

## **Raising the bar on economic expectations: Outlook for Canadian business.**

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### **INTRODUCTION**

I appreciate the opportunity to speak to you today.

Chambers of Commerce across the country provide a valuable service for businesses — large and small. As a key national and international voice of Canadian business, your policy development process provides a forum for Canadian businesses to share their views, as well as to formulate common positions to talk to others about.

Today, one of the jobs I have been asked to take on is that of prophet: to forecast our economic future. It's a role that I am quite comfortable playing. Like you, I am constantly taking the temperature of the economy and trying to anticipate whether it will rise (or fall) over the next 12 to 18 months. However, conventional crystal ball gazing will not be the sole, or even the primary focus of my time with you today. Instead, I want to talk about an opportunity that I hope you will seriously consider as the economy goes through the recovery phase of the cycle.

As the heart of Halifax's business community, I am sure that you are as focused on our economic prospects, as you are the management of your own lines of operation. I'm also sure you share the view that this heart cannot beat without healthy, well-educated, flexible workers. Workers' skills are among the topics I would like to address today.

As you heard in my introduction, I have been involved with the ABC CANADA Literacy Foundation for a number of years. ABC is a national charitable organization committed to promoting literacy, especially adult literacy, to the general public and to the private sector. As an economist and as a citizen, I have been convinced for some time that adult literacy levels are a critical element of a highly effective workforce. I will turn to this issue a bit later.

### **A look into Canada's economic future**

First, let us examine the near term prospects for the economy.

The economy decelerated sharply in 2001, more rapidly than anyone expected at this time last year. Instead of slowing smoothly from the strong growth of recent years, activity came virtually to a standstill in the spring and slipped into decline late last summer.

A number of factors threw a monkey wrench into the economic engine in 2001. US demand spiraled downwards, sideswiping Canada's buoyant export sector. Businesses cut spending on computing equipment. Stock markets deflated, with the TSE300 index nearly halving from last year's peak. And the September 11 terrorist attacks rattled already shaky investor and consumer confidence.

Usually the main reason economies slide into recession is an inflation-led tightening in monetary policy which cripples consumer spending. This time, however, the downturn was led by businesses slashing capital spending after massively over-investing in computing equipment in the 1990s.

In fact, despite the weaker economy, consumers have held up relatively well. And the housing market, buoyed by low interest rates, has remained a pillar of strength.

The horrific events of September 11 caught the US economy — Canada's largest trading partner — at a vulnerable moment. Growth had stalled through the summer, and investor and consumer confidence was fragile. By disrupting US business activity, the attacks depressed Canadian exports further. In the wake of the terrorist acts, we now believe that Canada's economy contracted at an annualized rate of 0.5 to 1% in the second half of 2001

If there is any consolation, it is that the downturn hasn't been as painful as the last one and the emerging recovery should be considerably healthier. A big plus this time around is that monetary authorities had a head start on the slowdown. Interest rates ended up much lower and fell sooner than before the recession of the early 1990's.

As a result of low interest rates, (and a weak currency), monetary conditions eased significantly last year. In addition, fiscal policy also proved to be moderately stimulative in Canada.

The full impact of past monetary and future fiscal stimulus will be felt this year in both Canada and the US — spurring, in my view, a steady acceleration in growth through 2002. A full economic recovery should be clearly evident by the spring as exports pick up in response to stronger US demand. Combined with strong domestic spending — consumers and investors - Canadian growth should exceed 4% in the second half of next year.

Let me turn now to the main theme of my presentation.

For more than a decade, I have been outspoken about the links between workplace skills and Canada's economic performance.

In a previous life, as head of the Atlantic Provinces Economic Council, I oversaw a groundbreaking international conference called "Partnerships in Literacy for Economic Development."

I recently read over the published proceedings of that conference, parts of which were a transcription of extemporaneous remarks. I was struck, once again by the profound differences between spoken and written communication.

I take it for granted that everyone here is both a listener and a reader; both a speaker and a writer. We, fortunately, have the option to choose between written and oral communications.

For people with literacy challenges, that option is, at best, much more limited if not completely unavailable.

The other thing I noted from that conference a decade ago was a point made several times by one of our speakers. He said, "If you want to earn six to ten times the planetary average, you and the team and the machine with which you work will have to be six to ten times as productive."

That, in plain language, makes the point that we cannot raise living standards for the average Canadian without increased productivity. And, a key driver of productivity is the quality of our labour force.

If a sizeable proportion of the population is significantly limited in literacy and numeracy skills, Canada's capacity for productivity growth, and therefore for improvement of living standards, will be constrained.

This point — the link between productivity and living standards — is at the heart of the economic consequences that literacy challenges pose for both individuals and society.

Those challenges are growing as we deal with several key structural changes affecting the performance of the economy.

Everybody — business owners, managers, and workers — will feel the consequences of four major trends. These are:

- 1) a dramatic increase in importance of information and communications technologies.
- 2) rising expectations by employers of workers' level of skills and the need to be flexible in applying these skills,
- 3) the increased frequency with which people change jobs and finally,
- 4) the demographic impact of the Baby Boomers moving out of the workforce.

Now just a hint at that opportunity I mentioned earlier. Together we must devise strategies that will enable Canadian business to meet the challenges of information technology, greater demands on each and every worker, job flexibility and a shrinking workforce.

From both a private and public sector viewpoint, the need to increase literacy levels among adult Canadians must be recognized not only as an individual and social problem, but also as a business and economic issue as well.

## SNAPSHOT OF TODAY

Before discussing the challenges and the opportunity, let's take a quick look at some key facts about the impact of literacy challenges on adult Canadians and society at large.

- ?? Reports published by the OECD, Statistics Canada and Canada's National Literacy Secretariat show that 22 percent of adult Canadians have serious problems dealing with printed materials. They can use reading materials to carry out simple reading tasks in familiar contexts with clearly laid out formats. However, they do not have the skills to cope with unfamiliar and more complex documents.
- ?? StatsCan also tells us that 20 percent of recent high school graduates have literacy skills too low for entry level jobs.
- There is a direct link between literacy and earnings. Generally, the higher an individual's level of literacy, the more likely it is that he or she will be employed and have a higher income. Recent research shows that, on average, each additional year of education boosts an individual's salary by over eight percent. Over one-third of the increase can be traced to literacy.
- ?? The link with employment stability is also unequivocal. The unemployment rate for Canadians with the lowest literacy skills is 26 percent compared to four percent for those at the highest levels.
- ?? It is this kind of evidence that led StatsCan to conclude that "adult literacy is increasingly understood to be fundamental to industrialized nations' economic performance, and also to individuals' social and economic well being, especially in the context of rapid, social and economic change."
- ?? Fortunately, there is also compelling evidence that literacy problems can be remedied with workplace intervention. An

ABC CANADA study of 53 workplaces that introduced basic skills education showed that respondents — both employees and employers — felt that work quality improved, work effort increased, programs assisted participants' ability to use workplace technology, health and safety awareness increased, and labour relations improved.

These numbers and others like them underpin a national consensus that basic literacy levels must be improved and that, if they are, everybody gains.

I made reference to four coincident trends that are shaping our world.

Let's look at some of their implications.

## **THE INFORMATION, COMMUNICATION, TECHNOLOGY REVOLUTION**

If, like me, you use a Blackberry or a Palm, you know it's hard to get out of bed without help from a handy device to tell you where and when you're going. Even if you aren't device dependent, you can't get money from the bank after hours, defrost a dinner, tape or view a recorded television program or page your teenagers without the help of an electronic gadget of one kind or another. That is the reality of the ICT transformation, - - or, as some would have it, revolution.

In many ways, the boom in communications technology has made all varieties of information and services vastly more accessible. Some even call it the "democratization" of information. The sheer bounty of that information underlines the importance of being able to gain access to it.

If an individual does not have the literacy tools to feel comfortable using the full range of information services available, that individual has more limited access to the brave new world that's unfolding for his or her fellow citizens.

## **DEMANDS FOR LITERATE WORKERS**

One of the critical consequences of the Information, Communications and Technology Revolution is that it has significantly raised the bar on the minimum skill levels necessary to enter and remain active in the workplace.

As a result, we are today asking that workers use their skills in an increasingly sophisticated manner.

We expect them to read more complex material, to communicate their understanding of that information and to be computer literate and numerate as well. At the same time, we expect them to be more lateral in their abilities to use those skills.

Let me give you an example. Twenty years ago, banks had lots of people working for them called tellers. Today these people are referred to as "customer service representatives" or "financial services representatives". These are not euphemisms. We expect them to do more than help customers with transactions like deposits, withdrawals and loans. We want them to consider our clients' immediate and anticipated needs: to offer advice on a range of options to deal with those needs, whether it's refinancing a mortgage or consolidating debt.

## **CHANGE AS CONSTANT**

In addition to and, in part, because of these increased workplace expectations, people usually end up having more than one career today. In fact, studies show that Canadians will, on average, change jobs four to five times over their lifetime.

Almost invariably, a worker who finds him or herself in a completely new line of work, has to be retrained, or at least to develop new skills in order to function effectively in the new workplace. Even a promotion within a line of work can bring with it the need for significant upgrading.

Retraining and skills upgrading require flexibility and learning capacity that are impeded by literacy challenges.

These challenges are more acute in their impact when we face the kind of economic downturn we encountered this past year.

I am also very aware of the pressures this has put on your businesses.

We all know that Halifax is Eastern Canada's business hub. Now while the natural gas and high tech sector continues to provide promise, manufacturers have felt the pinch from weaker prices and decreased US demand.

In good times and bad, the better-equipped workers are to participate in the labour market, the more personally productive they're going to be. The more productive the worker, the better off the firms they work for and the better off the economy.

That's why I was pleased to see that the Council of Atlantic Premiers has recently acknowledged the need to raise literacy skills for learners of all ages and levels of schooling.

They are not alone in identifying literacy as a economic issue: the Canadian Federation of Independent Business' paper entitled "Strengthening Rural Nova Scotia in a Knowledge-Based Economy", notes lower literacy skills in rural areas is "a major issue that needs to be addressed as it limits the ability of workers to:

- participate in further training, upgrading of skills and
- take advantage of value-added opportunities."

Perhaps the proposed agency — called Skills Nova Scotia — is the place to house initiatives that respond to these needs. I leave that decision to the policy makers involved.

## **DEMOGRAPHIC PRESSURE**

Let's turn to the demographic reality. If 1945 marked the beginning of the Baby Boom, the eldest of the Boomers among us are marking their 55th birthdays just about now. Many are planning retirement.

What's more, there are fewer people following Boomers into the workplace. Some of you may already have felt the impending squeeze when it comes to hiring new people although the pressure diminishes in a weak economy.

We know that participation in the labour force goes down sharply after age 55. And, as the Boomers continue to "mature", the number of people in that age group is going up. If nothing changes for all of Canada's age groups, the impact of those two factors — fewer working after 55 and more 55 to 65 year olds — will be that the number of people in the labour force will slowly but steadily decline. Taking demographics into account with other factors, the Conference Board of Canada forecasts an overall labour shortage of a million people by the year 2020.

These kinds of figures are impossible to ignore. With a looming shortage of people, we simply can't afford the individuals who remain in the labour force to have literacy challenges.

## **LINKING LITERACY TO FUTURE GROWTH**

Let me return for a moment to the links among productivity, living standards and literacy challenges.

We know that people with limited literacy skills, as a group, participate less actively in the labour market and, when they do, experience higher rates of unemployment. As well, it certainly does not take special training in economics to figure out that if we could increase the participation in the labour force of those who are able to work, improve their employment stability and raise their efficiency when working, output would be higher. And spreading that higher output over the same population means the average standard of living will go up.

The equation then is fairly simple; lower literacy levels equal lower living standards, not just for those with literacy challenges but for society as a whole.

I think you now have the picture. That then raises the question as to what's to be done about it.

While the federal and provincial governments have roles to play, the private sector has to be a participant as well. And, to be frank, that participation is not happening.

In Canada, only 31 percent of Canadian employers are paying for training, compared to over 80 percent in Britain and 75 percent in Japan.

At the Bank of Montreal, we have taken these trends and their socio-economic impact very seriously. Our Institute for Learning is the focal point for learning at the bank. In the last fiscal year, the Bank of Montreal invested \$62 million — or two percent of its budget — in training and delivered an average of 6.9 training days per employee. This far exceeds our original goal of five days when we launched the Institute in 1994.

I am not suggesting that the approach at the Bank of Montreal is right for everyone. But it does speak to the issue of corporate responsibility— to our own workforce and to our partners and shareholders. That we must practice what we preach.

Let's suppose that together we were able to devise strategies and mechanisms to significantly reduce Canada's adult literacy challenges. At a minimum, we would increase their participation in the workforce and reduce their unemployment level. That alone would raise both their personal and our national income levels. And, not incidentally, it would help alleviate the Boomer-induced labour force crunch.

But it would do more than that.

By improving the level of literacy and numeracy of those who have difficulty in these areas, we will increase their job effectiveness and productivity. This would not only further boost their earning power, but it would unequivocally improve our collective prosperity.

## **AIMING FOR THE UPSIDE**

Obviously governments have a role in shaping a better future for citizens. In this regard, I am pleased that the federal government's green paper called, "Knowledge Matters, Canada's Innovation Strategy", notes, and I quote,

"A broad-based, accessible and comprehensive adult learning system must be a prominent feature of the country's learning infrastructure. This system must draw on Canada's formal post-

secondary education resources - universities, colleges, technical institutes, private training institutions and apprenticeship programs - and also on the efforts of employers and unions. It must help adults develop both job-specific skills and foundation skills, such as literacy and numeracy, which are critical prerequisites to further learning.”

If an organization like the Chamber of Commerce, or an individual company, big or small, could succeed in devising innovative ideas, and practical tools to increase the literacy skills of adult Canadians, we all have much to gain.

The Conference Board of Canada has done a great deal of research and thinking on these issues. For that we commend them. They recommend that employers focus on making literacy a workplace priority. Having done so, it's important to plan your approach carefully, and to put in place evaluative measures so that you can refine it as you go along. To ensure success, you must have an approach that fits with both your culture and your critical company goals.

Let's face it, standing still is not an option open to any of us. No matter where you look, banking, forest products, manufacturing, tourism or telecommunications ... the fundamental literacy requirements are rising.

The challenge in the business community is to shoulder our share of the responsibility for ensuring that people have the fundamental skills to meet the expectations of their employers and of their customers and that they have the requisite for retraining and redevelopment. That challenge is there in bad economic times but becomes more obvious as the economy improves. It will become acute as we evolve into an economy in which workers are in short supply. Before that happens, we have the opportunity now to act on what we know; that increased literacy skills benefit everyone.

I am confident that we are already putting the bad economic times behind us. Perhaps you can invite me back next year to face up to my predictions.

Thank you for your attention, and I look forward to hearing and reading about how the Halifax business community is leading the way in developing creative solutions to Canada's literacy challenges.

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