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Working-Class Opportunity and the Threat of Populism in Canada

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Introduction

There is a great debate raging in intellectual circles about the causes of political populism across the Western world. It is an important conversation that Canadian policy-makers should be actively following. It can help us to inform and adjust our own politics and policies so as to better respond to nascent public sentiments of attenuation, anxiety, and insecurity.

This short essay reflects my own thinking about the causes and sources of contemporary political populism in the context of the recent General Motors lay-offs and the ongoing challenges in Alberta's energy sector.

The ideas set out here build on an earlier essay (Speer 2016) written following President Trump's election in 2016 and reflect new and evolving research on culture, economics, and politics – including new books by Stephen J. Harper (2018b), Isabel Sawhill (2018a), Reihan Salam (2018), and Oren Cass (2018c) as well as academic scholarship by Pippa Norris and Ronald Inglehart (2018), Dani Rodrik (2018), and Eric Kaufmann (2018).

My analysis and observations on this crucial subject are still a work in progress. I now more appreciate how much the 2016 US presidential election cycle challenged my preconceptions about markets, politics, and ideas, and has since caused me to revisit some basic intellectual and political assumptions. The essay should thus be seen as an ongoing process of political introspection and policy recalibration by one policy observer grappling

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with these real-time questions. It is written in a spirt of what conservative columnists George F. Will (2018) and David Brooks (2007) have come to call “epistemological modesty.”

The main takeaway is that policy-makers must focus on enabling the conditions for inclusive growth in general and for credible job prospects for working-class Canadians without post-secondary education in particular. A redoubled focus on employment opportunities for this cohort is, in my view, both an economic and political imperative.

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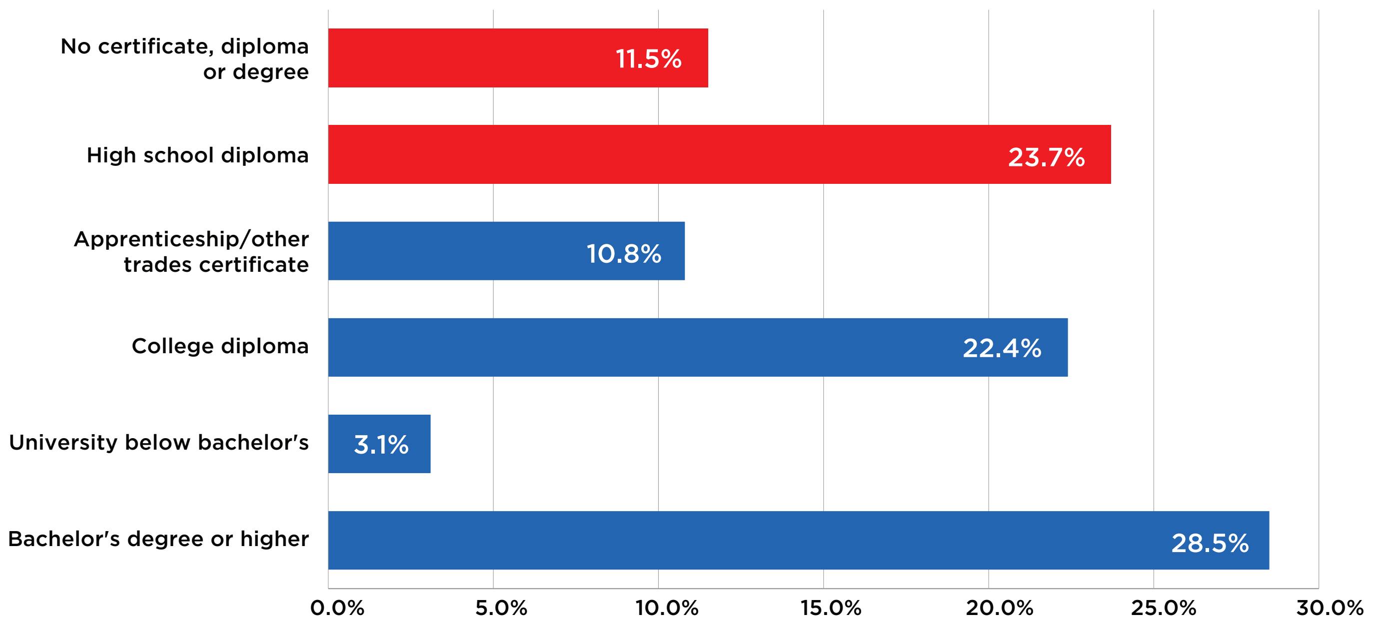
Remember this population group, which is still about 36 percent of those between ages 25 and 64 (Statistics Canada 2017) (see table 1), is facing the most pressures and stresses in today’s economy due to the combination of trade, technology, and the transition to service-based specialization. It is no surprise therefore that these citizens also form the nucleus of populist politics in the United States (Silver 2016), the United Kingdom (Becker, Fetzer, and Novy 2017), and elsewhere (Ehrenberg-Shannon and Wisniewska 2017).

TABLE 1: Educational attainment for the population aged 25 to 64, Canada, 2016



Source: Statistics Canada 2017.

Canada currently has one of the highest post-secondary attainment rates in the world (Charbonneau 2014). The share of the population without a degree or diploma is likely to fall further due to demographics, improved post-secondary access, and the possibility for further “nudges” to target low-income and other marginalized

households (Robson 2018). But even with greater progress on post-secondary attainment there will still be a considerable share of the working-age population who will not have a university or a college degree.

Importantly, then, Canadian policy-makers must become champions for these people. They are too often neglected when we consider how to make our politics more responsive and representative. It is an oversight that needs to be remedied on the Left and the Right. We need to put their issues, concerns, and challenges closer to the centre of our politics. Failing to do so risks causing growing distrust, social fissures, and ultimately political tumult as we have witnessed elsewhere.

We can learn these lessons and avoid these risks. But we must learn them fast. Recent economic trends suggest that we do not have much time before it starts to disrupt our politics.

The Rise of Populism: Culturalists versus Materialists

I started the essay by describing an ongoing debate about the causes of political populism in western societies. I should elaborate on the ideas and arguments present in this debate. There are essentially two schools of thought.

The first perspective is held by what one might refer to as the *culturalists*. These observers argue that populism is mostly a culture-driven phenomenon reflecting public concerns about the rapid pace of social change, large-scale immigration, and what one *Guardian* columnist has even recently called "bigotry" (d'Ancona 2018). The assumption here is that populism is ultimately motivated by a sense of "cultural loss" (Mounk 2017) rather than economic stress.

> "The truth is the roots of present-day populism have both cultural and economic explanations as Harvard economist Dani Rodrik recently observed."

The second is held by what one might call the *materialists*. Their analysis focuses more on the role of economic dislocation caused by a combination of trade and technology and the pressures that it has placed on working-class populations (Harper 2018a). They point to wage stagnation, job losses, and narrowing opportunities for industrial workers as the primary source of anxiety and insecurity now manifesting itself in our politics. The assumption here is that populism is the outgrowth of an economy that is increasingly bifurcated along educational and skills-based lines.

This is obviously not a binary choice. The truth is the roots of present-day populism have both cultural and economic explanations, as Harvard economist Dani Rodrik recently observed in a speech at the University of Toronto (Martin Prosperity 2018). But, on balance, I find the materialists more persuasive than the culturalists for a few reasons:

1.) Donald Trump won the presidency because he picked up states that Barack Obama had won, and he attracted former Obama voters more generally. A post-election study by a group of Democratic Party strategists, for instance, found that "Obama-Trump voters, in fact, effectively accounted for more than two-thirds of the reason [Secretary] Clinton lost" (Roarty 2017). The idea that these "Obama/Trump switchers" were principally motivated by culture or race seems difficult to sustain.

2.) It is correct, as Andrew Coyne (2018) and others have noted, that income was not the most deterministic characteristic of Trump and Brexit voters. But this observation does not invalidate the role of economic forces. The spectre of populism is not driven by poverty. It is influenced by feelings of economic precarity. Remember, the principal characteristic of populist voters in both the UK and US is education level (Carnes and Lupu 2017). This is intuitive. It is people without university or college education who have been the most susceptible to the economic forces of trade, technology, and specialization. One example: a 2018 study by the Centre for the Studying of Living Standards estimates that, of the 100,000 Canadian manufacturing jobs lost due to rising Chinese import competition between 2001 and 2011, the vast majority were low-skilled jobs. This is consistent with research from the United States (Autor, Dorn, and Hanson 2016), Sweden (Baziki 2015), and elsewhere (Ahn and Duval 2017). It is no surprise therefore that there is a correlation between Chinese import penetration at the local or district level and support for President Trump and Brexit (Cerrato, Ruggieri, and Ferrara 2016). Basically these people have the most to lose from the trends towards globalized competition and higher returns for credentialism.

3.) The interrelationship between economic insecurity and cultural anxieties seems to point to underlying concerns about narrowing employment opportunities. Cultural anxieties manifest themselves secondarily when people are feeling under stress economically. Think of the US presidential election, for instance. Illegal immigration has been a problem for decades. Why did it become such a decisive issue in the 2016 cycle (Gramlich 2016)? As a Centre for Economic Policy Research paper from May 2018 puts it: "The cultural backlash against globalisation, traditional politics and institutions, immigration, and automation cannot be an exogenous occurrence, it is driven by economic woes" (Guiso et al. 2018). This interrelationship between economics and culture is the reason that Trump voters reported higher levels of financial anxiety (Rothwell 2016) and greater concerns about high levels of illegal and legal immigration (Lauter 2016). Both sentiments are present but it is a matter of distinguishing between expressed preference and revealed preference.

The "Skills Bias" and the Working Class

I recognize that my unpacking of the relative importance of economics and culture in driving contemporary populism will not be persuasive for everyone. But most would nevertheless agree that recent economic trends are placing tremendous strain on working-class people.

The education premium with regards to wages and economic opportunity has never been greater (Taylor et al. 2014). We now have an economy that highly values cognitive skills and educational credentials and undervalues physical strength and hard work. Economist David Autor describes it as a labour market polarization between "routine" and "non-routine" work (Clement 2016).

The economy is producing new and dynamic opportunities for those with the right set of aptitudes, credentials, and skills. But we are witnessing narrowing opportunities – particularly stable, well-compensated ones – for those without them. Dani Rodrik (2016) and other economists have referred to these trends as "skill-biased" change.

Research by the Federal Reserve Bank of St. Louis affirms Autor's and Rodrik's formulations (Dvorkin 2016). Not only has employment in routine occupations mostly stagnated, this type of work also experiences more pronounced volatility over the business cycle.

As a result, those without post-secondary education or who are working in manual labour are facing heightened risks of technology-induced dislocation and increased competition from low-cost imports. In turn, there are

fewer opportunities for these people to find stable employment, earn a decent living, and provide for themselves and their families.

I think of my hometown of Thunder Bay. The second half of the 20th century was marked by opportunities for people to come out of high school and earn a decent wage working in a pulp and paper mill or a grain elevator. My grandfather, Gerald Speer, is a good example. Through a combination of hard work, leadership, and innate intelligence he climbed the ranks at Manitoba Pool Elevator over a 38-year career, starting his career as a labourer and ultimately retiring as a regional manager. It was a successful career that enabled him to own a home, raise three children, and live a comfortable, middle-class life. Most importantly, of course, it laid the groundwork for future generations such as my dad and me to go to university and so on.

His story is regrettably less common now though. Most of these jobs have been destroyed due to industry-wide changes, new technology, and greater credentialism. There are fewer opportunities like this anymore. It is hard to think of many industries or professions where someone with minimal education can count on a stable, secure, and lucrative career.

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Now those who intended to follow this same occupational path have discovered it is a dead end. They bounce around different odd jobs with fewer earnings, minimal benefits, and far less security. And this is contributing to delayed homeownership, family formation, personal savings, and the various other milestones associated with a good, meaningful life.

The worst part is, it is more likely to get worse rather than better. The “skills bias” described by Autor, Rodrik, and other leading economists points to more economic bifurcation, fewer working-class opportunities, and a growing cohort of people who believe that the modern economy is exclusionary.

The Role of the Resource Economy

The General Motors lay-offs are a depressing reminder that Canada is not immune to these trends. Our working-class populations are just as susceptible to dislocation as those in the United States and elsewhere.

This hardly seems like a controversial statement. But it still comes as a bit of a surprise for many Canadians. Why?

Statistics reveal that the experience in Canada and the US over the past decade and a half has been different. The employment opportunities for citizens without post-secondary education have contracted more in the United States than in Canada. Between 2000 and 2017, the employment rate for men aged between 25 and 54 with high school education or less fell by 7.4 percent in the United States and only 1.9 percent here (Bernard and Morissette 2018). Statistics Canada attributes Canada’s relative stability to the role of the construction and oil and gas sectors.

Canada’s resource sector has indeed served as a bulwark against wage stagnation and working-class dislocation. It is not hyperbole to say that the natural resource sector has sustained our middle class for the past 15 years. As UBC economist Kevin Milligan (2018) explains: “nothing has contributed more than natural resources to buttressing the Canadian middle class against the rapidly changing global economy of the 21st century.”

This is particularly true for those without post-secondary degrees. Alberta has been by far the best labour market for those without a degree based on wage rates and employment levels (Oil Sands Magazine 2018). A 2014 Statistics Canada study even found that the oil boom from 2000 to 2008 actually reduced wage differentials across education levels for young men and young women (Frenette and Morissette 2014).

This point cannot be overstated: one of the principal reasons that Canada has not witnessed the working-class dislocation elsewhere is not because we do not have the same basic economic dynamics but rather the resource boom essentially obscured these structural challenges due to its high-demand for blue-collars workers.

Put differently: Canada's economic fundamentals may be more similar to the American "rust belt" than we think. The real story is that we have managed to avoid some of the worst excesses of stagnation, dislocation, unemployment, and the accompanying social pathologies principally because of the strength of the resource sector.

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The recent drop in oil sands investment and employment would certainly seem to affirm this point. The loss of jobs among blue-collar workers is nearly quintuple the losses among the white-collar positions according to one estimate (Crowley 2017). This is intuitive. Bankers, lawyers, and other professionals can easily move on to the next deal or to a different sector. Working-class people have fewer options and may be less geographically mobile (Williams 2017). It makes sense therefore that the sustained downturn would disproportionately harm blue-collar workers. New research shows that the average duration of unemployment in Alberta is now at nearly 21 weeks, which is higher than during the global financial crisis of 2008/09 and its aftermath (School of Public Policy 2018).

It is thus a good reminder that the natural resource sector plays a unique role in the economy because of its ongoing demand for blue-collar workers including those without post-secondary education. This basic insight is too often neglected by policy-makers. We seem to be imposing new and additional burdens on the sector without careful consideration of the potential economic, political, and social costs including the erosion of an outlet for working-class opportunity. Harming the one sector that has helped us mitigate the economic dislocation and accompanying disruptive politics witnessed elsewhere may be something that we seriously regret.

Think of the interaction between the energy sector and our environmental objectives for instance. Stringent climate change abatement policies may have a marginal effect on emissions but could seriously undermine employment for people without post-secondary education. Analysis of the distributional effects of climate policy needs to go beyond region, sector, or income level, and consider the limits of employment substitution for blue-collar workers. Platitudes about "green jobs" are not going to pay the mortgage or save for a child's education or help someone prepare for a secure retirement.

Bill C-69's inclusion of new requirements that energy projects are considered based on their climate change impacts is a concrete example (Bishop 2018). The principal climate effects of energy projects are related to transportation and individual consumption. The extractive process itself is only one part of the overall emissions picture. It seems highly unfair and counterproductive then for energy projects that will provide significant employment to assume full, economy-wide responsibility for upstream and downstream emissions.

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This is not a call for climate inaction. But it should mean that our analysis of policy trade-offs drills down into the aggregate effects and understands how they will affect the employment prospects for people with different educational backgrounds and skill sets. The present debate about the household distribution of the federal carbon tax proposal (including its accompanying rebates) does not fully capture this dynamic. It can be both true that most households are, in net terms, better off and working-class households are subjected to greater risk because of diminished opportunities in the natural resources sector.

More generally, then, policy-makers must (i) recognize the role that resource sector has played in protecting us against working-class dislocation and populist politics; and (ii) be more cognizant of how their policy choices related to the sector help or harm working-class opportunity across the country. Remember that Alberta's energy sector has not just sustained employment levels for its own citizens. Oil sands jobs for out-of-province workers – mainly from Atlantic Canada – have up until recently resulted in a significant drop in unemployment in their provinces (McCarthy 2014).

At a time, then, when policy-makers are rightly concerned about the "future of work," the potential for widespread dislocation and the prospects for the middle class, Canada's natural resource sector can and should serve as a ballast for working-class Canadians as well as a source of new opportunities for Canada's Indigenous peoples (Crowley and Speer 2018). But this requires that policy-makers see it as such and develop and implement policies accordingly.

A Role for Public Policy

A broader public policy agenda to better support Canadians without post-secondary education facing economic insecurity will require further analysis and study. But there is room here to share the basic contours of such an agenda. I would put forward three key parameters for consideration:

1.) *Economic security versus economic inequality* – The current policy paradigm of greater tax progressivity and larger cash transfers to low- and middle-income households misreads public sentiment. It wrongly conflates economic insecurity and income inequality. Research shows that most people are more concerned about economic security and broad-based opportunity than they are about unequal outcomes (Starmans, Sheskin, and Bloom 2017). As economist Pranab Bardhan (2018) puts it: "No matter what the 'Occupy' proponents may say, most workers do not express much concern about the increasing income share of the top 1 percent. They worry more about their jobs threatened by cheaper imports facilitated by global integration and by the inexorable advance of automation and digital technology." Yet so much of our public policy discussion tends to focus on income inequality and more redistribution. There is an inherent assumption that if we just broadly redistribute the gains of a dynamic, grow-

ing economy, those "left behind" will maintain reasonable living standards and affirm their support for democratic capitalism. But if policy-makers actually listened to people, they would hear that few are clamouring for greater state dependency. They want work, opportunity, and a sense of economic security. We must instead adjust our focus to enabling and supporting broad-based opportunity as MLI has written about in recent years (Speer 2017).

2.) *The centrality of work* – The emphasis on redistribution as the principal tool to address these labour issues has reached its peak in the form of growing intellectual support for a universal basic income. This, in my view (Crowley and Speer 2018), is a serious mistake. The basic income model sees economic insecurity, unemployment, and poverty as merely material issues and fails to recognize the non-financial benefits of paid work. Pensioning people off with unconditional cash transfers would cause affected individuals to lose out on the dignity, self-respect, and socialization that comes with employment. It also permits policy-makers to neglect the importance of applying what we have described as a "jobs lens" to their own choices and decisions (Speer 2018). As a recent joint report by the left-leaning Brookings Institution and right-leaning American Enterprise Institute put it: "Universal basic income would devalue work for individuals, undermine societal expectations and excuse the nation from its obligation to create job opportunities" (Cass et al. 2018). This does not mean that government should not intervene to help those facing economic insecurity or dislocation. But these policy interventions should start with the basic premise of enabling and supporting paid work. Oren Cass's (2018b) recent thinking and writing on wage subsidies is such an example. Isabel Sawhill (2018b) has even set out the case for a renewed national service model. The key takeaway though is that the policy bias should be directed to work rather than clientelism.

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3.) *Dynamism versus security* – There is an inherent tension between economic dynamism and economic security and, in many ways, reconciling this tension is ultimately a normative rather than empirical judgment. It reflects different political preferences and priorities. But we must remember that the process of "creative destruction" necessarily involves both the creation of new innovations and the destruction of old industries, firms, products, and processes, and that you cannot ultimately separate the two. These different features are actually two sides of the same coin. Policy-makers should therefore be cautious about foregoing dynamism in the name of greater stability. Subordinating dynamism and growth for more short-term stability will eventually have harmful effects including for the people that we purportedly were trying to help. This tension has recently generated considerable debate among conservative policy thinkers in the United States (Cass 2018a). We can anticipate that it will soon surface here in Canada. Politics will play a central role in adjudicating it. But policy experts and practitioners will need to contribute with dispassionate evidence and analysis.

Conclusion

The GM lay-offs and ongoing challenges in Alberta's energy sector should be a wake-up call for Canadian policy-makers. The idea that we are somehow immune to political populism is a perilous assumption. A failure to recognize the political risks caused by working-class dislocation and to respond with a substantive policy agenda that addresses the issues and concerns of at-risk workers will eventually, in my estimation, hasten a political backlash.

Consider a 2017 Ekos poll that found nearly 70 percent of those who believed that they had "fallen behind over the past 5 years" see the rise of political populism as a good development. Or that 40 percent think they are going to eventually lose their jobs to automation and other technological innovation (CBC News 2016). Or that one-third think they are doing worse compared to those 25 years ago and nearly 60 percent expect their circumstances will only worsen (Levitz 2017). These feelings are present in Canada and the recent deluge of bad economic news for working-class Canadians will presumably only enhance the salience of populist messages.

And who can blame people in light of ongoing economic insecurity and the policy-induced erosion of well-paying, resource-based opportunities?

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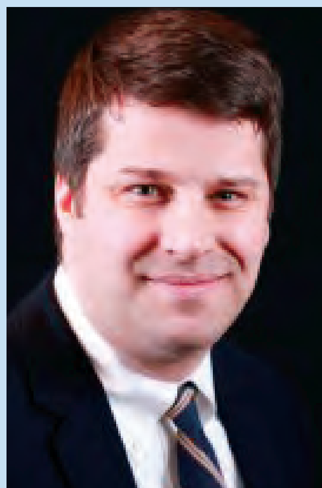
Canadian policy-makers from across the political spectrum must become champions for those working-class people by advancing a pro-work, pro-opportunity agenda. Such a policy agenda would remove policy obstacles to resource development in particular and place a greater emphasis on supporting paid employment rather than relying on redistribution in general. There is room to start to move in this direction. But we cannot wait. The stakes are too high.

About the Author



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