



# The New Brunswick Reality Report

## **PART 1: AT THE CROSSROADS**



## There is much to admire about New Brunswick, both inside and out.

Through our history we have given much of ourselves to Canada and the rest of the world. For generations the Mi'kmaq and the Maliseet traded with their neighbours to the west, long before the arrival of Europeans. In New Brunswick's early, colonial years it was furs for the fashionable and logs for the ships that were brought to market. Our entrepreneurs have introduced the world to the pleasures of chocolate bars, frozen french fries and snow crab. California buys our clean gasoline; Maine our nuclear power. We sell wood pulp to India and peat to Japan.

There are other things that were not as freely given. The province was once the home to Canada's first chartered bank – the Bank of New Brunswick – but it has been almost a century since a major Canadian bank called the Maritimes its home. In fact, few national or international companies have a significant presence in the region. While they may provide services here, decisions are oftentimes made elsewhere.

Whether it's banks or blue chip corporations, the loss of local decision-makers has made it difficult for New Brunswick companies to access capital to invest in equipment. Bay Street is far removed from New Brunswick both in distance and in mindset. There are exceptions however. Blue Cross and Assumption Life are active in the region's medical and life insurance industries and les Caisses populaires acadiennes, based in Caraquet, aggressively invests in New Brunswick.

If only more people believed they could make a living in New Brunswick. It is that old familiar lament. Our children are headed out west and we don't know when – or if – they'll be back. Between 1996 and 2001, New Brunswick had a net loss of 8,400 people, according to the 2001 Canadian census. That is four times larger than the net loss between 1991 and 1996.

The census placed the province's population at 750,000 but statisticians warned it wouldn't stay there for long. They were right. In December 2006, Statistics Canada's quarterly population report listed New Brunswick's population at 748,400. That decrease is expected to continue for two reasons: out-migration and death. New Brunswick is now experiencing a natural population decrease because its death rate is higher than its birth rate. Quite literally, New Brunswick is slowly dying away.

This is where we find ourselves at the start of the 21st century. We know we cannot continue down this path. We need to chart a new course but first we must ask ourselves some tough questions. We must be prepared to confront difficult truths and we must overcome differences of opinion. More than anything, we must act quickly.

New Brunswick has a history of ushering in transformational change in a short period of time. In the 1940s, against the backdrop of the Second World War, the province was still largely undeveloped and ill-prepared for the impending boom. Premier John McNair struck the New Brunswick Committee on Reconstruction

and in 1944 it recommended a series of radical changes, including extending electricity into rural New Brunswick, creating what would become the provincial highway system and major investments to expand and enhance provincial phone service. Premier McNair accepted the plan and in doing so, laid the foundation for the modern New Brunswick.



Then, in 1963, Premier Louis J. Robichaud appointed Edward Byrne to lead a study into the financial workings of the province. The final report of the New Brunswick Royal Commission on Finance and Municipal Taxation was far reaching in its scope. It recommended the province abolish county governments, take over the administration of health, welfare and justice and assume financial responsibility for education, property assessment and tax collection. Premier Robichaud took these recommendations and used it as the basis for his Program of Equal Opportunity.

It is time once again to examine the realities facing New Brunswick and to consider what kind of future we want for ourselves and for our province.

We, the co-chairs of this task force, have been asked to develop a plan that will guide New Brunswick towards self-sufficiency. During our mandate we intend to communicate – in person and online – with as many people as possible. To stimulate that conversation we will issue a series of papers that outline our views and pose some important questions about the challenges facing New Brunswick and the options we believe New Brunswickers should consider.

We look forward to talking to our fellow New Brunswickers about the future of our province.

Handwritten signature of Gilles LePage.

Gilles LePage

Handwritten signature of Francis McGuire.

Francis McGuire

January 2007



## The Challenge

Higher incomes and people: New Brunswick needs more of both.

The population now sits at about 748,400. To significantly expand our economic base and achieve self-sufficiency, New Brunswick's population must increase by over 100,000 in the next two decades. That's a net increase of roughly 5,000 people each year. New Brunswick has never experienced sustained population growth of that magnitude.

With a healthy population of 850,000, New Brunswick should then employ about 400,000 people. These targets far exceed existing projections, which are based on expected growth rates. For instance, if New Brunswick is to employ 400,000 people by 2026, job creation would need to exceed current projections by 70,000 people. This is an unprecedented target. To accomplish it, we must close the income gap between New Brunswick and Canada. Higher wages will encourage more people to live and work in New Brunswick.

How times have changed. In the 1990s the province had an unemployment problem: too many people and not enough jobs. That is no longer the case. In the intervening years economies in the developing world, and in particular China and India, have experienced explosive growth and North America has felt its impact. From call centres to manufacturing plants, China and India have challenged North America's traditional role as a leader in manufacturing and in the business services sector, largely because these countries can offer a very large pool of low-cost, and increasingly skilled, labour.

While many jobs are moving east to Asia, New Brunswick's workers are moving west, mainly to Quebec, Ontario, Alberta, British Columbia and most recently, Saskatchewan. Companies in these provinces, on average, offer higher wages than their counterparts in New Brunswick. For instance, a nurse in Ontario earns, on average \$36.52 an hour; in New Brunswick the same nurse earns \$31.02 an hour. Out in the oil sands of northern Alberta, a skilled tradesperson makes \$20.39, about 25 per cent more than they'd earn if they'd stayed here. Even unskilled workers can benefit from a move west.

We cannot fault people for following the money. Nor should we be angry that the private and public sectors in other provinces are outbidding us for workers. Rather, our response should be a call to action and recognition that government alone cannot alter the situation. It will take all sectors of society – government, business, unions, non-profit, academic and culture – to mould our communities into places where more people will have a viable option to live.



## The Issues

To the rest of the country New Brunswick is a have-not province. It is a phrase loaded with assumptions and stereotypes about the government and people of New Brunswick. Provinces branded with this label are thought to be the little siblings in the Canadian federation, unable to provide for themselves and dependent on the federal government (and through it, wealthier provinces) for support.

Like all stereotypes, it carries an uncomfortable pebble of truth. The Atlantic Canadian provinces receive, on average, more federal equalization per capita than other provinces. This is largely because the government of New Brunswick, like its counterparts in the rest of the region, has found it difficult to increase its own revenues. The provincial government generates funds through one primary channel: taxes.

If New Brunswick is to achieve self-sufficiency by 2026, the provincial economy must significantly expand through private sector investment. That growth must then translate into a considerable expansion of the provincial tax base, driven largely by an increase in incomes of all working New Brunswickers and the associated increase in income tax revenues. With a larger pool of self-generated revenue, the government of New Brunswick will have greater flexibility to fund public services. This would then reduce the province's dependence on equalization.

That is the route to self-sufficiency that New Brunswick must follow. It is not an easy path. New Brunswick has entered a period of economic transition. Over the next five years the provincial economy will bend under the strain of a continent-wide labour shortage. Left unaddressed, this will restrict economic growth. Compounding the problem will be the very nature of the New Brunswick economy. The natural resources sector, the province's traditional economic base, will come under increasing competitive pressures from those booming economies in the developing world.

As we chart our transformation, there are a number of key issues we must consider.

### 1. Economic Growth

There are two common indicators to measure economic growth: gross domestic product (GDP), which measures the value of all goods and services produced, and personal income. The GDP per capita measures standard of living: the greater the difference between New Brunswick and Canada, the greater the disparity in standard of living. Currently, New Brunswick's per capita GDP is 76 per cent of the Canadian average while personal income per capita in New Brunswick is 85 per cent of the Canadian average. Both indicators must move rapidly to the national average if we are to achieve self-sufficiency.

Achieving income parity with other Canadians by 2026 will be difficult. As we strive to increase economic growth in New Brunswick, the rest of the country is also expanding its economic base. Thus, we must quicken our pace if we are to stay competitive.



Consider this: between 1985 and 2005, the Canadian per capita GDP increased by 129.5 per cent. If the Canadian economy continues to grow at that pace for the next 20 years, New Brunswick will need to more than triple its per capita GDP growth during that period in order to achieve parity. This would mean nominal average annual growth of 5.7 per cent. That's a full one per cent annual increase every year for the next 20 years. That's a full one per cent higher than the average annual rate experienced over the past 20 years.

Because of a forecasted decline in population, nominal GDP will have to increase even faster at 6.2 per cent annually for the next 20 years, a significant increase over the 4.9 per cent annual average New Brunswick maintained during the previous two decades.

To hit these targets, the provincial government must create a policy environment that increases New Brunswick's productivity and competitiveness in the face of changing demographics and labour market dynamics. The size of the challenge means that unfocused half measures implemented over a long period of time will not be enough. We need action today and the action must be significant and targeted.

A reasonable plan could be divided into three phases:

**PHASE I:** Lay the groundwork to reverse current trends toward population and labour force decline through immediate investment in strategic infrastructure and productivity to raise incomes and stimulate economic growth.

**PHASE II:** Population and labour force growth begins and by 2015 is well-established and robust.

**PHASE III:** Growth rate for both increases to arrive at a population of 850,000 and a labour force of 400,000 by 2026.

## **2. Labour**

New Brunswick's growing labour shortage is the principal issue confronting the provincial government. Developing innovative policies and programs to increase the provincial labour force must be done quickly.

Specialized programs could be developed to encourage the following:

i. Retention of young people

According to the 2001 census, New Brunswickers between the ages of 15 and 29 represent about 11 per cent of all out-migration. This age group likely left either to attend school or to look for work.

ii. Retention of existing workers

Competitive wages and career opportunities are the two main ways to retain skilled employees. Employers, both within the public and private sectors, will need to make difficult choices in the near future if they want to hold onto qualified personnel.



iii. Job placement for underemployed citizens

New Brunswick's pool of underemployed workers is estimated by Statistics Canada at 70,000 people. This group of people could help government attract companies that require a skilled labour force in niche areas such as information technology or business services that cannot be relocated offshore.

iv. Training of undereducated citizens

Moving this pool of underemployed workers into higher skilled jobs will open up employment opportunities for the unemployed and the undereducated. The process of moving people up and into the labour force will need to be facilitated by innovative and flexible training programs.

v. Voluntary return of retired workers to the workforce

It is an issue of demographics. The baby boom generation, whose eldest members are entering retirement, is far larger than the generation following it. There just aren't enough people with adequate experience to fill the positions now being vacated. Enabling retirees to return or offering them incentives may help.

vi. Integration of Aboriginal people into the labour force

About 34 per cent of Mi'kmaq and Maliseet people are considered low-income, double the non-Aboriginal percentage. They are largely underrepresented in the New Brunswick economy. This must be rectified. Beyond the issues of poverty and underemployment, the Aboriginal community has a median age of 28 years, a full decade younger than the non-Aboriginal population. These young people are a significant potential labour pool.

vii. Immigration/Interprovincial migration

Attracting new residents – either from other countries or other provinces – would obviously assist job creation efforts and help stem the decline in the provincial population. Increasing the population is essential to creating a dynamic economy and reducing the per capita cost of public services.

viii. Repatriation

About one-third of New Brunswickers who moved home from other provinces in 2001 were between the ages of 30 and 44. It is likely that a number of them were young families. Increasing our overall standard of living will help attract more of this age group to return, to work and to raise their children here.

In 2004, economists Dr. Joseph Ruggeri and Yang Zou, both of the University of New Brunswick's Policy Studies Centre, conducted a detailed analysis of the province's labour force requirements between now and 2026. They reached some sobering conclusions. If New Brunswick does not significantly increase migration patterns (either through immigration or interprovincial migration) they project the total population will fall by 25,000 and the working age population between 20 and 69 years of age will decline by 21,000. However, it won't be sufficient to attract just enough people to maintain the current labour force and a population of three-



quarters of a million people. If that is all New Brunswick does, the labour force will grow by just under 10 per cent over the next two decades. In comparison, the labour force grew by almost 26 per cent over the last 20 years. The authors concluded that to address the labour shortage and experience a modest growth in the labour force, New Brunswick will need to attract about 7,000 new residents annually for the next 20 years.

This is the magnitude of the challenge that confronts New Brunswickers. If the public and private sectors fail to act quickly to attract skilled workers and their families to the province, largely through competitive salaries and wages, future economic growth will be severely limited because we will not have enough people to support a growing economy and attract new businesses.

Unfortunately, this is not a nightmare scenario; it is the reality now facing New Brunswick's corporate sector and business development agencies and it will likely impede rapid job creation for the next decade. Because New Brunswick already has a labour shortage, it is very difficult to expand the existing corporate base – the pool of available skilled employees is very small. Existing companies face challenges with planned expansions, local entrepreneurs are discouraged in their attempts to start new businesses and outside firms are hesitant to move into New Brunswick without a ready workforce. However, we can't expect New Brunswickers to stay here on the promise that work will soon be available. Right now, the requirements of potential employers and the needs of workers are not in synch.

### **3. Productivity**

To retain or attract people, New Brunswick will have to offer a standard of living that is equal or superior to that of other jurisdictions. There are four key elements to creating a competitive living standard. The first is income. Wages and salaries count; without income parity, other elements of the standard of living such as lifestyle or shorter commuting times do not get the opportunity to be evaluated. To attract workers or to retain existing workers, employers are going to have to pay the same wages and salaries for a particular trade or profession in competing jurisdictions. The second element is access to affordable housing. Housing is the single biggest investment for any family. Access to good education and good health services is the third most important element – education for families and health for all residents. The fourth is a modern urban environment – most people want the opportunities and amenities that cities bring.

In such an environment, businesses will be forced to become more productive and competitive in order to compete on the global stage and to pay the wages and salaries that will be required to retain and attract employees. Economic development policies will have to focus on supporting productivity and competitiveness in the existing economy along with the development and attraction of new businesses that create high paying jobs. This will be a significant challenge but the process of building a more productive economy paying higher wages and salaries will, at the same time, move the province in the direction of self-sufficiency.

It's all about getting value for money. Productivity measures the average level of production for every hour worked. If wages and salaries are to increase and impact





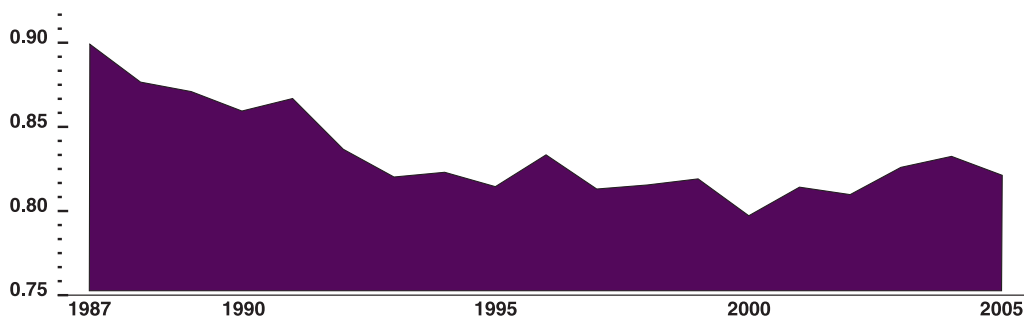
positively on economic growth, provincial productivity must rise substantially. To do that, companies must ensure their employees are doing the right job with the right tools. This is good policy for both managers and workers. If employees become more efficient at their jobs, this will increase their value to their employer and, in a competitive labour force, will increase their potential for higher wages.

Increasing productivity rates is important if we are to not only maintain, but increase our existing industrial base. This can only be achieved by making it fit to compete in the global economy of the 21<sup>st</sup> century. Success in the global economy demands that companies offer innovative products and services at competitive prices. To do that, companies must improve productivity.

Right now New Brunswick's productivity lags behind just about every other province and state in North America. According to The Centre for the Study of Living Standards, only Nova Scotia and Prince Edward Island fared worse in 2005.

Worse still, New Brunswick's current labour productivity rate as a percentage of the national rate is lower than it was in the mid-1980s.

#### Real GDP per Hour Worked, NB as a % of National (1997 Dollars)



Source: Capital, Labour and Total Factor Productivity Tables by Province, 1987-2005. Centre for the Study of Living Standards.

Generally, labour productivity tends to be higher in industries that are capital-intensive, because there is an opportunity to invest money in upgrading equipment and technology in an effort to achieve economies of scale.

Two factors conspired to limit capital investment in New Brunswick businesses over the past 20 years: a low Canadian dollar and a prolonged labour surplus. The low loonie gave producers across Canada a distorted sense of the true value of their products in the global marketplace. Because of that, a significant number failed to make the investments to improve productivity that their American counterparts were forced to make.

At the same time, New Brunswick was experiencing a labour surplus, which, like the low dollar, was a disincentive to invest in improvements to productivity such as best-in-class technology, worker training, a reduction in seasonal operations and most importantly, the rationalization of operations to create greater economies of scale.



The fact that these conditions no longer exist is already providing powerful incentives for businesses to improve productivity. Public policy must now follow suit, particularly in the areas of taxation and worker training, to provide the right incentives to encourage businesses to move quickly on productivity issues. For example, New Brunswick currently has very low overall business taxes. Raising the general business tax rate, but providing tax relief to businesses that invest in new technology and equipment should be considered.

This is not to say that there will not be job losses in the short term as individual sectors and businesses adjust. There will, particularly in the forestry and fisheries sectors where the challenges are greatest. For those who lose their jobs in these sectors, other employment opportunities hopefully await them in other industries battling chronic labour shortages. Nevertheless, adjustment and retraining measures will have to be put in place to smooth the transition for those who will be affected.

#### **4. The role of urban and rural New Brunswick**

On the surface, New Brunswick's population is evenly split between town and country. However, a significant number of rural residents' lives are centred on life in the closest community. According to the 2001 census, 27 per cent of rural residents live close enough to a city to be counted as part of the greater urban area. This would include areas such as Simonds Parish on the border of Saint John, Coverdale outside Moncton, Rusagonis on the outskirts of Fredericton and St-Jacques near Edmundston.

In fact, it is becoming increasingly common for people who live in the country to travel into town to work. About 67 per cent of the population that lives within 100 kilometres of Saint John, Moncton or Fredericton works in one of these cities. That rises to 80 per cent for those within 50 kilometres of one of the province's seven cities.

This issue of rural versus urban economic development in New Brunswick has always presented significant challenges for politicians who fear that success for one region will be viewed as a loss by the other. The reality is a far more symbiotic relationship between urban and rural communities. For instance, production levels in the province's pulp mills impact traffic in the Port of Saint John.

The provincial government must design business development strategies that build upon the strengths of urban and rural New Brunswick. For the latter that should centre on ensuring the international competitiveness of the resource sectors in the 21<sup>st</sup> century, specifically forestry, fisheries and agriculture. In urban areas it should focus on the development and attraction of businesses that need large pools of highly skilled workers.

A plan to enhance strategic infrastructure, and in particular roadways, must be part of any economic development strategy. That investment must be a priority in the early years and the provincial government must be prepared to invest hundreds of millions of dollars to ensure all areas of New Brunswick have the ability to get goods and services to market. This investment would cover roads, air, sea and rail access, energy transmission and distribution lines, and telecommunications infrastructure.

## The Course of Action

Businesses that export are the ones that generate the income and spending power which in turn drives the local retail and support services sectors. Economic development policies, particularly in a small open economy like New Brunswick's, must therefore be clearly focused on the expansion of jobs in export-driven sectors of the economy. Like the ripples going outward from a stone dropped in a pond, export-oriented firms create waves of prosperity for the rest of the economy.

Job creation and business attraction strategies should target export-oriented businesses in the goods and services sectors in which New Brunswick has an obvious advantage and/or specialty. This would include the production of value-added products and the provision of services using innovative technology. These types of companies tend to employ highly skilled workers and offer higher salaries.

A focused and aggressive attraction strategy must be supported with the proper mix of incentives. For the most part, the overall focus should be on well-established and well-financed corporations with sustainable futures. The incentives required to attract these types of firms is relatively small in comparison to the growth potential such an investment offers the New Brunswick economy. Smaller and newer companies are much riskier investments and caution is warranted when dealing with smaller, outside firms unless they are part of a very strategic sectoral plan.

### 1. Post-Secondary Education & Training

For New Brunswick businesses, introducing best-in-class technology and equipment is only half of the productivity equation; firms also need employees who know how to operate the machines and programs. This is true for every aspect of business in the 21<sup>st</sup> century, from the shop floor to the front office. It is why upgrading skill levels through improved quality of education and training is a requirement if we are to transform New Brunswick's economy.

In particular, New Brunswick must concentrate on the following three subjects:

- i. Shared programming between universities and community colleges;
- ii. On-the-job training; and,
- iii. Literacy and numeracy skills.

The quality of skills of New Brunswick workers was cited as the province's single most important advantage in attracting businesses, according to a recent Atlantic Provinces Economic Council (APEC) survey of firms with operations in the region. We must build upon this strength with a renewed emphasis on education and training. In addition to their skills, New Brunswick workers were noted for their dedication and dependability, which translates into employee turnover rates that are significantly lower than other jurisdictions – further evidence that our people remain a competitive advantage for New Brunswick. This is important to note because, despite a forecasted labour shortage, the province could be able to capitalize on these attributes by targeting businesses willing to pay a premium for a highly skilled and loyal workforce.

Such a strategy would tap the pool of underemployed in the labour force that to date has not been able to find work that reflects their level of training. It would also





provide opportunities to retain graduates from our educational institutions, 30 per cent of whom come from outside the province, and encourage New Brunswickers living outside the province to return.

## **2. Innovative Equipment & Processes**

Companies will find it difficult to escape the tyranny of commodity markets unless there is an increasing emphasis on the production of value-added and technologically unique goods and services. New Brunswick's role in the world is changing, particularly in the resource sector. Where once the province was a proud and successful supplier of seafood, agricultural and forest products, it now faces intense competition from developing markets. The advantage of countries such as India and China is clear: both can produce common products such as wood pulp and frozen fish fillets at a far cheaper rate than any jurisdiction in North America. That is why improving productivity alone won't save these traditional industries; they must develop new, and increasingly specialized products to take to the world market. To do that, New Brunswick's business community must develop a culture of innovation.

It is important to distinguish between innovation and research and development (R&D). Innovation comes from the application of new technology, new ideas and new processes. Typically, R&D requires significant financial investments and large teams of people. That is why most R&D is conducted in university labs or by large corporations that have ready-made distribution networks to quickly bring new products to market. Innovation, on the other hand, is the application within a company of leading technologies, leading ideas and leading processes. The outcome is either enhanced productivity or early introduction of innovative products to the market. Where those innovative products and ideas come from is irrelevant. The emphasis is on implementation rather than development.

Most New Brunswick companies are simply too small to undertake serious R&D. The provincial government should instead concentrate on developing policies that help companies adopt state-of-the-art technology. In this regard, measures to expose local businesses to the vast array of technology that is available in the province's universities and research institutes must be examined.

## **3. New Business Development**

An important element of the business development strategy of the province has been to support the development of entrepreneurship and new business start-ups. Experience tells us that it is a slow process and the results are not as impressive as we might have hoped. In general, new start-ups are risky with many failing in the first few months or years of existence. Even when these start-ups have been successful there are examples where, in order to obtain the venture capital needed to grow, firms are attracted away to other jurisdictions or are bought by larger firms that subsequently shut down local operations. Nevertheless, there are notable examples of relatively modest upfront investments that have led to significant success stories, such as Whitehill Technologies, Spielo and Universal Systems Ltd.

On balance, it will be important to continue to pursue strategies that support businesses start-ups but in a much more targeted way than in the past. First of all, new start-ups must be focused on export markets and have the potential to

become leaders in their respective markets. This in turn argues for a focus on companies that are based on unique technologies that offer a leg up on international competitors.

In this regard, the information and communication technology (ICT) sector remains an area of high potential for the province. Although the rapid growth in the ICT sector that the province experienced in the 1990's plateaued after the 'dot com' bubble burst, this sector is once again undergoing growth. Despite increased competition from offshore, New Brunswick remains very competitive and innovative in this field. Many of the companies that survived are now leaders in their respective market niches. New Brunswick has specific advantages.

#### 4. Target Large Corporations

One of the starkest differences between provincial economies in Atlantic Canada and more affluent provinces such as Ontario, Alberta and British Columbia is the presence of large, national corporations, according to the Atlantic Provinces Economic Council (APEC). There is one exception: call centres. Thanks to aggressive business development policies in the 1990s, New Brunswick boasts a number of customer contact centres, including Xerox in Saint John, the Royal Bank in Moncton, UPS in Fredericton and Moncton, Public Works and Service Canada in Shediac and the Federation des caisses populaires acadiennes data processing centre in Caraquet.

These operations, with mandates for Canada or for North America, have provided the greatest gain in employment of any sector in New Brunswick, creating 50,000 jobs – about 14 per cent of all jobs in the province.

As we develop and promote new industries, New Brunswick will need to forge new relationships with the three leading national firms – Bell Canada, Rogers Communications and Telus – which are centred on wireless technology. New Brunswick businesses will need to work hard to ensure neither they nor the region, gets lost within these large firms, which are focused on more populated urban areas in central and western Canada.

The relationship with Aliant will now be much less focused around innovation and more on its ability to drive export development and create jobs within its own operations. Even in providing local service, Aliant will face an extensive retooling challenge. This is especially true as we move into voice over Internet protocol (VOIP) phone technology.

An important key to the attraction of business is the speed with which the government responds to the private sector. New Brunswick is a small province, which has many disadvantages. But one of the key advantages of “small is beautiful” is the capacity to act quickly. The need for all government departments to respond quickly to the needs of companies interested in locating in the province cannot be overestimated. Systems must be put in place to offer one point of entry for potential investors and those identified to lead discussions with these companies must be empowered to close the deal within a short time frame.

There is a need to focus attraction efforts on businesses that are most likely to locate offices in New Brunswick. A new business strategy will have to factor in the





evolution of the global economy, clearly identify business niches in which New Brunswick is competitive and consider New Brunswick's capacity to fill human resource needs in an increasingly competitive North American-wide labour market. Sectors to consider include major corporations in the finance, insurance and software development industries, which are looking for lower cost alternatives to operations located in high rent downtown cores of major North American urban centres, have trouble finding and keeping high skilled employees and are not prepared to send certain critical business processes overseas.

Nova Scotia recently announced important deals in these sectors with Research in Motion, Olympia Capital and Marsh, a global insurance services firm. New Brunswick needs to define an aggressive strategy to capitalize on similar opportunities.

Another area of opportunity for business attraction is with some emerging technology clusters in the province. Overall, New Brunswick has not been as focused in the development of world class technology clusters as it should be. However, it does possess a number of emerging clusters that could form the basis of a business attraction strategy. Just as global companies have pursued a strategy of global supply chains for products and services, increasingly, large corporations are creating a global supply chain of ideas and technology. A legitimate commercialization strategy for the world class technology and expertise being developed in the province's emerging technology clusters is to use it as the basis to attract the interest of global firms.

For instance, New Brunswick-based researchers are world leaders in areas of study such as environmental remediation technologies, geographic information systems (GIS), e-government, e-health, nuclear technology and ocean mapping. The pairing of their expertise with commercial interests could lead to the establishment of research facilities to collaborate on joint projects, the expansion of local facilities through contracted research or the establishment of production facilities where close collaboration with a research facility is essential.

The National Research Council (NRC) Institute for Information Technology in Fredericton is an asset that has not been used as effectively as it should be to attract investment from outside companies. Elsewhere in Canada, NRC research facilities have helped establish clusters of large technology-based national and international firms. This is the case with plant bioscience in Saskatoon, telecommunications in Ottawa and aerospace in Montreal. This opportunity should be aggressively pursued.



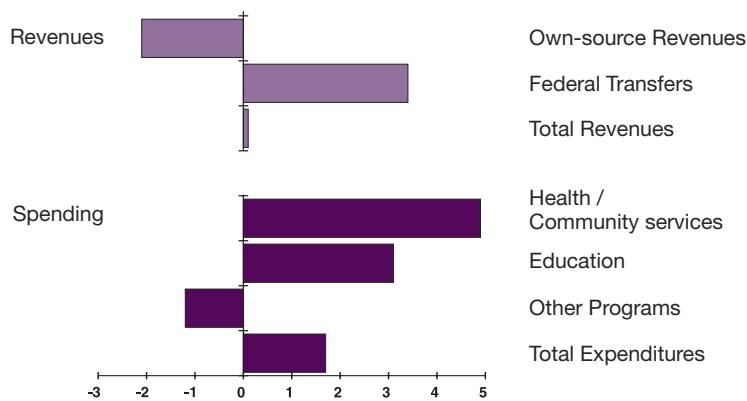
## The Importance of Leadership

To achieve this transformation, unprecedented levels of investment will be required from both the federal and provincial governments and the private sector. It will also require a major shift in the overall direction of public policy. Currently, the province of New Brunswick directs the bulk of its spending to health, education and social services. Combined, the budgets for the departments of Agriculture and Aquaculture, Business New Brunswick, Fisheries, Natural Resources, Regional Development Corporation, Transportation and Tourism and Parks – the departments that drive the bulk of economic development – amount to about 11 per cent of New Brunswick’s overall expenditures for the 2006-07 fiscal year.

As the following table clearly details, the growth of health and education spending has crowded out expenditures in all other areas.

### Atlantic Provinces Rely on Transfers to Support Growth in Health Care

New Brunswick budget 2006 / 2007 (% change)



### Revenues

- Surplus of \$22 million (equivalent to 0.4 of total revenues)
- Limited growth in own-source revenues (decline in 06/07 due to home heating rebate)
- Equalization accounts for 24% of revenues

### Spending

- Health care absorbs all the increase in program spending
- Other program spending being cut back

Source: Provincial budget documents

Both the federal and New Brunswick governments must significantly increase their investment in the economic future of the province. They must place an emphasis on cooperation that reaches beyond the politics of equalization. New Brunswick and the rest of Atlantic Canada need to develop a new relationship with Ottawa. A relationship that empowers Atlantic Canadians and ushers in a new, modern era of equal opportunity.

Quite simply, New Brunswickers should demand that both the federal and provincial governments double levels of investment in economic development. To do this each will have to agree on a shared set of priorities, that includes consensus on tax policy and revenue allocation.

The private sector has a role to play too and leadership from within the business and labour communities will be essential. Finally, the citizens of New Brunswick must be committed to achieving the objective of self-sufficiency. This will mean communicating clearly the benefits of self-sufficiency, the nature and magnitude of the challenge, and building the resolve required to make the trade-offs that will be needed in the short term to secure the long-term economic prosperity of the province.



## The Self-Sufficiency Checklist

Achieving the objective of self-sufficiency for New Brunswick will be an enormous challenge for all sectors of society – nothing less than a “projet de société”. Nevertheless we can succeed if we concentrate on the following realities:

**Reality #1:**

We need to increase our population and our labour force and reverse shrinking population trends.

**Reality #2:**

We need to be prepared for sweeping changes of unprecedented magnitude. Half-measures will not work. Acknowledging the need to focus on opportunities that will produce the scale of change required is imperative.

**Reality #3:**

We need to increase labour productivity by providing people with the right tools for the right jobs.

**Reality #4:**

We need to strengthen the connections between urban and rural New Brunswick through large-scale investments in infrastructure.

**Reality #5:**

Export growth must drive overall economic growth. This will create prosperity.

**Reality #6:**

We need to quickly and aggressively expand our existing corporate base.

**Reality #7:**

Leaders at all levels of New Brunswick society must step forward.