

Moving On Up: The transition from poverty to prosperity

Charles Cirtwill, President (acting)
Atlantic Institute for Market Studies

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There is a need to consider two broad types of strategies for aiding the poor, or rather two streams of responses to poverty in its various forms. The first is for those who for reason of age, disability and so forth will never be able to provide for themselves. The priority there will be to free up the maximum resources and deliver them in the most efficient way to those in need of our assistance.

This Commentary will focus on the second stream. The response for those who can, in whole or in part, provide for themselves by taking an active role in the workforce of tomorrow. Every dollar spent on someone capable of working and therefore of looking after themselves, is a dollar not available to be spent on someone who is incapable of working, for whatever reason.

There are three core groups affected by this second policy stream.

- Those who, due to the exigencies of life, find themselves temporarily in need of assistance;
- Those who, because of various barriers of whatever type can only ever hope to engage in part time work; and,
- Those who are actually pursuing a life premised on the constant and reliable availability of welfare benefits in various forms, and who have become stuck in

dependence on those benefits to the exclusion of full time work.

The first group, the temporarily poor, is actually quite large. But while their number is reasonably constant their population is not. In fact the Statistics Canada figures are pretty eloquent: *somewhere between a third and a half of the people in the bottom income quintile one year are not there the next*. Their place has been taken by someone else, while they have moved into a higher quintile.

And the StatsCan numbers are also quite clear about what makes the difference between falling into poverty and escaping it. The best and most common escape route is simply more family members working more hours. Hard work and a buoyant labour market do make the difference.

So for a large share of “the poor,” poverty is simply a temporary and strictly economic condition that they can and they will escape. For this share of the population, social services, and particularly income support, in the form of welfare or EI, for example, functions exactly as it is intended - as social insurance. The declining demographic trends will simply mean more opportunities for these people to move off assistance sooner, and given their track record they will do so.

For the second and third groups, those who may only be able to partially partake in the workforce and those who should be partaking fully but are not, here government has much to do, or rather, to undo.

Rural demographic trends, in fact demographic trends in general, are going in the wrong direction in Canada. Our population is aging, fewer babies are being born and fewer people are coming to our shores. In addition to this challenge rural communities are also making less money and therefore generating less new wealth.

This is actually good news for the poor. This demographic change will improve the opportunities for the people who have been the least engaged, who have received the least benefit from our post-war economic boom, and those who have been the last to whom we have collectively turned our minds. Those are the people for whom the next 20 years represent a staggering opportunity to reshape their lives.

All you – and by you, I mean government at all levels – all YOU in government need to do is – GET OUT OF THE WAY. Or at the very least, not mess things up too badly by trying to help.

This does not mean that government should do nothing for the poor. Maximizing assistance to those who will never be able to sustain themselves should continue to be a priority.

The key to success, however, is to recognize that the well intended policies of the last two generations have failed. They have particularly failed in rural communities. Trying to sustain an idyllic past, in place of an uncertain future, has done immeasurable harm. It has done harm not only to our country but to those we had set out to help.

The future of government action on rural poverty is in transition. By transition, I don't mean that government strategy itself is changing, although it is.

I mean that the government strategy must be to help others to change, to transition, to move on.

The bad news is that Canada is rapidly losing its ability to compete in many kinds of bulk, unprocessed agricultural commodities. The good news is that those are the things we want to get out of because there's more money to be made in value-added products. This story has been repeated over and over around the world.

At one time in New Zealand, the government paid a large subsidy per litre of wine produced, so farmers produced huge quantities of low quality wine as a way to collect the subsidy. When economic crisis hit the country, the subsidy was eliminated. The farmers swore it was the end of a traditional way of life, as indeed it was.

Today, New Zealand's wines are highly prized. Once government stopped standing in the way of signals from consumers, those farmers came to see that smaller quantities of high quality wine were far more valuable

to them. I see this happening today in my own backyard. One company in the Annapolis Valley region of Nova Scotia is making their apples into pies and selling them, at a significant profit, to Wal-Mart.

Ice-wine is another example of this value-added innovation as are heritage varieties of apples, which sell to organic food stores in the US for unbelievably high prices. In addition, the wired and wireless world has allowed many rural communities to parlay their quality of life into a sustainable standard of living by attracting growing numbers of telecommuters and internet-based service industries. Closer to home, rural producers are finding a growing market for fresh local beef, chicken, pork and fresh vegetables and those goods are being sold not only at the local farmers markets but in major retailers like Sobeys.

Even the flight of our young people from the farm is not the end of rural life. It is not so much that the family farm will die away but rather the kind of family that owns and runs farms will be radically

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different from what we have seen in the past. Fertile rural areas are beginning to attract a wave of immigrants with large families, the rich farm land of the Fraser Valley is a prime example. That land long ago passed out of the hands of the traditional Canadian farmer (if there ever was such a person) and into the hands of immigrants serving the urban market of Greater Vancouver. First it was the Chinese, now it is the Sikhs, who make good money in labour-intensive agriculture.

The first challenge for government is to avoid the temptation to manage this change because managing change involves picking winners and losers, something at which government is notoriously bad. Just consider our education and immigration policies.

In the late 60's and early 70's we enthusiastically embraced post secondary education, and in particular, universities. It isn't that having a university degree is a bad thing. The problem is the unintended consequences of convincing everyone that THEY should have a university degree. We started with the assertion that everyone could go to university. But we then turned that valid equity statement into an invalid value statement. We moved from everyone could go, to everyone should go to university.

This assertion was a direct if unintended assault on rural communities. Devaluing the skills and expertise needed to fill many of the trades-related tasks common in rural life. It created an environment where it was okay to see critically important work as demeaning because it did not necessarily require a university education. It allowed us to devalue even the skilled trades, which require quite a lot of training, because somehow taking that training meant that you were less intelligent than those who went on to university.

The irony is that this perception is dead wrong. A recent study of half a million high school freshmen discovered that the skills needed to succeed at post secondary education and the skills needed to succeed in the "trades" are virtually identical. More to the

point, the study also demonstrated that the people who succeeded in trades-training – farmers, electricians, plumbers, carpenters, truck drivers to name just a few – were identical to those who went to university in terms of their reading and math skills.

We tried with our education policies to pick winners and losers, and we were wrong, again. Yet we continue to repeat that mistake in our immigration policies.

Labour shortages are already negatively impacting economic opportunities in agriculture and in the skilled trades, both traditional strengths of rural communities. What have we done? Focused our efforts on attracting economic class immigrants and defined skilled workers by a point system that considers truckers, for example, as having no skills at all. Our focus blinds us, and potential new Canadians, to other opportunities that exist here.

Even when we talk about encouraging entrepreneurs to immigrate, we forget who entrepreneurs tend to be. The WORST thing a student looking to study in Canada can say is that they might, after graduation, consider staying in Canada. If they say that, we don't let them in, period. We want them to come here, spend their money, get their education and go home. If young people with fresh ideas are sent packing, where do our entrepreneurs come from?

Consider another opportunity that we have yet to take full advantage of. Our agriculture sectors need cost-effective labour in order to compete on the global market. Many countries have flourishing guest worker programs and we have, inside of our existing NAFTA framework, a ready pool of labour. Yet we are expending very little effort to set up the screening and marketing opportunities to take advantage of that pool in any serious way. Former Mexican President Vincente Fox has been to Canada calling for a guest worker program for Mexican workers. Many of those workers would find their way to rural communities, building opportunity for themselves and Canadians. We need to get on with it.

*“A labour shortage is a
poor worker's best
friend”*



Letting these opportunities speak for themselves is actually the second, and larger challenge for government. In the post war period we have made a series of mistaken policy choices that have trapped a whole sub-class of people in conditions of poor education, low-income and blighted life chances. The right social policy is in fact at least a partial return to what actually works, after several generations of policies that sounded good, but just weren't.

The really good news is that we are not going to have any choice in the matter. In the late 60's and early 70's we were awash in surplus labour. Back then we created very effective public policy to deal with that situation. We created those policies in response to demographic forces too powerful to ignore and too overwhelming to change. We are now faced with an almost equal and inverse situation that will force us, however unwillingly, to reverse those policies.

You see, we have a labour shortage, and it is only going to get worse. A labour shortage is a poor worker's best friend. It does not matter if that worker is someone who is temporarily out of work, who can only work part time, or who has never worked a day in their life. The labour shortage will create an opportunity for them, and will deliver incentives sufficient to encourage them to embrace that opportunity.

In 2001, my Institute estimated that by 2020 there would be almost 80,000 fewer workers in Atlantic Canada. The demographic trends that led to that prediction have gotten worse, not better in the last five years: lower birth rate, higher outmigration, weak immigration.

Right now, in Nova Scotia, our unemployment rate is the lowest in 30 years. By one estimate, in another 10 years unemployment in Nova Scotia will be near zero. With zero unemployment comes severe disruption in the economy. Goods don't get made. Crops don't get picked. Product doesn't get delivered. Consider what has been achieved in Ontario, Alberta and throughout the US. As the labour supply began to dry up, it became more and more necessary to find ways to put people previously thought unemployable to work, and to do so quickly. Thus, for example, McDonald's invested a great deal of money in

designing a cash register that could be worked by people who are illiterate.

Just as huge economic opportunities were opening up, governments throughout the United States began pushing people out of the welfare trap and into labour markets. They began to demand that people get training and get into the labour market instead of merely being warehoused as "unemployable" in the welfare system or on their rural homesteads.

The result has not been impoverishment and misery. Instead there has been a growth in both employment and incomes of the bulk of people who had previously been virtually totally excluded from the labour market.

This new way of thinking is already taking root in rural Atlantic Canada. I had the pleasure recently to address the Annual Meeting of the Trucking Human Resource Sector Council representing rural truckers from across the region. They have launched into an impressive campaign to recruit non-traditional workers into their industry, an industry largely located in rural centres and servicing many rural markets. Women, Aborigines, African Nova Scotians and the disabled are all partners in this effort. It is these historically underemployed, yet eminently employable groups who will be drawn into this industry – by changing attitudes and changing technology.

But this change won't be easy. At least two generations of Atlantic Canadians have been trapped in dead end part time seasonal work, and encouraged not to get an education suitable for the current economic opportunities. The trap is baited with employment insurance, a social insurance that effectively withdraws people from the labour market and gives them little incentive to work or to get training.

Remember, employment insurance (or unemployment insurance as it was first called) was designed at a time of labour surplus. It has allowed people to have some income while we tried to find room for them in the workforce. With access to rotating benefits and regionally differentiated EI we could string that delay out for quite some time. We no longer have the

luxury of that time – we need those people in the workforce, and we need them now.

In the mid 90's the federal government started to make the necessary changes to adjust the EI program to fit this new reality. The changes included reducing benefits, making it harder to qualify, and adjusting benefits for repeat users of EI. The changes reduced the DISincentives to work.

Voters, especially voters in rural Atlantic Canada, rewarded the government by tossing many of their members out of office in 1997. Politicians are nothing if not responsive to losing their jobs and many members were returned to their seats in the 2000 election after these hard won EI gains were reversed or at least, softened. In this instance, the politicians were right. EI must be what it was intended to be – an insurance plan to help people transition between jobs.

But EI isn't the only barrier that government must remove so that the poor can take advantage of the new opportunities open to them. We have systematically created the conditions in which low-income people who actually work, who make sacrifices, who save, who believe in the dignity of work, are chumps. As you know, the interaction of the tax system and our social welfare programmes in Canada is such that the highest marginal tax rates in the country are paid by people earning roughly \$13,000 to \$20,000 a year. Those marginal rates are actually worse for people trying to transition from welfare to work or contribute to their own well being by working part time whenever they can. For every dollar these people earn, they essentially lose a dollar in benefits. In effect, we tax them at a 100% just for having the gall to get a job.

Unfortunately, taxes are not the only barrier that we place in front of people who want to work. Consider what we do to many of the active, able and enthusiastic workers who have turned 65. We fire them. We call it retirement and portray it as a reward for a long life of dedicated service but for those who want to continue to work, they have been fired, and for a reason that in any other context would be illegal.

Mandatory retirement takes active, able and enthusiastic workers out of the workforce. Back in the day when there was an excess of labour and shortage of jobs, that made sense. People retired to

make way for the young people coming behind. But in today's world, with today's labour shortage, we need to make sure that everyone who wants to work, can work.

In conclusion, the labour shortage will provide an opportunity for those in poverty, whether rural or urban, to move out, to transition to prosperity. The help government can provide is to eliminate the barriers that are placed before the working poor. Provide incentives to make it better to work than to collect EI. Those incentives include a fairer tax regime and programmes that will enable people to continue to collect assistance from government programmes while transitioning to full time jobs or contributing to their own welfare via part-time work.

The labour shortage is the best solution to poverty. But this does not mean the transition will be painless or that our traditional way of life will be maintained. Those living in rural areas must embrace change. The fishery can no longer be the make work project of rural Atlantic Canada. Fish plants can no longer be EI stamp factories. Farmers can no longer be paid not to produce, or paid according to how much they produce regardless of the market. We must build on our proud tradition of innovation and self sufficiency and enable our rural communities to grow into their new opportunities. This effort is already underway, your challenge is to expedite it.



Atlantic Institute for Market Studies

2000 Barrington St., Ste. 1302 Cogswell Tower,
Halifax NS B3J 3K1
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca <http://www.aims.ca>