National Priorities 2016

Job One is Jobs: Workers Need Better Policy Support and Stronger Skills

by

Craig Alexander

“Adjustment to the commodity price shock is creating more displaced workers that need support. At the same time, structural trends are raising demand for high-skilled positions relative to middle- and low-skill jobs. Questions arise about whether the composition of labour supply is keeping pace with the changing times.”

Among the challenges facing Canada’s economy in 2016, tackling vulnerabilities in labour markets will be essential to the prosperity of Canadians. The nation’s labour markets are being transformed by structural forces of globalization, technical change and aging demographics, while being buffeted by cyclical factors like the recurring boom-bust in commodity prices. These forces have displaced many workers and have led to persistent and – amid the current commodity price shock – growing slack in the labour market. Moreover, the structural trends are raising demand for high-skilled positions relative to middle- and low-skill jobs. Questions arise about whether the composition of labour supply is keeping pace with the changing times.

In this brief, I address four key policy priorities to reduce labour market vulnerabilities: (i) better support for displaced workers, (ii) improving labour market information, (iii) increasing skills development for the workers of today and tomorrow, and (iv) removing barriers to success for marginalized or underutilized workers.

The author thanks Daniel Schwanen and Colin Busby of the C.D. Howe Institute, as well as Don Drummond, Ross Finnie, John Richards, Tammy Schirle, Alan Torrie, and an anonymous reviewer for their comments on an earlier draft. He retains responsibility for any errors and the views expressed.
Signs of Weakness

The recent commodity price plunge has weakened the Canadian economy and labour demand, particularly in the resource-rich provinces. The Bank of Canada’s January 2016 forecast projects economic growth of only 1.4 percent this year, implying that slack in the economy will grow and the unemployment rate is likely to rise. Thus, a growing number of workers will need support finding gainful employment, and this will often involve transiting to a new sector.

Meanwhile, the structural forces from globalization and technical change have been steadily affecting labour market demand. Fierce international competition has led firms to find ways to contain costs, including those related to compensation and hiring. Importantly, this has meant that labour compensation has been tightly tied to the growth rate of labour productivity (Figure 1). It has also led to the bulk of job creation being focused on high-skill positions (Figure 2).

There has also been a shift towards more precarious employment – defined as temporary, self-employed, or part-time positions – although the shift is often less pronounced than made out, and these categories include many who are in these arrangements by choice.

- Temporary employment has increased from 12 percent of total employment in 2000 to around 14 percent in 2015. This increase is modest, but it does imply rapid growth in temporary positions, often on a contract basis, that more than kept pace with national job creation.
- At slightly above 15 percent, self-employment has been a relatively stable share of employment since 2001, but rose significantly in 2015, which is common during periods when economic growth stumbles.
The share of part-time employment has been close to flat since the early 2000s but, over the longer term, it has risen from 12 percent of jobs in the mid-70s to above 18 percent today. There has also been a worrying trend towards more long-term unemployed individuals (i.e., those that have been looking for work for more than a year). In the final quarter of 2014, 13.4 percent of Canada's unemployed were long-term unemployed, up from 6.9 percent in 2008. This is concerning because after 15 months of unemployment, workers are twice as likely to have withdrawn from the labour force as to have landed a full-time job (Krueger et al. 2014). The rise in long-term unemployment may reflect the difficulty for workers to transition to employment in different sectors. For example, the employment rate of working age males (ages 25-55) fell precipitously during the recession and has been slow to recover. This reflects the pressure from globalization and technical change that has reduced demand for middle-skill workers in the non-resource goods sector, like manufacturing.

1. Support for Displaced Workers

How should policymakers respond? First, displaced workers need adequate support. It has long been recognized that employment insurance (EI) reform is badly needed (Busby, Laurin and Gray 2009, Busby and Gray 2011).
EI only covers about half of unemployed Canadians, due largely to changes in the composition of the labour force and changes to rules over what constitutes “insurable” job separation (Busby and Gray forthcoming).

Different rules for access to, and the duration of, EI benefits are inappropriate. For example, the recent plunge in oil prices has led to rising unemployment in Alberta (traditionally a low unemployment region), with the result that most Albertans need 700 hours of work to qualify for EI in sharp contrast to the 420 hours of work required for most Atlantic Canadians. Regionally based entry requirements and benefit durations that are tied to local unemployment rates prolong the persistence of unemployment and reduce economic incentives to adjust to labour-market conditions. Furthermore, the 910-hour requirement for EI eligibility for individuals with less than two years in the labour market should be eliminated, so new and returning workers are treated the same.

Regionally based eligibility criteria should be replaced by uniform, countrywide, employment insurance entrance requirements and benefit durations. If regional differences are desired, the federal government should hive off this responsibility to the provinces to create a regional benefit top up or entrance requirements.

Reforms to other income support programs – including social assistance and disability assistance – can help people not covered by EI to reengage in labour markets. The rise in long-term unemployed means that more displaced workers exceed EI benefit durations. There is also a worrying increase in individuals receiving government disability assistance – at which point the probability of them returning to the labour market is low. While the aging of the population will tend to lead to higher disability numbers, Statistics Canada’s Participation and Activity Limitation Survey is clear that aging only accounts for part of the rise. Among the range of assistance programs (from EI sickness claims to CPP disability payments), there has also been a shift towards greater social assistance-related disability expenditures (particularly in the provinces from Ontario westward with the exception of Saskatchewan). In other words, disability is increasingly being used for what was historically classified as welfare. Given Canada’s aging population and prospect of slower labour force growth, social assistance and disability programs should be geared to providing appropriate support to those in need, but also be structured in a way to help individuals return to labour markets.

2. The Need for more Detailed and Accessible Labour Data

At the moment, there is a large quantity of labour market and education data from a variety of sources, but it is not being fully leveraged for analytical or business purposes. For example, while Statistics Canada is a large repository of labour market information, there are issues related to public awareness of the available data, challenges with the cost of customized requests, and the limited publicly-accessible documentation of the data. There is also a broad issue about whether labour market data are being compiled and released in a manner that is optimal for use by businesses and analysts.1

There is scope for the federal government to assume greater responsibility for this file, strengthening the capacity of Statistics Canada’s and Employment and Social Development Canada to do more. Some steps are being taken.

---

1 Concerns about quantity and quality of labour market information are not new. In 2008, the Forum of Labour Market Ministers (FLMM) established an Advisory Panel on Labour Market Information. Many of the panel’s 69 recommendations were implemented, but progress has not been sufficient (Drummond 2014). A key reason is that no one has assumed the mantle of leadership. Last summer, the FLMM met and endorsed the creation of a new Labour Market Information Council and new National Stakeholder Advisory Panel. This is constructive and may material help in coordinating efforts.
After the recent federal election, the mandate letter to the new Minister of Innovation, Science and Economic Development included a commitment to an Open Data strategy to get more data access for the public, which will include the launch of a website (http://open.canada.ca/en/open-data). A Labour Market Information Council has also been launched. So policy is moving in the right direction, but progress to accessible, timely, relevant labour market information (LMI) data will not be swift or easy.

A key policy file illustrates the problem. The use of Temporary Foreign Workers (TFWs) has been a controversial issue in recent years (Poschmann 2014, Gross 2014). The crux of the issue is that if TFWs complement Canadian workers and fill shortages, they are positive. But, if TFWs are a substitute for Canadian workers, they are a problem. Assessing the impact of the TFWs requires good data about when a shortage is cyclical and temporary versus structural. Publicly available data at an appropriately detailed level could also help with the matching of domestic employers with domestic workers, thereby reducing the need for temporary foreign workers.²

3. **Upskilling is a Priority**

Canada needs to strive for a more skilled labour force to boost productivity and fuel stronger income growth for workers. Virtually all of the net job creation from 1999 to 2012 was in high-skill jobs (Burleton, et al. 2013, Chart 2). Middle-skill employment fell and low-skill positions barely edged higher over this period. The varied demand for skills has led to stronger income growth for high-skilled workers. While Canada has not experienced the same loss of middle-skill jobs as the United States, this largely reflects the prior commodity boom and the ongoing housing boom – sectors that use many middle-skill positions and inevitably undergo downturns as well. The downward pressure on middle-skill positions will likely become more evident in the years ahead (Alexander and Fong 2014).

The key to labour market success is having enough people with the right skills, employed in the right industries, at the right time. A report prepared for the G20 meetings in 2014 summarized the issue well:

> Basic education, training and lifelong learning foster a virtuous circle of higher productivity, more and better employment, growth and development. Productivity gains increase real income in the economy, which can be distributed through higher wages. Skills upgrading will be an on-going necessity for all economies as changing skill requirements are accelerated by changing patterns of production, trade, international competition and technological innovation. (G20 2014, p. 17.)

Canada has a highly skilled labour force. Educational outcomes from primary and secondary schools are a national strength. But while Canada is starting from a favourable position, it must not be complacent. Canadian student performance on the Program for International Student Assessment (PISA) remains above the OECD average, but results have been slipping. Our students’ performance on mathematics is a particular concern.

---

² Steps have been taken to improve the TFW program and to use LMI to make TFW assessments. The Statistics Canada Job Vacancy and Wage Survey provides information about occupations in demand and job vacancies and helps Service Canada officers reviewing applications for temporary foreign workers. A New Job Matching Service has been introduced to allow Canadians to apply directly through the Canada Job Bank for jobs that match their skills and experience. The new, more rigorous Labour Market Impact Assessment requires employers to provide additional information, but this info will be for the assessment and will not be public.
Essential Policy Intelligence

(Richards 2014, Stokke 2015). Given the high levels of education completion, a key question is: what actions could be taken to generate a skills advantage for youths when entering the labour market? There is evidence that Canadians can also get more value for money from the provincial education systems (Johnson 2015). While education is a provincial responsibility, the federal government can play a useful role in publicly highlighting the skills performance of our young people and where there are areas for improvement.

In terms of adult skills, Canada’s performance as measured by the benchmark Programme for the International Assessment of Adult Competencies (PIACC) suggests that there is room for upskilling. Canadian-born individuals rank fairly high on this and other international skills studies. However, immigrant literacy skills in English and/or French are lower than those of Canadian-born individuals. Overall, Canada lags many of its peers: the higher weighting of immigrants in the Canadian population than in other countries pushes Canada down the international essential skills rankings. This is not to suggest that Canada should not strive to improve skills proficiency. It simply means that efforts should be targeted to pockets of vulnerability, including older workers, immigrants, Aboriginals and First Nations people, those with lower educational attainment and those facing language barriers (Parkin 2015).

While adult skills training efforts by governments can create benefits, Canada’s record on employer-sponsored training could be better. While the share of Canadian adults aged 25-64 in some form of job-related education is slightly above the OECD average, it is lower than many key competitor nations, particularly the United States (Munro 2014). The public policy response has been to subsidize training. In 2013, the Government of Canada announced the Canada Job Grant, and launched new labour market agreements with the provinces in 2014. The objective was to take existing funding for training and make it more employer-directed. Another aim was to incent employers to do more training, by sharing the cost across the federal government, the provinces and employers. More time is needed to assess whether employers are taking full advantage of these opportunities to upskill their workforce. To make this assessment, it would be useful to have more and better data on employer sponsored training.

4. Removing Barriers to Success

Beyond the general call for more and better skills development, it is evident that there are underutilized pools of labour. Tapping these pools more effectively requires removing barriers to success.

Youths Could Have Better Labour Market Outcomes

Youth outcomes are a case in point. Youth unemployment is not high by historical standards, but an unemployment rate of 13 percent in December 2015 suggests that there is scope to help young people who wish to do so engage better in the labour market.

---

3 Quebec has an act to promote workforce skills development and recognition. Every employer whose total payroll for a calendar year exceeds an amount set by regulation is required to participate for that year in workforce skills development by allotting an amount representing at least 1 percent of his total payroll to eligible training expenditures, although the amount can be banked.

4 The Statistics Canada Workplace and Employee Survey (WES) and the Survey of Labour and Income Dynamics (SLID) have been discontinued. There was also the one-time 2008 Access and Support to Training and Education Survey (ASETS). One can get some perspective from the PIACC survey and the Longitudinal and International Survey of Adults. There are also some private sector surveys of employer training, but their sample sizes are very small.
A complex issue is whether youths have the skills that businesses are looking for. For example, it appears that too many students are pursuing degrees that experience low employment rates, and too few are pursuing degrees in programs with high employment rates (Figure 3, Figure 4). This is partly driving the trend in young university degree holders taking positions for which they are considered ‘overqualified’. 6

Another example of a potential skills mismatch is that few women are pursuing STEM programs – science, technology, engineering and math – that are in high demand. However, the employment and income outcomes of female STEM graduates have been very poor, suggesting the issue goes well beyond education and implies there are broader gender-related issues.

These illustrations suggest that students could be encouraged into areas with stronger long-term labour demand. Students may need more information about potential labour market outcomes when they are selecting their post-secondary educational programs.

A further issue that shows up on employer surveys is that graduates often do not have adequate proficiency in key areas that businesses deem important, including: people skills/relationship building, communication

---

5 One issue with the data on over qualification is that some post-secondary degrees or diplomas provide training for positions that Statistics Canada deems as not needing post-secondary education, suggesting that the extent of over qualification is in a sense overstated.
skills, problem solving skills, analytical abilities, leadership skills, project management. This is leading to greater attention to the merits of competency-based education (Drummond and Rosenbluth 2015.)

Efforts by policymakers in recent years to promote the advantages and raise the esteem of employment in the skilled trades are also desirable. With the aging of the population, many skilled trades workers will be exiting the labour force, raising the possibility of skills shortages. Policies aimed at expanding the use of apprenticeships and co-op programs may be an effective way of helping youths in the labour market. The Forum of Labour Market Ministers (FLMM) is working to increase the pool of apprentices, raise their completion rates and improve their mobility. This is welcome, but the goal of parity between national perceptions of skilled trades education and university credentials is far from achieved.

Aboriginals and First Nations People a Huge Pool of Untapped Labour

The labour market outcomes of Aboriginals and First Nations people are unacceptable. They are partly tied to poor education. A key focus is eliminating the gap in high-school completion rates between Aboriginals and non-Aboriginals and improving essential literacy, numeracy and problem-solving skills of the former. It is important...
to stress that more education funding is needed, but money alone is not a silver bullet. There are many education challenges, including: geographical barriers (i.e., rural and/or remote), poor attendance, lack of parental support, limited appreciation of the opportunities and benefits from stronger skills development, and racism or discrimination (Gulati 2013, Richards and Anderson 2016).

However, progress can be made. For example, the Mi’kmaw Kina’matnewey in Nova Scotia reported a high-school student graduation rate of 75 percent for students in the system, twice the Canadian average for Aboriginals (Lewington 2015). There are also projects, like the Martin Aboriginal Education Initiative Model School Project and the Frontier College literacy programs, that have demonstrated the effectiveness of education and skills development approaches that are well designed and respect the needs of Aboriginals and First Nations people.

Progress on addressing treaty rights can also improve outcomes on reservations and help the business community to engage more effectively with the First Nations. A recent C.D. Institute Howe report found that modern treaties have raised real income by 17 percent for bands, with the increase largely driven by employment income (Aragón 2015).

**Immigrant Education, Skills and Experience Undervalued**

Immigrants arriving in Canada are not having their education, skills, and experience properly valued (Alexander 2009). The wage gap between newcomers and Canadian-born individuals has widened and no longer closes over a lifetime. A short time ago, significant reforms were announced to improve the integration of newcomers. For example, the federal government launched “Express Entry” on January 1, 2015 with the goal of preventing application backlogs, giving a greater role to employers in selecting immigrants, and hopefully leading to better economic outcomes for newcomers. We know that the Australian version of this sort of model had many successes, as it was rigorously evaluated. Canada will need to do the same.

The federal Liberal election platform had a number of immigration-related items. One was to raise the maximum age of dependents from age 19 to age 22. If this occurs, we need stronger assistance and language training for these older youths, as C.D. Howe Institute research on immigration policies has found that immigrant children that arrive before the age of 10 are much likelier to complete high school (Busby and Corak 2014). Similarly, if Canada ups the number of refugees being accepted, then we will need to invest more in language and skills training for these individuals as well so they can integrate effectively into the Canadian economy and society.

**Improve Labour Mobility**

Canada also needs to reduce the barriers to interprovincial mobility of workers. This means addressing residency requirements, harmonizing and aligning licensing, certification, registration and how occupational qualifications are recognized. There may also be opportunities to improve international mobility. While some may fret that more open labour mobility could lead to outflows of high-skill workers, C.D. Howe Institute research has demonstrated that a permanent and credible commitment to the free movement of labour is likely to raise the real income of a small country (like Canada) (Harris, Easton, Schmitt 2005).

---

6 The FLMM announcement of targeting harmonization of 30 Red Seal trades (outside of Quebec) by 2020 and working with businesses to harmonize training for two-thirds of Red Seal apprentices by 2017 is welcome news on this front.
**Leverage Canadians’ Longer, Healthier Lives**

Canada’s population is aging, but we are living longer, healthier lives (Boyer and Boyer 2013). This implies that we should keep more older workers in the labour force. Canada does have a slightly higher employment rate among older workers (age 55 to 64) than the OECD average, with a rate of 60.6 percent compared to the OECD’s 58 percent. But, this is lower than that of some of the Nordic countries that have rates above 70 percent. Accordingly, pension eligibility and other incentives should be used to encourage higher labour participation. From that perspective, the rolling back of eligibility for OAS and GIS to age 65 from age 67 would be regrettable.

**Retain and Attract Top Talent**

A key challenge is that Canada pays lower market wages for talent than some other jurisdictions and taxes them higher. There is a clear shift to greater progressivity in tax at the federal level and in a number of provinces. The federal government has put in place a new tax bracket at $200,000. It is also reviewing the income tax treatment of stock options. The argument for raising the tax burden on high-income individuals is often made on the basis of fairness.

However, this is inconsistent with wanting to build a more entrepreneurial culture and encouraging more risk taking. It could also have a very detrimental impact on certain sectors that rely heavily on stock options for labour compensation, particularly the information and technology industry – one of the most innovate segments of the economy. Raising the tax take from high-income workers to above 50 percent in many jurisdictions will make it harder to retain Canadian talent and attract foreign talent. Analysis also shows that the effort to raise taxes on higher income earners will not generate the expected revenues that governments may be counting on (Laurin 2015, Mintz 2015).

It should also be stressed that increasing the taxation of only very high income workers will not meaningfully reduce income inequality. A more impactful and effective approach is to remove barriers to opportunity for disadvantaged groups, which should boost productivity, reduce inequality and generate more fiscal capacity.

**Conclusion**

A very Canadian challenge is that no single level of government is responsible for labour market policy, and this can lead to an absence of leadership. A case can be made for strong federal leadership, in cooperation with coordinated and committed actions by the provinces. Better support for displaced workers is called for. Expanded and better labour market information that is more accessible and useable by businesses and workers could also help to diagnose challenges and solutions. Upskilling workers, young and old, should be a priority. Many barriers facing underutilized pools of labour should be eliminated. In the final analysis, addressing the many opportunities for improvement in labour markets is a key ingredient in delivering more prosperity to Canadians.
References


This E-Brief is a publication of the C.D. Howe Institute.
Craig Alexander is Vice President, Economic Analysis, C.D. Howe Institute.
This E-Brief is available at www.cdhowe.org.
Permission is granted to reprint this text if the content is not altered and proper attribution is provided.

Essential Policy Intelligence