

WITH Brian Lee Crowley, *Founding President of AIMS, the Atlantic Institute for Market Studies*



**Brian Lee Crowley** is the founding President of AIMS, the Atlantic Institute for Market Studies, one of the world's most honoured public policy think tanks. He recently served as the Clifford Clark Visiting Economist at Finance Canada in Ottawa—the most senior independent economic advisor to the Department of Finance. In 2007 he was named one of the 100 most influential people in Ottawa by *The Hill Times*. Crowley is a frequent commentator on political and economic issues for the CBC, Radio-Canada and many other media, and is a former member of the Editorial Board of *The Globe and Mail* and of the National Political Panel on *Morningside* with the late Peter Gzowski on CBC Radio. He was interviewed after he discussed his new book *"Fearful Symmetry – the Fall and Rise of Canada's Found Values"* with Frontier audiences in Regina and Winnipeg during October 2009.

**Frontier Centre: Following the logic or the symmetry, you say that Quebec was most affected by the glut of workers because it had the largest baby boom of all the provinces. Could it be true that the same forces will be unleashed again in reverse and Quebec will become the most competitive province as the shortage of workers transforms its culture more dramatically than the rest of Canada again, but in the opposite direction?**

**Brian Lee Crowley:** It's possible but it would require a very major cultural, social and political reversal. So far they have spent some considerable time, money and political energy creating a series of programs that have drawn people in to dependence. The only way that they could achieve the kind of reversal that you're describing or in other words become highly competitive would be by reducing the burden of government, reforming social programs, encouraging people to leave dependence on various kinds of social welfare programs, public sector employment, subsidies to businesses and so on and developing an economy that was driven by the preferences of consumers. That is entirely possible but I have not seen any evidence that they are prepared to do so not least because, as I suggest in the book, Quebec politics has been driven so much by the competition between Separatists and Federalists for the loyalty of Quebecers that neither the federal nor the provincial government has dared to run the risk of offending anyone by reducing their benefits or reforming many of these programs so as long as that bidding war continues between Ottawa and Quebec City it's hard to see how Quebec could reform its behaviour.

**FC: What effects will the coming labour shortages have on immigration policy? Is there room for Canada to take more immigrants and if so how its immigration policies could be improved? Even given optimal immigration policy, could immigration solve the labour shortage?**

**BLC:** Immigration is clearly going to be a part of the solution to the coming labour shortages but it can only be a part and it will actually be a relatively small part. Why? Because if we wanted to use immigration to eliminate the problem of an aging population we would have to increase the size of immigration by about seven times from its current level. We let in about 200,000 people a year so we'd have to go up to about 1.5 million more or less every year and every one of those immigrants would have to be under 30. Since we are already the society that lets in more immigrants relative to its population than any other country in the world I think there are significant limits to how much we can use immigration to resolve the problem of population aging which is causing the labour shortages that loom on the horizon. We will be able to

use immigration to fill specific skill shortages. I think we'll certainly have to reform immigration so it focuses much more tightly on the skills and abilities that people bring to Canada. We, for a long time, lost the focus on what the benefit is to Canada just in favour of essentially opening our doors and bringing in large numbers regardless of the skills and abilities that they brought with them. I think we're going to strike a better balance in the future between opening the doors and making sure that the people who come in bring the skills that we need. The biggest source of future workers will not be immigration. It will be people who traditionally would have been retired but will be retained in the labour force.

**FC: Canada's current labour laws have grown up in the period 1960 to the present which you call "new Canada". What effect will the labour shortages you speak of have on unionism in the Canadian work force?**

**BLC:** We know that already over the past 30 years or so that there's been a marked decline in trade unionism in the private sector. I think that is only going to be accelerated by the coming year of labour shortages because, while trade unionism may be useful to workers in a time of high unemployment so they can band together to protect their jobs, it comes at a cost. The dues that you have to pay for union membership are often quite high and often take up all the extra increment of pay that may come with trade unionism and you also lose flexibility in other words labour contracts tend to be one size fits all so if the union's priorities are not yours as an individual worker you lose out. What happens in a labour shortage, of course, is that the bargaining power of individual workers increases remarkably and any economist will tell that labour shortage is a worker's best friend because what it means is that there are lots of jobs, lots of choice, lots of employers who are trying to attract you to fill the gaps in their work force. Because individual workers will have much more bargaining power to strike the deal that suits them the idea of paying to see a union represent them for that purpose, when the union has its own political agenda and may not share your priorities will seem to many workers to be a poor trade off. The place where trade unionism has thrived in the past 30 years is, not at all in the private sector but, in the public sector and I suspect that trade unions will continue to enjoy considerable powered influence in the public sector but I think that because of the demand for workers in the private sector there will be much greater resistance to the kind of expansion of public sector employment that we've seen over the past few years and in fact I suspect that there will be considerable pressure on governments to stop drawing so many people out of the labour pool and as a result we will shrink employment in the public sector and probably subject

the public sector to the kind of downsizing, you know, removing layers of management, introducing productivity raising efficiencies that the powerful trade unions have been able to escape over the past few decades.

**FC: What if any changes should we expect to see in labour law as the country encounters labour shortages in place of excess labour supplies?**

**BLC:** We're already seeing it. There was a commission of inquiry in Ottawa into what should be happening to Canada's labour laws in the future and the recommendations of that commission of inquiry were exactly what I've just talked about. That is to say, they argued that Ottawa should move away from one-size-fits-all labour legislation. They say that where workers and employers agree that they should be exempted from many of the one-size-fits-all requirements in the laws so that employers and employees can strike their own deals. That kind of increased bargaining power for workers so that they can tailor their working conditions to their own circumstances and desires is definitely the way we're going to go. Labour legislation that prevents that from happening will quickly be discarded in favour of a more flexible arrangement.

**FC: In your book you use a wonderful term called "puppetry". Could you briefly elaborate?**

**BLC:** Puppetry. I struggled for a long time to find a new term for an old idea. The old idea is something that economists call "rent seeking". Rent seeking which sounds like something landlords do when they go around to try and collect rent from their tenants is in fact something completely different. Rent seeking is the idea that well organized groups in society may capture the political process and use the political process to extort benefits for themselves from other groups in society. For example, a company that produces widgets in Canada might find that widget producers in Taiwan or China or South Korea were getting to be pretty competitive and risk putting them out of business and they would lobby Ottawa to put a tariff on widgets and if they succeeded in doing that of course what that would be is essentially a tax on people who buy widgets and that would benefit the Canadian producer at the expense of consumers who would suddenly find that they would have to pay more simply for the privilege of using Canadian widgets. That's a good example of rent seeking. Public sector unions organizing and capturing control of monopoly provision of public services like healthcare or recently in Toronto the public sector unions strike over garbage collection so that essentially garbage collection was withdrawn in the city of Toronto. These are all examples of powerful, organized groups using the political process to confer benefits on themselves at the expense of others. I was trying to come up with a term that described that and what I came up with was "puppetry". That stands for People Using Political Power to Enrich Themselves by plundeRing You. I think it's a nice little shorthand for a very powerful concept which is easy to grasp when it is described which is not immediately evident to people unless it is explained to them.

**FC: How does your discussion around Quebec's underperformance parallel a similar phenomenon here in Manitoba which, as you know, is the only have-not province in Western Canada?**

**BLC:** I think Manitoba should ask itself why it is that when, for instance, equalization was created in 1957 there were only two provinces that paid in - British Columbia and Ontario - and every other province including Alberta was a recipient. Now within a few years Alberta was off, Saskatchewan has now

been off for several years and shows no prospect of being dragged back in to dependence on equalization anytime soon. So Manitoba is alone amongst the Western provinces in being dependent on this federal transfer program. I think Manitoba needs to ask itself some searching questions about why it is that they have not been able to marshal their resources to become self-supporting in a way that every other part of Western Canada has managed to do. Of course, the argument that I make in the book is that the vast expansion of government in Canada, concentrated in the equalization-reliant parts of the country like Manitoba and Quebec and Atlantic Canada, that this transfer of large amounts of money through various federal transfer programs essentially unleashed a wave of "puppetry", People Using Political Power to Enrich Themselves by plundeRing You. What happens is that people get distracted from genuine, productive, economic activity and put their energy instead into capturing the political process so that they can enjoy some share of this "free" money that has been put on the table through transfers. It is precisely one of the most damaging things about puppetry that it does distract people from genuine, productive, economic activity because all of a sudden there are these large sums of money on the table and if you don't organize politically and capture it someone else will. So people say I had better get my share and this has a deeply distorting effect on the behaviour of all kinds of people in the economy and the political system. I think Manitoba has allowed itself to get dragged into what I think of as an extremely destructive dynamic with too many groups, public sector unions for example, trying to capture a share of this money. Just to give you an example of what I think the kind of outcome is that has been produced is, in Ontario they manage to get by with 67 public sector employees per 1000 population so for every thousand Ontarians there's 67 people working for the municipalities and the provincial government in Ontario. In Manitoba which is of course a recipient of many more transfers relative to Ontario there are 107 provincial and municipal employees per thousand population. In other words there is about 50% more people working in the public sector relative to the population in Manitoba than there are in Ontario. I don't see any reason that would justify that kind of difference especially since Ontario is supposed to be a wealthy province that's helping to finance transfers and even though they're receiving small amounts of equalization they're paying far more in than they're getting out. I think this is an example of how large scale transfers distort the behaviour of workers and taxpayers in different parts of the country.

**FC: You suggest in your book that there are ways to get out of the transfer payment game – particularly creatively replacing equalization with tax transfers and debt swaps. Can you discuss that?**

**BLC:** Part of the argument is of course that when provinces spend money that comes through federal transfers that feels like free money. In other words you're now spending money that's been raised by taxing people in other parts of the country but if you're a provincial politician in Manitoba that looks like a benefit. You're able to spend only on Manitobans but you're allowing Ottawa to do the taxing and they're raising those taxes on people in every part of the country so there's kind of a disconnect between the spending that's being done and the democratic accountability for that spending and the taxing that's being done. Ideally you want the government that does the spending to be the government that does the taxing so that it is answerable to the voters that are holding that government to account are the ones who have paid the taxes and the ones

who get the benefit from the spending. Under our current arrangement in transfer-dependant provinces you have provincial governments who are able to spend money but are not answerable to the people from whom that money has been raised. If we wanted to solve that problem, if we wanted to close the accountability loop so that say in Manitoba the Manitoba government had been spending money that had been raised on Manitoban taxpayers and those people therefore had to balance the tax load that they were paying with the value of the services they were getting I think you would get a different behaviour by Manitobans. They would have different accountability standards for the Manitoban government and different expectations about the tax loads and the service levels. So how would you get there? The argument I make in the book is there are two simple things we could do. One would be to get the federal government out of the transfer game and in exchange do two things a) give to the provinces the GST, in other words transfer to the provinces the consumption tax revenue currently as we know it 5% national tax but if you transferred it to the provinces each province could set its GST level at whatever it thought was appropriate and in order to help the traditional equalization-receiving provinces to see that they can make the transition to rely on some of their own revenues I suggest that we could shift some level of existing provincial debt to the federal government in exchange for essentially an agreement to give up access to equalization. If we did that the benefit in my view would be that we would end the transfers and therefore create this virtual loop of accountability between taxpayers and government in each of the provinces because provinces would be financing all of their activities with taxes raised on only their provincial residents and I think that would make governments far more careful about raising taxes and about getting value for money when they do raise taxes.

**FC: A favourite argument from the equalization status quo file is that since it's in the Constitution we can't do anything about it. Your response?**

**BLC:** I've written about this. Of course I think that the Constitutional language is extremely vague and was made extremely vague precisely so that it would not be possible for equalization-receiving provinces to go to the courts to compel the federal government to give a specific level of equalization or to compel the federal government to change the standard by which it calculates equalization. The provinces, while they complain bitterly that they never get enough equalization have never dared to take the federal government to court on the basis of the very weak language of the Constitution because

they are pretty sure that if they did go to court the courts would say well this language doesn't compel the federal government to do anything in particular. It might be that the Constitutional provision would require there to be some residual kind of equalization at a very low level but I don't see any credible argument that the current equalization language in the Constitution would prevent us from root and branch reform of equalization systems in order to introduce the kind of accountability that I've described.

**FC: Your book is quite optimistic in tone. What should we be doing to encourage our politicians to address the issues that you raise?**

**BLC:** First thing I always say is we should get them to read the book. More seriously, the future that I foresee in which we move from a half century dominated by the problem of unemployment by a half century dominated by the problem of labour shortages, the advantage of that is that the political attitudes of Canadians will shift as the circumstances of Canada shift. What I mean by that is that when we lived in a period of very long term, high unemployment it was completely credible for people to say well we can't have too high expectations of Canadians, we can't expect them always to work, we can't expect them not to be reliant on government benefits because there isn't enough work to go around. After all, we've got unemployment of 8, 9, 10, 11, 12 %. We had a four year period where unemployment was always in double digits and 25 years when unemployment was always higher than it is today. The argument that there wasn't enough work to go around had some credibility. It's not going to have any credibility when in a very few short years it will be very clear to every Canadian that there will be work and a lot of work available to anybody who wants it. I think that will change fundamentally the political attitudes of Canadians. It will become impossible for any political party to argue that they are in favour of social programs or high levels of rather low-productivity, low-performance government employment when there are high-productivity, vital jobs going begging in the private sector. Therefore, I think that the pressure on politicians from public opinion to shrink the size of government, to lower taxes to create the conditions in which private sector companies invest more in our productivity and in which people are encouraged to leave dependence on various kinds of government programming including many kinds of retirement programs and move into the workforce. I think those pressures will be extreme. I think that is all that politicians will need in order to change their behaviour. They will respond to the very different circumstances that we are going to find ourselves in.