determine which industries thrive and which do not.

More importantly, Atlantic Canada must move away from the old ways and embrace new opportunities. The move toward high-tech opportunities in call centres has been lauded by some, building on existing regional strengths like bilingual workers will be the key to long-term growth. Political obstacles, such as over-regulation, should be removed from the path of the nascent offshore oil and gas industry. The traditional fishery must modernize, including through technologically sophisticated, year round, innovative aquaculture, the fishery of the future.

Conclusion

Atlantic Canada can be put back onto the road to growth. Lower taxes and a favourable business climate will be central to such a strategy. But many of the well-meaning but destructive old government programmes that reward dependence and obstruct growth will have to go first. Like Ireland, Atlantic Canada could go from laggard to economic overachiever — if only governments would stop “helping” so much