

## Crunch Time: Population change will challenge Atlantic Canada's future.

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### Introduction

When invited to give a talk on the future of the region's economy, one option is to review the latest financial statistics – economic growth rates, unemployment and inflation figures, natural resource prices, interest rates, exchange rates, etc. – and then do a little crystal ball gazing as to whether X, Y, and Z will go up, down, or sideways and what that means for the Atlantic provinces and their citizens.

At AIMS we tend to avoid this approach for two reasons.

First, financial and economic forecasting is not our specialty. If we had the ability to accurately predict these things in the near term, we'd be rich, retired, and on the beach or the golf course by now.

Second, and more seriously, there is one fundamental trend that underlies the movements in all these macroeconomic variables: the region's changing demographic profile. This is a

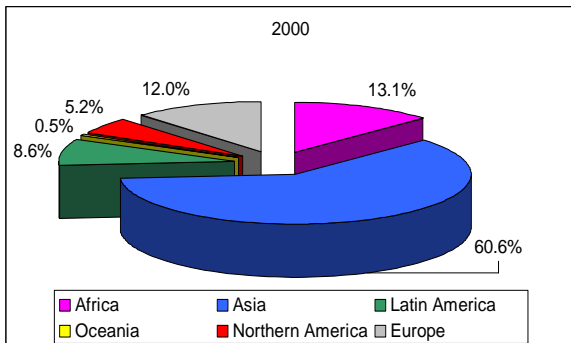
drum that AIMS has beaten before and it is one that we will continue to beat because we believe that this is THE public policy issue for the region in the coming years.

To set things in context this talk will begin with some international demographic trends and comparisons, next it will drill down to the Atlantic Canada level, and then it will conclude with a discussion of the policy measures available to address the demographic challenges we face.

### The Global Perspective

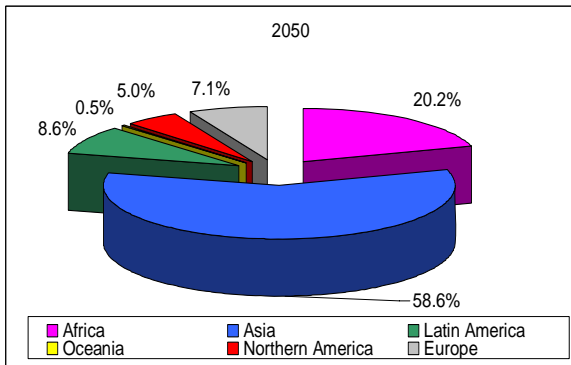
Figures 1 and 2 break out the world's population by region, both recently (2000) and a couple of generations into the future (2050). Three things jump out when the two graphs are compared. First, the population share of Northern America, which comprises Canada and the United States, remains fairly steady, dropping by only two-tenths of a percentage point. Asia, Latin America, and Oceania also show fairly small changes.

**Figure 1: World Population Shares in 2000**



Source: United Nations, *World Population to 2300*

**Figure 2: World Population Shares in 2050**



Source: United Nations, *World Population to 2300*

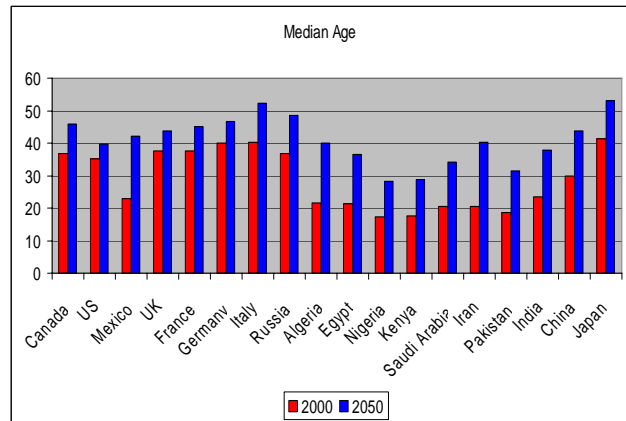
Second, Europe’s population share drops sharply, from 12.0 percent in 2000 to only 7.1 percent in 2050. Third, with Europe’s share shrinking and the rest of the world holding steady, Africa makes up the balance by growing from 13.1 percent of the global population in 2000 to 20.2 percent in 2050.

Note, though, that these regional figures mask some individual country trends. As a whole, Asia’s share does not change all that much, but a look at more detailed data shows that India’s and Pakistan’s shares rise over the 2000-2050 period, for example, while China’s and Japan’s drop off.

However, there is more to the story than just changing population shares. We also must look at changing age profiles.

Figure 3 illustrates changes over the 2000 to 2050 period for a number of countries. (There is no science to the countries chosen here. The intention is simply to include a number of countries from different parts of the globe.) This figure shows the median age – the age at which exactly half the country’s population is younger and exactly half the country’s population is older – for each in the two years.

**Figure 3: Median Ages by Country in 2000 and 2050**



Source: United Nations, *World Population to 2300*

One can see that all these countries are getting “older”, but some societies are moving from their thirties into their forties and fifties, while others are just leaving their teens and entering their twenties.

Canada moves from a median age of 36.9 years in 2000 to 45.8 in 2050, similar to France, Germany, and the United Kingdom, while the United States remains slightly younger.

Some countries, like China and Mexico, who are substantially younger than Canada in 2000 will have median ages fairly close to ours by 2050.



Other societies, including Italy, Japan, and Russia, will age – and shrink – even more dramatically.<sup>1</sup>

In contrast to aging Europe, the world's youngsters are mainly to be found in sub-Saharan Africa. In 2050, Kenya and Nigeria, for example, are still projected to have median ages below 30. From the list of entities covered in the United Nations projections, all the countries that will have median ages below 30 in 2050 are in Africa, except for Yemen and the West Bank/Gaza Strip.

Another key demographic barometer is the “dependency ratio” that measures the ratio of the working age population to the population segment composed of children and seniors. Here the ratio is calculated as the population aged 15 to 64, divided by the sum of the population younger than 15 and the population aged 65 and older, all multiplied by 100. One can think of the resulting figure as the number of workers available to provide for 100 dependants.

A high value for this statistic is a good sign because it means that the burden of caring for the young and the elderly is spread over a greater number of workers. Conversely, a low number means each worker, on average, must carry a greater burden to support the young and old dependant populations.

Figure 4 shows dependency ratios by region in 2000 and 2050. As with population shares, Asia, Latin America, and Oceania face fairly modest

<sup>1</sup> In his book *America Alone: The End of the World as We Know It*, Mark Steyn discusses these demographic trends (page 10): “Scroll way down to the bottom of the Hot One Hundred top breeders and you’ll eventually find the United States, hovering just at replacement rate with 2.11 births per woman. New Zealand’s just below; Ireland’s at 1.9; Australia, 1.7. But Canada’s fertility rate is down to 1.5, well below replacement rate; Germany and Austria are at 1.3, the brink of the death spiral; Russia and Italy are at 1.2; Spain, 1.1 – about half replacement rate.”







changes (small improvements in the first two cases and a small decline for Oceania). Canada and the United States show a more marked decline, dropping from 195 workers per 100 dependants in 2000 to just over 160 in 2050. Once again Europe and Africa provide almost mirror images, with the former dropping from 210.6 to 134.2 and the latter increasing from 117.9 to 189.0; by 2050, Europe will have approximately 75 fewer workers for every 100 dependants while Africa will have almost 70 more workers for every 100 dependants.

So what does all this mean?

On the bright side, the improving dependency ratio in Africa provides some hope that the continent may find a way out of the poverty and misery that has been pervasive for so long by emulating other development success stories the world has seen in recent decades.

Malcolm Gladwell, author of best-sellers *The Tipping Point* and *Blink*, examined this scenario for a 2006 article in *The New Yorker*.<sup>2</sup>

**Figure 4: Changing Worker-Dependant Ratios**

Working Age Population Per 100 Dependants		
	2000	2050
Africa	117.9	 189.0
Asia	175.5	 182.2
Latin America	167.4	 175.5
Oceania	180.9	 168.8
Northern America	195.0	 161.8
Europe	210.6	 134.2

<sup>2</sup> “What’s behind Ireland’s economic miracle – and G.M.’s financial crisis?” Malcom Gladwell, *The New Yorker*, August 28, 2006.

Source: United Nations, *World Population to 2300*

Gladwell discusses the emergence of the “Celtic Tiger” in Ireland during the past two decades and notes the many explanations that have been given for the country’s transition from economic basket-case to power-house: ascension to the European Union, lower taxes, open markets, and wise public spending in education and infrastructure. However, he cites the finding of Harvard economists David Bloom and David Canning that the key driver of the Irish Miracle may have been changing demographics.

“In 1979, restrictions on contraception that had been in place since Ireland’s founding were lifted, and the birth rate began to fall. In 1970, the average Irishwoman had 3.9 children. By the mid-nineteen-nineties, that number was less than two. As a result, when the Irish children born in the nineteen-sixties hit the workforce, there weren’t a lot of children in the generation just behind them. Ireland was suddenly free of the enormous social cost of supporting and educating and caring for a large dependent population. It was like a family of four in which, all of a sudden, the elder child is old enough to take care of her little brother and the mother can rejoin the workforce. Overnight, that family doubles its number of breadwinners and becomes much better off.”

Gladwell goes on to discuss the same factors – in reverse – in the context of Africa.

“People have talked endlessly of Africa’s political and social and economic shortcomings and simultaneously of some magical cultural ingredient possessed by South Korea and Japan and Taiwan that has brought them success. But the truth is that sub-Saharan Africa has been mired in

a debilitating 1-to-1 ratio for decades, and that proportion of dependency would frustrate and complicate economic development anywhere. Asia, meanwhile, has seen its demographic load lighten overwhelmingly in the past thirty years.”

So there is hope that an improving dependency ratio will provide a springboard to greater prosperity for Africa, but this optimism is tempered by the realization that demographics alone cannot solve the problem. Economic development also requires certain basic institutions: the rule of law, functioning markets, and some degree of social cohesion.

A more pessimistic worldview is based on other traditional characteristics of “young” societies.<sup>3</sup>

- In the 1970s, 1980s, and 1990s, 80 percent of all new conflicts occurred in countries in which at least 60 percent of the population was under age 30.
- Nearly 90 percent of countries with very young structures had autocratic or weakly democratic governments.
- 51 percent of countries with a very young age structure ranked as “critical” or “in danger” by *Foreign Policy* magazine’s Failed States Index. No countries with a very young age structure were ranked as “stable” or “most stable”.

While changing age profiles and dependency ratios hold out hope for improvement in many of

<sup>3</sup> These statistics are taken from a presentation entitled “The Shape of Things to Come: Why Age Structure Matters to a Safer, More Equitable World,” by Elizabeth Leahy, Population Action International, delivered to the Woodrow Wilson International Center for Scholars, October 2, 2007. (<http://www.wilsoncenter.org/events/docs/The%20Shape%20of%20Things%20to%20Come1.pdf>)

the world's poorest societies, there also is the possibility that civil and or external conflict could negate these potential gains.

As for the developed world, we are entering uncharted territory. It is true that in the 1950s and 1960s, when the baby-boomers were still babies, Canada did experience dependency ratios similar to what are forecast for the coming decades. However, the bulk of dependants forty and fifty years ago were children, whereas the elderly will compose the majority of the dependant population in the future. While nine-year-olds in 1960 needed schoolrooms, blackboards, and pencils, those same people as ninety-year-olds in 2041 will expect expensive high-technology medical services and pharmaceuticals. We simply have no past precedent to examine as a guide for the future we face.

### Focusing in on Atlantic Canada

We now have reviewed the importance of demographic factors in determining economic success and touched on cases of bad demographic profiles hampering development (e.g., Africa), improved profiles triggering boom times (e.g., Ireland and the Asian Tigers), looming changes that may allow poor performers to finally turn a corner (e.g., Africa again), and unprecedented population aging that will present problems we have not seen before (e.g., Europe, Japan, and Canada).

What do the numbers show for Atlantic Canada, in particular?

Figure 5 provides population projections for the Atlantic provinces in 2031.<sup>4</sup>

<sup>4</sup> Unfortunately the United Nations and Statistics Canada use different timeframes for their population projections – 2050 for the former and 2031 for the latter, so parallel projections are not available for use in this paper.

Three different Statistics Canada projections (low, medium, and high growth) are presented. Two striking things jump out from the data. First, in some scenarios one or more Atlantic provinces and the region as a whole actually loses people between 2005 and 2031. (These are identified with a circle.) Second, population growth in the region lags far behind Canada in total. Under the medium growth scenario, the population of Canada grows by 20.9 percent over the 2005 to 2031 period, while growth in Atlantic Canada is only 2.5 percent.

**Figure 5 – Population Projections for the Atlantic Provinces**

	Population (thousands)			
	2005	2031		
		Low Growth	Medium Growth	High Growth
Canada	32,270.5	36,261.2	39,029.4	41,810.8
NL	516.0	488.2	505.6	526.0
PEI	138.1	141.3	149.5	157.0
NS	937.9	938.4	979.4	1,026.7
NB	752.0	740.7	767.2	797.7
Atl. Can.	2,344.0	2,308.6	2,401.7	2,507.4

The effect of this disparity in growth rates can be seen in Figure 6. Comparing 2005 to 2031, Prince Edward Island maintains its (tiny) proportion of the national population, but the other three Atlantic provinces show decreases and the region as a whole drops by approximately one full percentage point. The trend is essentially the same across provinces no matter which growth scenario is chosen. The outcome is slightly more differentiated at the regional level – notice the four-tenths of a percentage point difference between the low growth and high growth scenarios – as rounding differences are aggregated across the provinces.

Aside from the economic difficulties that may result from an aging and slow-growth or even

shrinking population, a shrinking population share also will lead to lessened political clout as a greater proportion of seats in the House of Commons go to the faster-growing provinces.

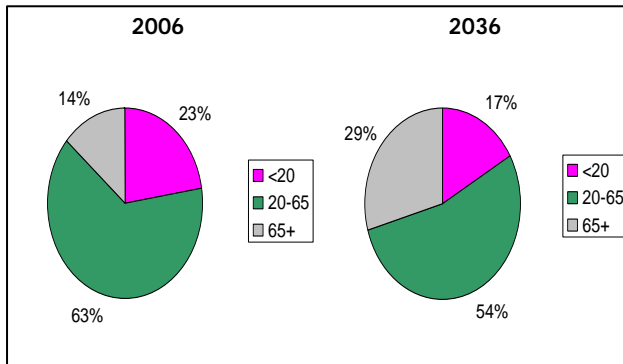
Figure 7 shows an age-group breakdown of the Atlantic Canadian population in 2006 and 2036.<sup>5</sup>

**Figure 6 – Atlantic Canadian Population Proportions**

Proportion of Canadian Population				
	2005	2031		
		Low Growth	Medium Growth	High Growth
Canada	100.0%	100.0%	100.0%	100.0%
NL	1.6%	1.3%	1.3%	1.3%
PEI	0.4%	0.4%	0.4%	0.4%
NS	2.9%	2.6%	2.5%	2.5%
NB	2.3%	2.0%	2.0%	1.9%
Atl. Can.	7.3%	6.4%	6.2%	6.0%

Source: Statistics Canada

**Figure 7 – Atlantic Canadian Age Profiles**



Source: Statistics Canada

Over that 30-year period, the proportion of the region’s population composed of young people (less than 20 years old) drops by six percentage points and the figure for working aged people (20 to 65) drops by nine percentage points. Meanwhile, the proportion of seniors more than doubles, from 14 percent in 2006 to 29 percent in

<sup>5</sup> Once again, the choice of dates is dictated by the data that are made available.

2036. By province, the projected 2036 population proportions composed of seniors are 26.9 percent, 28.0 percent, 31.0 percent, and 31.2 percent for Prince Edward Island, Nova Scotia, New Brunswick, and Newfoundland and Labrador, respectively. The corresponding 2036 figure for all of Canada is 24.5 percent.

Figure 8 brings back the concept of dependency ratios, this time for the Atlantic provinces.

**Figure 8 – Dependency Ratios in Atlantic Canada**

	Working Age Population Per 100 Dependents			
	2006	2016	2026	2036
Canada	166.7	160.4	137.0	124.2
NL	196.7	180.9	145.1	122.7
PEI	154.5	146.3	128.8	116.9
NS	171.0	162.5	134.7	118.8
NB	174.0	161.1	131.5	111.9
Atl. Can.	176.2	164.6	135.3	117.4

Source: Statistics Canada

As noted in the previous section, Canada’s dependency ratio will worsen over the coming decades. As Figure 8 shows, Canada will go from having 166.7 workers for every 100 dependents in 2006 to having only 124.2 by 2036. The results are even more alarming for Atlantic Canada as three of its four provinces will drop below the 120 mark by 2036; Newfoundland and Labrador will hover just above at 122.7. Note that the 2036 dependency ratio of 117.4 projected for Atlantic Canada is almost identical to the figure for Africa in 2000 (see Figure 4).

**Family Structures**

It also is instructive to look inside the population numbers along other dimensions.





Figure 9 presents data on family structures. In Canada and throughout the Atlantic region, approximately one in every six families is a lone-parent family. In Newfoundland and Labrador, Nova Scotia, New Brunswick, and in Canada as a whole, lone-parent families have been growing more quickly than other family types, meaning that the one-in-six figure will rise. (Prince Edward Island bucks this trend.)

**Figure 9 – Changing Family Structures**

	Percentage Growth: 2001 to 2006		Percentage of Families that are Lone Parent Families - 2006
	All Families	Lone Parent Families	
Canada	6.3	7.8	15.9
NL	0.9	4.8	15.5
PEI	2.0	1.6	16.3
NS	1.7	2.6	16.9
NB	1.3	2.8	16.3

Source: Statistics Canada

Not all two-parent families are models of domestic bliss and not all single-parent families are beset with difficulties. Nonetheless, a rising proportion of single-parent families may be cause for some degree of concern.

As noted recently by the Institute for Competitiveness and Prosperity, “families with lone parents have the worst economic outcomes – as defined by probability of being in the bottom two quintiles of income (market and after-tax, after-transfer). Fully half of lone parent families are in the bottom quintile and just under 80 percent are in the bottom two quintiles ... A third of lone parent families in 2000 were below LICO [Statistics Canada’s low income cut-off measure].”<sup>6</sup>

<sup>6</sup> “Prosperity, inequality, and poverty,” Working Paper 10, Institute for Competitiveness and Prosperity, September 2007, p. 40.

An increasing prevalence of lone-parent families may also impact children’s educational attainment and their likelihood of troubles later in life, but one must be cautious in interpreting these data.

“While the relationship between family structure and delinquency is not clear, single parents are more likely than dual parents to have greater levels of stress and greater financial instability, factors that increase the risk of delinquency in children in these families (Lipman et al. 2002).

If all other conditions were equal, based on these trends, crime rates might have been expected to rise, not fall. However, another situation that contributes to single parent families is the number of children born to teenage mothers and these rates have dropped by more than half between 1961 and 1997 (Statistics Canada, 2000). Young single women are the lone parents who are at particularly high risk due to the multiple social and economic difficulties they face. Children in lone parent families are therefore decreasingly likely to be in families headed by very young women and, as a result, the economic status of children in lone parent families overall has risen (Statistics Canada, 2003).”<sup>7</sup>

## Immigration

Another interesting question is how the region’s population will change in terms of the mix

([http://www.competeprosper.ca/index.php/work/working\\_papers/working\\_paper\\_prosperity\\_inequality\\_and\\_poverty/](http://www.competeprosper.ca/index.php/work/working_papers/working_paper_prosperity_inequality_and_poverty/))

<sup>7</sup> *Exploring Crime Patterns in Canada*, Valerie Pottie Bunge, Holly Johnson, and Thierno A. Baldé, Canadian Centre for Justice Statistics and Time Series Research and Analysis Centre, Statistics Canada, June 2005, p. 36.

between native-born Canadians and immigrants. One obvious means of addressing a labour shortage is to entice more immigrants to our shores. Traditionally, Atlantic Canada has received and retained relatively low numbers of immigrants, and the Statistics Canada projections displayed in Figure 10 do not suggest any meaningful variation in that trend. Unless profound changes in immigration patterns occur, immigrants will remain a very small proportion of the Atlantic Canadian population.<sup>8</sup>

**Figure 10 – Immigrants as a Percentage of Total Population**

	Immigrants as Percentage of Total Population		
	2006	2011	2017
Canada	19.8	21.0	22.2
NL	1.5	1.5	1.7
PEI	3.2	3.2	3.2
NS	4.7	4.8	5.0
NB	3.1	3.2	3.2

Source: Statistics Canada

### Industrial Structure

When considering the region's future, these demographic changes cannot be viewed in isolation. It is also important to consider the continuing change in Atlantic Canada's industrial structure.

<sup>8</sup> AIMS recently published a paper by John Huang, a recent immigrant to Canada, which outlines some ways in which immigrants could be better accommodated and made to feel more welcome upon arrival. Such measures could help to attract more immigrants to Atlantic Canada and to entice them to stay within the region, rather than moving on to central or western Canada as so often happens today. See: *Give a Plum for a Peach: Chinese Business Immigration to Atlantic Canada*, John Huang, The Atlantic Institute for Market Studies, March 2007. (<http://www.aims.ca/library/Immigrationfinalweb.pdf>)

While the first things to spring to mind when one mentions the Atlantic Canadian economy are typically the resource sector (e.g., agriculture, fishery, forestry, mining, oil and gas) or light manufacturing and processing (e.g., food products, pulp and paper), the service sector now accounts for more than half the gross domestic product (GDP) in all four Atlantic provinces.

In fact, 2006 figures show that the service sector comprises 63 percent, 75 percent, 78 percent and 69 percent of GDP for, respectively, Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and New Brunswick.<sup>9</sup> The broad trend over time across Canada is a growing service sector GDP share; however, provinces with significant oil and gas sectors have bucked this trend of late as skyrocketing petroleum prices boost the figures for their resource sectors.

Similarly, the service sector accounted for a large percentage of 2006 employment in each Atlantic province: Newfoundland and Labrador – 77 percent, Prince Edward Island – 72 percent, Nova Scotia – 81 percent, and New Brunswick – 78 percent.<sup>10</sup> Even when the public sector is removed, services still account for a bigger proportion of employment than does the goods-producing sector: Newfoundland and Labrador – 68 percent, Prince Edward Island – 62 percent, Nova Scotia – 73 percent, and New Brunswick – 70 percent.<sup>11</sup>

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[http://www.stats.gov.nl.ca/Statistics/GDP/GDP\\_Industry.asp](http://www.stats.gov.nl.ca/Statistics/GDP/GDP_Industry.asp),  
[http://www.gov.pe.ca/photos/original/pt\\_annualreview.pdf](http://www.gov.pe.ca/photos/original/pt_annualreview.pdf),  
<http://www.gov.ns.ca/finance/statistics/agency/index.asp?p=2&s=2e>,  
<http://www.gnb.ca/0160/Economics/gdpbyindustryChaineddollars.html>.

<sup>10</sup> Source: Statistics Canada.

<sup>11</sup> The private sector is approximated by removing the categories for public administration, educational services, and health care and social assistance.



We are witnessing not only a transition from a goods-producing economy to a service-producing one, we also are in the midst of a change from a low-skilled, primary production economy to one based on knowledge and value-added output. A recent study by the TD Bank Financial Group expands on this theme.

“It is also evident that the structural changes unfolding in the economy will only increase the need for a more literate workforce in the future. The dominant theme in recent decades has been a steady shift towards a more services-based and more knowledge-based economy. Services in the economy have climbed to a dominant 70 percent of GDP, with business services accounting for more than 50 percent of all economic output. Within services, the strongest growth is coming from employers that require high skills – such as information and communication technologies, health care, public administration, etc. ... fierce competition emanating from globalization is pushing Canadian firms to alter their output towards higher value-added goods and services.”<sup>12</sup>

## Education

Unfortunately, the TD Bank study also provides some woeful statistics on how well positioned we are to compete within this new economic paradigm.<sup>13</sup>

- At the national level, half of Canadian adults have inadequate literacy (47.7 percent in prose literacy, 48.0 percent in

document literacy, and 55.1 percent in numeracy).

- Atlantic Canadian adults do poorly as compared to other provinces. For example, New Brunswick ranks dead last and Newfoundland and Labrador is number nine in prose literacy, Prince Edward Island is also in the bottom half with a number seven ranking. Nova Scotia is in the top half at number four, yet 44.9 percent of its adults lack adequate prose literacy – hardly a result to shout from the rooftops.
- Sadly, the news is not much better for young Canadians. Almost 40 percent of Canadian youths lack adequate literacy skills. In a 2003 international student assessment in reading, math, and science. Prince Edward Island, Nova Scotia, and New Brunswick were below average in all three areas. Newfoundland and Labrador managed to record average marks in reading and science, but also reported a below average score in math.

Statistics on educational attainment also show generally poor performances for the Atlantic region. Figure 11 provides data on level of education by province; only in a very few cases (highlighted with circles) does an Atlantic province outperform the national average, and all these instances are limited to Nova Scotia.

Note that roughly one-quarter of the population has either some college education or some university education, but far fewer actually possess college diplomas or university degrees. As well, in each Atlantic province there are between ten and twenty times more people with only elementary-secondary education than with a trade certificate or diploma. Very few Atlantic Canadians hold master’s or doctorate degrees.

<sup>12</sup> *Literacy Matters: A call to action*, TD Bank Financial Group, September 2007, p. 13.

<sup>13</sup> *Literacy Matters: A call to action*, TD Bank Financial Group, September 2007, pp. 2, 5, and 8.

**Figure 11 – Educational Attainment for Population Aged 15 and Older**

	Canada	NL	PEI	NS	NB
Elementary-secondary only	45.4%	51.8%	49.0%	45.1%	52.1%
Trades certificate or diploma	3.5%	2.7%	3.3%	3.6%	3.2%
College education	25.3%	24.8%	24.2%	25.1%	22.7%
With college certificate or diploma	12.2%	8.3%	11.4%	11.9%	11.2%
University	25.8%	20.8%	23.6%	26.2%	22.0%
With bachelor or first professional degree	10.6%	6.9%	8.4%	9.8%	8.2%
With master's degree	2.7%	1.7%	1.6%	2.4%	1.7%
With earned doctorate	0.5%	0.3%	0.3%	0.5%	0.4%

Source: Statistics Canada

There is mixed news in terms of the school drop-out rate. Figure 12 shows that the four Atlantic provinces all do better than the national average in terms of keeping young people in school. As well, there has been great progress in lowering the drop-out rate since the early 1990s (see the far right-hand column). However, in the region's small towns and in rural areas (and across Canada as a whole), more than one in ten 20-24 year-olds has dropped out of school.

**Figure 12 – School Drop-Out Rate: 20-24 Year-Olds, 2002/2003 to 2005/2006**

	Total	Large Cities	Small Towns	Rural Areas	1990-1991 to 1992-1993
Canada	9.5%	8.5%	14.9%	16.6%	15.7%
NL	8.9%	6.4%	11.1%	13.1%	20.0%
PEI	8.9%	7.1%	11.6%	11.8%	19.1%
NS	8.5%	6.9%	13.7%	12.0%	17.9%
NB	9.4%	7.7%	11.7%	12.2%	15.4%

Source: Statistics Canada

## Addressing the Challenges<sup>14</sup>

To summarize, Atlantic Canada faces unprecedented demographic change. We are aging as a society and our population is projected to grow very slowly, if not actually decline in number. Canada as a whole faces similar trends, but the changes will be more dramatic in our region and we will shrink as a proportion of the national population. Over time, our working age population will have to shoulder an ever-heavier burden to care for the very young and the elderly.

Additional challenges will exacerbate the labour shortage problems we will face.

An increasingly globalized economy provides wonderful opportunities for increased trade, efficiency, and skills and knowledge transfer. At the same time, however, certain sectors of the economy – particularly those that have focused on primary production and low-skilled work – will continue to face intense pressure from competitors in other countries with lower cost structures.

There essentially are only three ways to mute or reverse the impact of a labour shortage.<sup>15</sup>

The first is to increase the size of the population, and this can occur only through higher birth rates or higher immigration rates (or both).

With regard to birth rates, assuming that different public policy, for example, could induce a significant increase in the number of babies born

<sup>14</sup> This section draws in part upon a presentation (“Changing Workforce Demographics: Nova Scotia’s Biggest Challenge”) by Dr. J. D. McNiven, Senior Policy Research Advisor at Canmac Economics Ltd., at the NovaKnowledge “Assembly of Leaders” event at Saint Mary’s University in Halifax on October 26, 2007.

<sup>15</sup> We assume away such policy options as a return to Dickensian child labour or the culling of the aged on Arctic ice floes à la *This Hour Has 22 Minutes!*

next year, it would still be roughly twenty years before this had any impact on the labour force. This is not to say that contemplating policies that would encourage families to have more children is a bad idea, but it must be recognized that any positive impacts will not be felt for a long time (and in the short term dependency ratio problems in fact will be exacerbated as the number of children in the population increases and as parents are removed from the labour force, at least temporarily, to care for them).

Projected immigration trends and Atlantic Canada's relatively poor performance in attracting and keeping immigrants in the region do not inspire confidence that increased immigration will be the silver bullet to our labour shortage problems. Even if we were to find a way to greatly increase our immigrant numbers overall, that may not necessarily improve the demographic situation if the age profile of the newcomers is similar to the age profile of the domestic population. Again, it is worthwhile to investigate policy changes that will entice more immigrants – particularly the young, the skilled, and the educated – to our shores, but we cannot count on immigration alone to solve the problem. An additional factor to consider here is that as other parts of the world age in parallel with Canada (France, Germany, the United Kingdom, Australia, etc.), we all will be competing with one another more aggressively for these immigrants.

The second means of addressing the labour shortage is to increase the labour force participation rate of the population we have.

One possibility is to increase the participation rate of women, perhaps through improved access to child care services (which also could help to encourage an increase in the birth rate).

Another alternative is to increase the participation rate among older Canadians. On the

one hand this could mean removing restrictions on those who wish to work such as mandatory retirement at age 65 policies; on the other hand it may mean that the payout date for retirement benefits may have to be pushed back to keep people in the labour force longer – 75 may have to become the “new 65”.

Increasing the participation rate of traditionally underemployed groups such as the disabled and Aboriginal Canadians, and removing barriers to the transition from welfare to work, are long-established policy goals, but these become all the more important as the labour shortage pinches more tightly.

In addition to increasing the population and increasing the proportion of the population that is working, the third leg in the stool is to increase the productivity of our workers.

One means of increasing productivity focuses on the workers themselves: improved skills and education. As discussed in the previous section, there are many causes for concern with the region's performance in education. Without significant improvement in education outcomes, it will be very difficult to escape a long-term trajectory of economic decline.

Another way to increase productivity is improve the tools, technology, and infrastructure that workers use. While the recent rapid appreciation of the Canadian dollar has been very difficult for many Canadian exporters, the silver lining to this cloud is that capital goods produced outside Canada have become cheaper. Looking beyond what could be a short term foreign exchange trend (loonies can dive as well as they can fly), recently announced reductions in federal corporate income taxes and the planned elimination of capital taxes by all provinces over the next three years are positive moves that will encourage investment in productivity-enhancing machinery and technology.

Productivity also can be improved by reducing frictions in the marketplace. This includes reducing barriers to trade within Canada, expanding free trade agreements with other countries and removing barriers to foreign investment, and eliminating and reducing regulatory red tape.

### Conclusion

The Atlantic provinces, and indeed all of Canada, face “interesting times” ahead. The demographic challenges we face are both profound and novel. Much of the public policy enacted in and for Atlantic Canada over the past several decades has been designed to alleviate problems associated with surplus labour and high unemployment rates, the exact opposite of the problems we now face.

There is no silver bullet solution to be had. Rather, we will need to achieve successes across

a variety of fronts, while recognizing the interconnected nature of all these efforts.

Old policies designed for old problems must be tossed out quickly, although this will be a tough sell on officials who have made a life’s work from related pork-barrelling and populist politics.

We must seek ways to increase our population, improve participation in the labour force, and make our workers more productive. Drilling deeper, this will involve changes – likely radical ones – across all manner of public policy files: immigration, child care, education, taxation, welfare, employment insurance, trade, and marketplace regulation, to name a few.

The 1970s have come and gone. Atlantic Canada needs new policies and new direction – and we need them now, unless we want to drift towards becoming the third world of the 21<sup>st</sup> century.

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