

CANADA'S FUTURE LABOUR MARKET: IMMIGRANTS TO THE RESCUE?

Glen Hodgson

With the aging of the population, says Glen Hodgson from the Conference Board of Canada, Canada faces a challenging economic future. The recession has provided temporary relief from tight labour market conditions, but he expects that the national unemployment rate will decrease to 6 percent as the economy recovers. Planning is thus needed to deal with the forthcoming deceleration in labour supply growth, and he argues that immigration can provide an important source of labour market supply and dynamism, if done right. In order to modernize Canada's immigration policy, he suggests Canada should increase the weight it gives to economic factors, streamline the immigration system, expand the use of temporary foreign worker programs, increase employers' upfront involvement and improve foreign credential recognition.

Le vieillissement de la population canadienne annonce pour le pays des défis économiques importants, pronostique Glen Hodgson, du Conference Board du Canada. La récession a provisoirement allégé la situation du marché du travail, mais le taux de chômage devrait baisser à quelque 6 p. 100 à mesure que l'économie se redressera. D'où la nécessité de planifier des mesures en vue d'une décroissance de l'offre de travail. Or l'immigration pourrait, selon lui, constituer une importante source de travailleurs et de dynamisme. À condition de bien faire les choses, c'est-à-dire de moderniser notre politique d'immigration. Pour ce faire, l'auteur propose de donner plus de poids aux facteurs économiques, de rationaliser le système d'immigration, d'étendre la portée des programmes de travailleurs étrangers temporaires, d'accroître l'engagement des employeurs et d'améliorer la reconnaissance des titres de compétences étrangers.



A country's long-term potential for economic growth, or at least sustainable economic growth, is essentially driven by three factors: growth in the labour force (and total hours worked), investment in physical capital and increased productivity. In recent decades, Canada has not been a strong performer compared with other high-income nations in terms of physical investment and productivity growth. As shown in our recent study *Canada's Lagging Productivity* (2010), investment in physical capital has not kept pace with investment in human capital since the 1980s. Not surprisingly, the productivity growth rate has also declined since the 1970s, and our productivity performance significantly lags behind those of comparable countries, notably the US. There are many root causes for this underperformance, including reliance on a low Canadian dollar for competitiveness, excessive regulatory barriers and capital taxes that discourage investment.

But we have an enviable track record when it comes to labour force growth and job creation. Canada's employment growth was strong in the 1970s and 1980s relative to those of our peers; it waned in the 1990s, but improved again this decade, in line with underlying demographics. Canada's investment in core education was also strong. The Conference Board's online report *How Canada Performs* ranks Canada second only to Finland in the most recent assessment of education, using the benchmarking methodology we have developed.

As we emerge from the global recession, a number of structural factors will guide and influence the Canadian economy. These factors include the need to restore fiscal balance at the federal and provincial levels, after a period of exceptional fiscal stimulus; the impact of a strong loonie, driven by stronger prices for energy and other commodities, on Canada's competitiveness; our position

within a North American economy that is no longer becoming integrated; shifting global growth and trade patterns, notably the rise of emerging markets; and the uneven implementation of climate change policies.

All of these factors are important, but for the purposes of this special issue of *Policy Options*, we will single out the structural importance of

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demographic forces and an aging workforce. Canadian organizations and the Canadian economy will have to adapt to the challenge of a structural demographic shift if they are to remain robust.

Heading into the recession of 2008-09, Canadian labour markets were exceptionally tight; the national unemployment rate was at what, according to our estimate, was the natural rate (the rate that prevails when labour markets are essentially at full employment, without fuelling inflationary wage pressures), and there was significant upward pressure on wages in some regions and sectors. There is no doubt this recession resulted in a significant slackening of the labour market, and it will take a couple of years before the healing is complete. But even as labour markets slackened overall, there were many pockets of continued pressure. High-skilled workers, especially those in public sector occupations, remained in short supply.

The recession is now over. The Canadian labour market is showing signs of strengthening and job growth is moving ahead strongly. The Canadian unemployment rate will stabilize as people searching for

employment continue to return to the labour force, levelling off at around 8.5 percent in 2010. But the peak of the unemployment rate in this recession will be well below the average unemployment rate in Canada over the span of 1976 to 1999.

As shown in figure 1, the recent recession looks relatively mild in

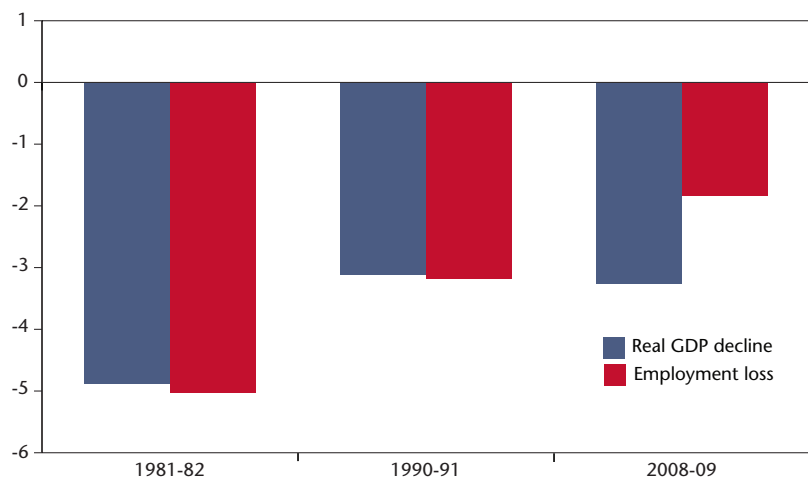
retirements due to the plunge in stock markets.

But even as the ranks of the unemployed grew, the supply of workers in some occupations and skilled trades remained slim. Unlike US employers, Canadian employers made significant efforts to maintain their skilled workers, despite the harsh economic environment (as confirmed by detailed jobs data). There is some evidence that job losses were mitigated as firms in sectors facing labour shortage pressures snapped up workers who were laid off in other firms.

Retirement among the baby boom cohort is just getting under way, and employers appear to be well aware of the fundamental forces that are causing steady erosion in the growth in labour supply. The Conference Board of Canada's 2010 annual compensation survey found that 54 percent of the respondents had trouble attracting and retaining talent. While this share is down from preceding years, it is still remarkably high in a period of recession. More importantly, it is sure to rise as labour market conditions tighten and the wave of boomer retirees builds.

terms of lost GDP and lost employment in comparison with past Canadian recessions. This is partly due to a fundamental transformation over the past decade that brought Canada's labour market from one in which there was excess supply of labour to one in which there is excess demand for labour, at least in some occupations and regions. No doubt, job losses during the recession resulted in temporary slackness in Canada's labour market, the effect perhaps compounded by boomers temporarily delaying their

FIGURE 1. PERCENTAGE CHANGE IN REAL GDP AND EMPLOYMENT, 1981-82, 1990-91 AND 2008-09 RECESSION PERIODS (PEAK TO TROUGH)



Sources: Statistics Canada and The Conference Board of Canada.

And the economic situation is only going to get more demanding for Canadian employers. We expect that over the next three years, the national unemployment rate will decline back toward 6 percent, which is effectively full employment. Finding workers and containing wage pressures are already resurfacing as key issues for Canadian employers in some regions and sectors. As the baby boom cohort begins to retire in earnest, labour will increasingly become a scarce resource. Despite already significant immigration rates, domestic population growth — those aged over 15 — will remain soft, due to low fertility rates and a small cohort of women in their child-bearing years. A slower increase in the population born in Canada and declining overall rates of labour market participation will continue to erode growth in labour supply in the foreseeable future, slowly pulling down Canada's growth potential.

There will be ongoing competition for talent across employment categories, sectors and regions. Upward pressure on real wages will persist, and organizations in both the private and public sectors will need to change the fundamentals of their operations by substituting capital for increasingly scarce and expensive labour.

The role of immigration in Canada's economic development over many centuries is generally appreciated by most other Canadians, as the Nanos Research poll results elsewhere in this issue confirm yet again. Less well understood is the role that immigration will have to play in the coming years if Canada's economic development and growth are to be sustained.

Around the world, there are significant differences in attitudes and policies toward immigration, with clear economic consequences. At one

end of the spectrum is Japan, whose population is aging the most rapidly among major industrial countries. The share of its population over the age of 65 is expected to increase from 22 percent in 2010 to over 30 percent by 2030, and its total population is already in decline. However, it has yet to introduce broad policies that actively encourage immigration. Although some controls on foreign workers have been relaxed, its underlying economic growth potential is being steadily eroded by this aging phenomenon and by a shrinking workforce. Similarly, there are numerous countries in Europe that are now suffering the negative effect of an aging workforce and weak labour force dynamics on the sustainable growth potential of the economy. Much of Europe is struggling to find the right balance between economic and social objectives in its approach to immigration. At the other end of the spectrum is Canada, along with Australia and the US, which are actively encouraging immigration as one means of building their labour forces and economies over time.

The baby boom generation in Canada is about to start retiring in growing numbers. Who will replace

which is 2.1 children per woman. Therefore, Canada will need more immigrants if the labour force is to grow and remain vibrant. Other demographic groups that will be called on to contribute to Canada's labour force stability are mature workers, Aboriginal people, women, people with disabilities and youth.

The Conference Board's formal long-term economic outlook for Canada to 2030 assumes that immigration rates will increase gradually, peaking at 350,000 annually. By that time, according to our forecast, immigrants will represent over 80 percent of the net annual population growth. This of course is an assumption; if Canada is to increasingly rely on immigrants, obviously it needs a modernized, integrated and well-managed immigration policy.

What, then, should be the key attributes of that policy? Our research and analysis has identified six underlying principles for a strengthened immigration policy going forward.

Increase the weight given to economic factors. A reinvigorated immigration policy, growing toward 350,000 by about 2030, will need to recognize the importance of skills-

As a matter of public policy, Canada should develop an array of tools to balance short-term labour market needs with the longer-term objectives of a growing and skilled labour force. Temporary foreign worker programs, delivered by provincial governments through their close contact with local business, are one such policy tool. We must also ensure there is adequate protection in place for these workers.

the boomers in the workplace? The answer, increasingly, will need to be "more immigrants." The born-in-Canada population will continue to grow, but with much lower fertility rates. Although the fertility rate rose slightly during the early 2000s, to 1.66 in 2007, it is still well below what is needed to maintain the population through natural increase,

based immigration to address Canada's labour market needs and to unlock immigrants' potential for making a long-term economic contribution. This policy shift is quite feasible; immigrants have higher levels of education than the Canadian-born population, but their skills are often underemployed. Canada's immigration policy has

traditionally been guided by a blend of social objectives such as family unification, humanitarian and refugee objectives and economic objectives. This is still a sound basis for policy; the issue is the relative weight we give to specific objectives. An easy way to achieve the economic objective would be to maintain the number of annual immigrants meeting social objectives or criteria,

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and steadily increase the number selected by economic factors.

Ensure that we have an immigration system that is streamlined, coordinated and well-managed. Canada cannot afford to have an immigration system, or any national policy for that matter, where there is misalignment between the federal and provincial levels. All participants should commit themselves to building a client-oriented system where the parts are interlinked and where services are delivered as efficiently as possible. Since provincial governments tend to be closer to the ground in terms of their interface with business, their engagement is essential.

Be prepared to expand the use of temporary foreign worker (TFW) programs to fill short-term gaps in labour markets. As a matter of public policy, Canada should develop an array of tools to balance short-term labour market needs with the longer-term objectives of a growing and skilled labour force. TFW programs, delivered by provincial governments through their close contact with local business, are one such policy tool. We must also ensure there is adequate protection in place for these workers.

Increase employers' upfront involvement. If a renewed immigration policy is to address Canada's labour

market needs appropriately, it stands to reason that employers need to be included in the decision-making and delivery process. Otherwise, they may rely excessively on quick fixes like TFW programs, and the potential to build an integral system that operates effectively over the longer term will be diminished.

Create new and improved pathways to permanent residency for TFWs and for-

eign students. The quid pro quo for expanding the use of TFWs is to develop a more regular route to permanent residency for workers who meet appropriate qualification criteria. Improving the possibilities for foreign students to attain permanent residency is another excellent way to increase Canada's immigration levels with individuals who have already demonstrated an interest in Canada and have begun to make Canadian values their own through their studies here.

Improve foreign credential recognition, access to language training, settlement services and opportunities to gain meaningful work experience. To be fully effective in the labour force, immigrants will need the same hard and soft skills and demonstrated competencies that other participants in the Canadian labour market have. The earlier foreign credentials can be assessed and recognized, the faster workers will be able to fully use their skills and become integrated into the workforce. Language skills are critically important for effective communication and influence in the workplace, and they are often a defining factor in whether individuals can fully utilize their core job skills. And the ability to fit into the broader Canadian community and to grow through job experience will

help to define the overall success of each immigrant.

Other issues related to overall management of the immigration system will have to be addressed. The economic interest in attracting more immigrants will have to be balanced with concerns about Canada's security interests, the operational integrity of the system and our capacity to integrate new entrants effectively into society. The flow of applications has to be managed and backlogs addressed, as does the parallel system for refugees. These topics are beyond the scope of this article, but they clearly are part of building a more sustainable and integral immigration system with even greater overall demands being placed upon it.

Labour supply is more plentiful now in many industries than it was two years ago, but the recession has provided only temporary reprieve from the tight labour market conditions faced during 2007 and much of 2008. Current and looming skill shortages have implications for immigration policy and practice, as well as for the use of TFWs. In the face of widespread shortages, modernization of Canada's immigration policy is of paramount importance. Failure to adequately plan for the coming deceleration in labour supply growth will likely leave organizations short of skilled employees and could dampen growth prospects for the entire Canadian economy. Immigrants can come to the rescue, but only if the policy framework and the supporting infrastructure create the right conditions for success.

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