

Ebb and Flow
The Rhythm of New Brunswick's Economy

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It is time for New Brunswickers to talk to each other. Our province and our region face some challenges, which means both must confront some difficult questions. Just as our nation seeks to redefine its role in the world economically, militarily and diplomatically, so too must New Brunswick's citizens decide for themselves their place in Canada.

Next NB/Avenir N-B will do that through a series of discussion papers it will release between February 2004 and June 2005. These papers will be supported by public forums held throughout New Brunswick and will culminate with a conference in Saint John.

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***Next NB/Avenir N-B* is a unique opportunity to explore what New Brunswickers think about themselves, their province and its place in Canada and the world.**

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Ebb and Flow

The Rhythm of New Brunswick's Economy

The ice shacks that sit atop the Bouctouche River seem as frozen in time as the water itself. For years people have slid their shacks out onto this river to huddle with their rods, waiting for the fish to bite. It is a scene repeated across New Brunswick, wherever there is frozen water and fish beneath. But while the shacks may reappear each year, the scene is changing.

Where once only farms were laid out, new homes, built by a growing middle class, now provide their owners with a view of the river. At its mouth, where the river meets Bouctouche Bay, there is a new marina overlooking Le Pays de la Sagouine, Bouctouche's ode to Acadie. Seasonal work, either driving logs or working in the fisheries, was what used to keep Bouctouche going and in the 1960s, as other parts of New Brunswick prospered, it was said that Bouctouche had one of the lowest median incomes in all of Canada.

Things are a little different now. A new seasonal industry – tourism – took hold in the mid-1990s. In its wake other businesses arrived and today there are worries about a growing labour shortage. There is still work to be done in Bouctouche. Despite the growing tourist trade, the town's population is stagnant at just over 2,400 people and the median family income sits at \$16,091. While no longer the lowest in New Brunswick, it is still below the provincial median of \$18,257.

Up the highway in the community of Elsipogtog, prosperity is not as easy to find. Although this Mi'kmaq community has a growing population – up 300 people to 1,693 - the same cannot be said of its economy. Elsipogtog's median income is an appalling \$9,904, a situation that plays itself out in other Aboriginal communities.

Across the province and far to the north, is the town of Saint-Quentin, population 2,280. Between 1996 and 2001, Saint-Quentin lost 6 per cent of its population, and the median income of \$12,122 is lower than in Bouctouche. With its strong dependence on the forestry sector Saint-Quentin's fate is far from assured.

Similar worries do not haunt the residents of Grand Manan. This island in the Bay of Fundy, the southernmost point in New Brunswick, is home to 2,600 people, a prosperous traditional fisheries and a growing aquaculture industry. Here the median income is \$19,514 – almost \$10,000 more than in Elsipogtog and \$1,200 higher than the provincial median.

The experiences of these four small towns – one still thriving on its natural resources base, one evolving, one in decline and one having never truly participated at all – are indicative of what is happening around New Brunswick. This province is stuck. Faced with no population growth, a falling birth rate and a worldwide economy in flux, New Brunswick is a small province with big problems. Money and people: these are the two things that will control New Brunswick's fate. Immigration, out-migration, community development, unemployment, poverty, education and health care – all play a role in New Brunswick's transformation but each is limited in what can be accomplished if it isn't supported by a strong economy. The provincial economy resembles the ocean tides, ebbing out in a community such as Saint-Quentin and flowing in, as it is right now in Grand Manan. We need to steady that rhythm if we are to build a stronger economy, one that is able to support our communities, maintain social services and, most important of all, give people an opportunity to earn a living in New Brunswick rather than force them to leave or never move here at all.

Who are we?

The New Brunswick economy is stronger than it was 20 years ago. However, while New Brunswick has kept up, other

provinces also experienced strong economic growth over the past two decades. That means that while New Brunswick had done well when compared against its own recent past, other economies have also grown, leaving New Brunswick still mired in the bottom half of most provincial rankings. That's not what we want. In this race, we need to overtake those in the middle of the pack and surge closer to those in the front.

Three years ago Premier Bernard Lord released *Greater Opportunity: New Brunswick's Prosperity Plan, 2002-2012*. It set out the government's economic agenda and included a list of targets to achieve within 10 years - a wish list for economic growth. Consider those targets in relation to two economic indicators: the gross domestic product and personal income. The GDP measures the value of goods and services produced in an economy. Goods are commodities and manufactured products such as pulp and paper, gasoline, fish and seafood, plastics, beer, frozen food, chocolate and cymbals. Services are used at the moment of purchase. Things such as banking, insurance, construction, transportation, health, education, communications, wholesale and retail trade, entertainment, engineering, dry cleaners, massage therapists and hair stylists. To measure New Brunswick's standard of living we need to look at the real GDP per capita, which divides the GDP by the size of the population. The greater the difference in GDP between New Brunswick and Canada, the greater the disparity in standard of living. Personal income measures wealth. It includes wages and salaries along with income to farmers, investment income, government transfers and pensions.

Below is a chart that illustrates New Brunswick's real GDP per capita and personal income per capita as a percentage of the national average.

	<u>1983</u>	<u>1993</u>	<u>2003</u>
Real GDP per capita (1997 dollars)	74.3%	77.5%	79.3%
Personal income per capita	78.1%	83.4%	85.7%

New Brunswick's standard of living and its citizens' individual prosperity are both improving. The narrowing of the GDP gap also indicates that New Brunswick's economy is growing at a faster rate than the national economy. But is it growing fast enough? No.

In 2000, Industry Canada conducted a comparison between Canada's 10 provinces and the 50 American states. New Brunswick ranked 57th out of 60 for standard of living and 58th out of 60 for productivity. New Brunswick's labour productivity, which is the average level of production for every hour worked, is routinely below that of the national average. That's no way to build a healthy economy.

The numbers below offer simple predictions for the coming decade, based on historical trends. Next to these numbers are the Prosperity Plan's targets, to be reached by 2012.

	<u>2008</u>	<u>2013</u>	<u>PP, 2012</u>
Real GDP per capita (1997 dollars)	79.3%	79.9%	85%
Personal income per capita	86.6%	87.2%	93%

Obviously, if we are to come anywhere close to the targets set out in the Prosperity Plan, let alone meet them, things will have to drastically change in New Brunswick.

Overall employment is on the rise. In 2004 New Brunswick's annual unemployment rate was 9.8 per cent, the first time since

1975 the jobless rate fell into the single digits. However, the province is still above the national unemployment rate of 7.2 per cent and it ranks eighth out of 10 provinces.

When we consider the corporate story, there is one issue that rises above all else – trade. New Brunswick's economy is heavily dependent on exports. In 2003, New Brunswick exported goods to 130 countries, 89 per cent of which, valued at \$7.6 billion, went to the United States. All told, exports maintain about 80,000 jobs in New Brunswick. Gasoline and other light petroleum products is the single largest export, followed by heavy petroleum products. Together, in 2003, these two products accounted for \$3.6 billion in exports – 42 per cent of New Brunswick's total. There is only one place in New Brunswick refining petroleum - the Irving Oil refinery in Saint John. Between 1999 and 2003, petroleum exports doubled, the greatest increase for any industry in New Brunswick. So great is Irving Oil's impact on New Brunswick export statistics that when petroleum refineries are removed from the list of exports by industry, the province is shown to have had a net decrease of \$161 million between 1999 and 2003. Put the refinery back on the list and New Brunswick has a net increase in exports of \$2.4 billion. There are some signs of improvement. Take petroleum products, along with sawmills and pulp and paper off the list and exports in all other products has increased by 15 per cent - \$386 million. Between 1999 and 2003. While it is true that New Brunswick is among the most export-dependent provinces per capita in Canada, neither where we export nor what we export is as varied as it should be.

- Are you satisfied with your personal standard of living?
- What should New Brunswick's priorities be as it tries to strengthen its economy?
- Why do you think New Brunswick's overall productivity is so low?
- What is government's role in shaping an economy?

Where does it start?

Diversification, but changes to an economy do not come quickly. Like reforms to the school and health systems, changes within an industry, to government regulations or to tax policies, can sometimes take years to have an impact. That is why once the fundamental priorities and the purpose of economic reforms are decided we must stick to the plan. New Brunswick can ill afford well-meaning tinkering or politically expedient announcements.

Front page stories and evening newscasts illustrate the challenges New Brunswick now faces. A rising Canadian dollar. Burgeoning economies in India and China. Insecurity in the Middle East and the effect it will have on the price of oil. Trade protectionism in the United States over commodities such as beef and softwood lumber.

The uncertain fate of New Brunswick's forestry industry has already moved beyond the stale debates of policy makers and influencers. Just ask the residents of Edmundston, Nackawic, Miramichi and Saint John. A worldwide slump in pulp and paper prices coupled with increased competition from countries in the southern hemisphere where trees grow faster and wages are lower has had a direct hit on New Brunswick's forestry industry. In mid-2003, Fraser Papers Inc. a company with roots in the Edmundston area that dates back over a century, announced it was laying off 325 people, 140 at the Edmundston mill. It also canceled its silviculture program for 2004 and sold the company helicopter and golf course, all in an attempt to save money. Last November it announced an additional 70 layoffs, 32 in Edmundston, the rest in neighbouring Maine.

Then there's Nackawic. In September, St Anne-Nackawic Pulp Company Limited filed for bankruptcy, throwing 400 employees in this town of 1,000 out of work. The bankruptcy was felt in the port of Saint John, which estimates it will lose \$1 million a year and 40 jobs if St. Anne-Nackawic doesn't reopen. The provincial government is negotiating to find another buyer and while it is likely the mill will reopen, it will do so with a smaller workforce.

And so 'For Sale' signs have gone up in Nackawic. A few weeks later, UPM-Kymmene announced it was closing its kraft mill in Miramichi. Another 400 jobs gone.

All told, between Fraser Papers, St. Anne-Nackawic and UPM-Kymmene 1,200 jobs were eliminated in one industry in just over one year. Will former employees be able to find work in New Brunswick? Or are they bound for someplace farther away? There was a small gain in Moncton. Irving Personal Care Ltd., the division of J. D. Irving Limited that manufactures paper products, built a \$60 million diaper plant and created 105 jobs with an estimated payroll of \$9 million.

New Brunswick must diversify its export base so a downturn in any one industry will not significantly impact the provincial economy. To do that, it must build out upon its natural strength – natural resources – and add value to the products it exports by processing and creating new products out of the seafood, wood and minerals now being harvested. But while manufactured goods may dominate international and interprovincial trade, these industries will not have an equal impact on employment levels. New Brunswick's natural resources sector will never again employ the number of people it once did.

Over the past 20 years, the Canadian labour market has shifted and New Brunswick has shifted with it. In 2003, New Brunswick's goods-producing industries accounted for one in four jobs. The rest – fully 76 per cent – could be found in the service sector. This sector is where most small and medium-sized companies can be found. Ribbon-cuttings and groundbreakings may make a nice photo but in the end it will be small but steady employment growth that will leave a lasting impact.

- What industries are important to supporting and expanding New Brunswick's economy?
- As the natural resources sector continues to change, what will this do to rural communities?
- What kinds of jobs should be developed in New Brunswick?

How do we get there?

By making sure New Brunswickers have the skills to pay the bills. That's the bottom line: if we want a healthy economy, New Brunswick residents need to be able to find jobs. Out of that challenge comes two of the strongest stereotypes of New Brunswickers and Atlantic Canadians. They're either picking up pogy or they're goin' down the road. High unemployment and out-migration, New Brunswick has them in equal measure and things aren't going to get noticeably better unless we reduce both.

The sad story of chronic unemployment is particularly tragic for Aboriginal people. The history of Mi'kmaq and Wolastoqewiyik (Maliseet) in New Brunswick is one of marginalization and exclusion. Until recently, access to the province's natural resources was curtailed by rules and regulations that didn't allow Aboriginal people access to land that earlier generations had used and considered their home. In the late 1990s Mi'kmaq and Wolastoqewiyik began to actively demand a place in New Brunswick's natural resources sector, first through logging and then, following the 1999 Marshall decision, commercial fisheries. The Joshua Bernard logging case, now before the Supreme Court of Canada, seeks to uphold a lower court ruling recognizing aboriginal treaty rights to commercially harvest trees on Crown land.

At the same time, the federal government continues to slowly negotiate a new, comprehensive deal – a modern treaty – with Mi'kmaq and Wolastoqewiyik in the Maritimes. Such a deal could take years. A similar agreement with the Nisga'a of British Columbia took more than two decades to negotiate, and while it is vitally important to redefine and restructure Canada's relationship with Aboriginal people, we should not sit back and wait. We all share a home – New Brunswick – and we share values that stress a strong sense of belonging and a desire to contribute to the life of our community. In New Brunswick, four pillars will support a strong economy: education, infrastructure, public institutions (and the accompanying regulations) and

capital. The importance of these supports is the same whether you live in Metepenagiag (Red Bank) or Moncton. We must ensure access is equitable too.

Education is key. Not everyone is destined for university nor do we all dream of a big desk and a corner office. We need an education system that caters to people's strengths and interests and which also trains people for work that needs to be done. That means computer training for everyone because this most basic of technologies is ubiquitous throughout New Brunswick, skills upgrading for middle-aged and older workers caught in the transition of the natural resources sector and an emphasis on acquiring skills and knowledge for those yet to enter the workforce.

Young people must understand that if they hope to participate in this or any other job market, a high school diploma plus some other form of training is the base requirement. Universities, community colleges, trade schools and apprenticeships are all required if we are to have a citizenry ready for work and if we are to nurture our thinkers, artists, researchers, designers and entrepreneurs, the people who will lead New Brunswick. We need to develop a culture of risk-takers, people willing to take the leap on an idea, to veer off the established path in search of something different because they believe success awaits them. That is a different mindset than believing prosperity somehow eludes us.

Education does more than teach skills and history lessons; it empowers and gives those who may feel disenfranchised the means and the confidence to participate. If people make that investment in themselves, then businesses must be there to employ them. The steady stream of out-migration suggests that right now they are not. Driving this charge out of the province, particularly for New Brunswickers under the age of 30, is a belief that there aren't jobs, particularly for post-secondary graduates. Precisely the group we don't want to leave.

For those looking for work, best to look in the service sectors, which, over the past 20 years created almost 87 per cent of all

new jobs in the province. One group of companies we should pay particular attention to sell specialized information and expertise. These companies put their money on people, not equipment. Since 1983, about 29,000 jobs have been created by this sector, which is often referred to as the 'new economy'. This group of companies can be divided into two main groups. One includes law, accounting, architectural, engineering, surveying, advertising, design and management consulting firms, companies that usually require a university degree. The other group provides support services such as clerical, human resources management, administrative, maintenance, security, waste management and customer contact centres – call centres. Undoubtedly call centres created a significant portion of those new jobs. New Brunswick should now concentrate just as hard on creating other jobs in this sector. Remember, we need to diversify in all sectors of the economy – both old and new.

- Why is it hard to find the right job for the right person in New Brunswick?
- Is it that the jobs are here but the salaries are too low, relative to similar positions elsewhere?
- Or is there a mismatch between the jobs available and the talents of this young, educated and mobile workforce?
- What needs to happen to enable Aboriginal people to either develop their own local economies or participate in the larger provincial economy?

What do we want?

To savour the sweetness of life. That's a recipe that includes the right mix of wealth, so we can afford a comfortable lifestyle and maintain our valued social services, and a proper blend of security, sociability, community and time, so we can enjoy the fruits of our labour. But if we are to accomplish that we must first rid New Brunswick of the stereotype that it is an economic straggler in the Canadian pack. Of all the myths that envelop New Brunswick none is more damaging than the belief that New

Brunswick is a poor region and that both citizens and government are dependent on federal support.

Three programs help nurture that assumption. Equalization, the Atlantic Canada Opportunities Agency and Employment Insurance have done more to define the New Brunswick economy to the rest of Canada than all the McCain French fries, Moosehead beers, Ganong chocolates and Irving Oil gas stations put together. Each was offered with the best of intentions – a guarantee of equitable services across the country, a boost for underperforming regions and assistance for those searching for work – but none work as intended and all are badly in need of reform. Last October a new equalization formula was renegotiated but there has been little movement on promised changes to ACOA and EI.

Time to step up the pressure: time for change. New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador need to reconsider ACOA. First of all, we need an honest conversation about whether we want it or not. Certainly, there are people – most of them in the corporate sector – who want ACOA abolished. We need to understand the depth and breadth of that sentiment. Then we need to seriously consider what kind of relationship Atlantic Canadians want with the federal government and ACOA.

It is difficult for New Brunswickers to tell a new story about themselves if federal politicians continue to perpetuate old myths. Unemployment is not our major problem, it's access. Access to people to fill the predicted labour shortage. Access to markets through modern infrastructure such as ports, highways and airports. Access to capital to invest in businesses and research. The latter is largely conducted in universities, particularly the University of New Brunswick, which accounts for over half of all research done in the province. The Atlantic Innovation Fund, an off-shoot of ACOA, is an example of a federal program that works because it helps universities attract additional research funds – an integral part of New Brunswick's new story.

Employment insurance in its current form is still telling the old story. In eastern Canada the majority of EI recipients are seasonal workers. About 7 per cent of New Brunswick's workforce earns its living through seasonal work, in the fishing, forestry and agricultural sectors. It is the third highest concentration of seasonal workers in Canada, after Newfoundland and Labrador and PEI. From Quebec westward, the percentage hovers between 2 and 3 per cent. Seasonal workers fall under the EI category of 'frequent claimants'. In 2002/03 in New Brunswick, they represented 64 per cent of EI recipients. Once again, only PEI and Newfoundland and Labrador, with their respective 80 per cent and 82 per cent, have more.

Seasonal work has existed in New Brunswick as long as there have been people to cut trees, process fish and harvest crops. It exists almost exclusively in rural and northern communities and over the past two decades, as the economy has shifted away from labour-intensive harvesting of natural resources, seasonal work can usually be found in areas of high unemployment. The EI system has become more of a hindrance here than a help. At the very least it is often a deterrent to finding other work while waiting for the seasonal job to begin again. Because weekly benefits are based on the average wage of the recipient, seasonal workers sometimes avoid taking another job if it pays less than their seasonal work because it would lower their eventual EI benefit. Who can blame them for making that very calculated assessment? Obviously the EI formula needs to be changed.

But the conversation about EI is deeper than whether it pays people to stay home. Ultimately it has to be about respecting the place of seasonal work in New Brunswick while at the same time working to diversify local economies. That means refocusing the conversation on education, infrastructure and capital. ACOA and EI are meant to bridge gaps, to give recipients security and support. Though well-meaning, these programs have robbed Atlantic Canada of its culture of risk. There must be something to support those who need it but we must also lessen our dependence on those well-worn nets because the view's a bit different when safety isn't guaranteed. It might even be better.

- What do you need to be successful?
- What is the federal government's role in the Atlantic Canadian economy?
- What image do you want New Brunswick and its citizens to project to the rest of Canada?

Why?

Because area codes don't determine prosperity. It didn't in Bouctouche where K.C. Irving opened his first gas station and it didn't in Florenceville where Harrison and Wallace McCain froze their first French fry. Musicians from around the world buy Sabian cymbals, which are made in Meductic. The world's leaders in mapping the ocean floor work in Fredericton at the University of New Brunswick.

Forty years ago New Brunswickers committed themselves to equitable access to public schools, hospitals and welfare - to equal opportunity. In 2005 it is time to consider the new opportunities that lie before us. The economy is shifting and it will force New Brunswick to alter its course. We need to check our priorities, secure our interests and raise our aspirations so we may confidently ride out these tides of change.