

Canada's Underperforming Labour Market, and How to Improve It

**Notes for Remarks to the
House of Commons
Standing Committee on
Finance
Pre-Budget Consultations**



Submission by Unifor

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Presented by:

**By Jim Stanford, Economist, and Dave Moffat, Assistant to
the President**

Mr. Chair and Members of the Committee;

Thank you for the opportunity to present the views of Unifor to your pre-budget hearings, on the subject of the priority issue of creating more quality jobs for Canadians. We agree that the creation of good jobs should be the primary objective of government economic policy, including fiscal policy and the federal budget. And so we are grateful to participate in this special session on the jobs implications of the coming budget.

Unifor is Canada's largest trade union in the private sector of the economy, representing over 300,000 members in over 20 different economic sectors. We were formed this year through the merger of the former Canadian Auto Workers and Communications Energy and Paperworkers' unions. Unifor is the largest union representing members covered by the Canada Labour Code in the federal sector of the economy (including in transportation, communications, and other federally-regulated industries). Our membership also includes over 25,000 members working in the broader public sector.

While it is not the focus of today's hearing, we feel it is important to raise our concerns regarding the process through which federal budget legislation has been implemented in recent years, including at the present time through the omnibus bill C-4 which is also being reviewed by your Committee. This bill, like omnibus budget bills in previous years, touches on dozens of different pieces of legislation, affecting numerous policies and regulations of long-standing importance, but with no obvious connection to an annual budget. In this year's exercise, we are especially concerned about measures which would alter long-standing collective bargaining provisions (under the Public Service Labour Relations Act), and very important health and safety regulations and practices defined under several pieces of legislation (including the Canada Labour Code). In our view it is entirely inappropriate to implement important policy changes on matters such as those through a composite budget implementation bill, without full research, consideration, and fine-tuning, and with debate frequently ended by invoking closure. We must register our concern regarding this fundamental and ongoing mis-use of the budget process. It does not serve Canadians' interests in careful policy-making and democratic governance.

Our pre-budget comments on the jobs theme for the 2014/15 budget are divided into four sections:

1. A review of Canada's employment performance since the 2008-09 financial crisis and recession.

2. A critical review of the argument that Canada's economy is held back by a labour shortage or a skills shortage.
3. Key themes that should be emphasized in the next budget to strengthen our job-creation performance in future years.
4. An introduction to a major Unifor initiative: our plan to host a national Good Jobs Summit in the autumn of 2014.

1. Review of Canadian Labour Market Trends

It has often been claimed in recent years that Canada's labour market performance since the 2008-09 downturn has been among the best in the world. Appropriately measured, however, empirical data indicate Canada's jobs recovery has been modest at best. Most of the damage from the downturn has not yet been repaired. And relative to the broader set of other industrialized countries, Canada has performed relatively poorly.

Part of the confusion stems from how labour market performance should best be measured. Some commentators emphasize absolute growth (or absolute growth rates) in total employment. But any economy with a growing population must create many jobs each year just to keep up with population growth. In Canada's case, our working-age population grows relatively rapidly: by over 350,000 persons per year (one of the fastest growth rates in the OECD). In other countries (like Germany or Japan), population is stable: hence the labour market can attain a stronger balance between demand and supply with little or no absolute growth in the total number of jobs. Any increase in absolute employment levels must therefore be considered relative to the supply of available potential workers, and comparisons of that population over time and across countries.

The best way to measure labour market performance, therefore, is to measure employment as a proportion of the working age population, using the employment rate. This is also a better performance measure than the official unemployment rate, which is commonly reported in the media, but is highly misleading: it excludes individuals who are not employed, but are not sufficiently active in their job search to be included in the formal labour market. In Canada's case, a steady decline in labour force participation since the recession corresponds to the disappearance of almost 400,000 of these potential workers from the official labour market (and hence from official unemployment statistics). Without that decline in labour force participation, there would have been no reduction in the official unemployment rate since late 2010.

Measured by the employment rate, Canada's labour market deteriorated sharply with the onset of the financial crisis in 2008-09 (see Figure 1). Employment declined by 2.5 percentage points of the working-age population in a matter of months – the fastest fall-off in employment since the 1930s. Luckily, thanks largely to aggressive stimulus efforts in Canada and around the world, that decline was halted by the summer of 2009, and a modest recovery began. For the first 18 months of that recovery, new jobs were created in Canada at a decent pace: exceeding population growth, but only sufficient to offset one fifth of the decline in the employment rate that occurred in the downturn (rebuilding the employment rate by one-half percentage point).

Since then, however, there's been no subsequent sustained progress in recouping the damage done by the recession. Net new job creation has only kept pace with population growth since late 2010, and hence the employment rate has been stagnant for almost three years. At 61.8 percent of the working age population in October 2013, the employment rate is still far below its pre-recession highs. Four-fifths of the damage done by the recession is still being experienced today – even though the absolute number of jobs is higher than it was before the recession began (not surprisingly, given five years' worth of population growth during the intervening time).

Officially, unemployment in Canada is 1.325 million – but that is not the entire story. Declining labour force participation corresponds to nearly 400,000 more invisible unemployed. Other forms of hidden unemployment (including involuntary part-time and other precarious positions) takes the total tally well above 2 million – pushing the true unemployment rate above 12 percent. The clear constraint facing our labour market is a shortage of jobs (demand), not the availability of willing workers (supply).

Internationally, too, the weakness of Canada's performance becomes readily visible when the data is reported correctly. Table 1 reports the cumulative change in the employment rate in 34 different OECD countries, from 2008 (when the recession was first hitting) through 2012. Of the 34 countries listed, Canada ranks 20th (well in the lower half of industrial countries), with net job creation over that period lagging 1.4 points behind population growth.¹ Countries like Turkey, Germany, and Korea could indeed be said to have fully recuperated from the recession, creating sufficient jobs for their respective populations. Other countries (like Japan, France, Australia, and even Italy) have not quite recovered pre-recession employment rates, but are closer than Canada. Other countries (including the U.S., to which we so often compare

¹ These OECD data differ from the Canadian data reported in Figure 1 for two reasons: they report changes in annual averages (rather than monthly figures), and they utilize the OECD's definition (rather than Statistics Canada's definition) of the working age population. Nevertheless, the qualitative conclusion is clear: Canada's employment rate is still far below pre-recession levels.

ourselves) have done worse than Canada – but Canada’s overall ranking is nevertheless disappointing.

2. Labour Shortages, Skills Shortages, and “Mismatch”

In this context of chronic un- and underemployment, it is jarring that so many employers, business lobbyists, and politicians complain about a shortage of available, willing, and adequately skilled workers. Employers routinely claim they can’t find qualified Canadians to perform even relatively straightforward jobs. They can’t entice Canadians to move from depressed regions, to where the jobs are. They can’t elicit desired levels of effort, discipline, and loyalty.

This approach is summarized in the common statement that Canada faces a labour market “paradox”: too many people without jobs, in an economy that has too many jobs without people. According to this “mismatch” theory, we must focus on matching up unemployed Canadians with employers anxious to use their services. Help employers find the right workers, in the right place, at the right price, and the unemployment problem is solved. In this view, the biggest challenge is adjusting the attitudes, capabilities, and mobility of jobless workers. The question of whether there are any productive, decent jobs for those workers to fill is downplayed. The “mismatch” or labour shortage view has been invoked to support numerous federal policy thrusts in recent years, from the Temporary Foreign Worker program, to repeated cuts in Employment Insurance eligibility, to the controversial Canada Jobs Grant initiative.

However, empirical evidence does not support the conclusion that the unavailability of skilled and willing workers is significantly constraining Canada’s recovery. The usual problem is a general and persistent inadequacy of demand for labour on the part of employers – not a shortage of supply. That’s especially obvious today, four years into an economic “recovery” that has left millions of Canadians parked on the economic sidelines, and millions more whose skills and potential are badly underutilized.

OECD evidence confirms that more Canadian workers have post-secondary training (over 50 percent of all workers) than any other industrial country.² And while public investments in more training always make sense, there is no credible evidence of a general skills shortage in Canada. More credentials may improve an individual’s chances of winning a competition for a scarce job vacancy. But this reflects what economists call a “queuing effect:” higher credentials help individuals push their way to the front of the line of job-seekers. While credential inflation

² OECD Education Statistics, from OECD.stat database.

and better job search skills may help an individual find work, they cannot fix mass unemployment – and they do not confirm a real economic need for those skills.

In 2011 Statistics Canada began issuing a monthly report on job vacancies, based on a survey of employers. This is a useful and overdue addition to our labour market database. The most recent data indicates barely 200,000 reported job vacancies in the entire economy. That number has declined (not grown) as Canada's recovery lost momentum after late 2010. The number of vacancies is very small relative to the overall economy (equivalent to barely 1% of the labour force).

Moreover, even the best-functioning labour market must have a certain stockpile of vacancies at any point in time (simply because it takes time to advertise, receive applications, and hire). Employers can even subjectively declare that a position is "vacant," when in fact they are just waiting in hopes of recruiting someone to work at a lower wage or salary. Considering the normal time lags in advertising, interviewing, and filling positions, the number of jobs truly unfilled because of a genuine lack of qualified applicants is surely less than 100,000.

Officially, there are more than 6 unemployed Canadians for each job vacancy (1.325 million officially unemployed compared to slightly over 200,000 vacancies). Practically, the ratio is over 20-to-1: considering a broader measure of unemployment (including discouraged workers) in excess of 2 million, compared to under 100,000 unfillable vacancies.

Stagnation in real wages provides further evidence that there is no generalized constraint on the supply side of the labour market. If skilled workers were genuinely in short supply, their services should be becoming more expensive (as eager employers try to snap up scarce candidates). To the contrary, median hourly wages in Canada have been growing less than 1 percent per year since 2010 – lagging behind inflation.

Policy-makers should keep the so-called "skills mismatch" problem in perspective. Yes, Canada should invest heavily in public education and training – not just because it's important to economic productivity, but because it's essential to a democratic society. Yes, Canada should dedicate significant resources to job placement and adjustment services, to help willing workers find positions that use their skills and offer meaningful, secure work. On this score, Canada's actual commitment to active labour market programs pales beside the political rhetoric: according to the OECD Canada spends less on active labour market services than almost any other industrial country. Yes, we could do a better job of matching new graduates with industrial requirements – by emulating, for example, the successful approach of the German apprenticeship system.

But none of this should divert our collective attention from what is by far the most important challenge facing our labour market: stimulating demand and creating new work so that Canadians (more skilled and productive than ever) can support themselves and contribute to our prosperity.

3. Themes to Strengthen Canada's Job-Creation Performance

If we acknowledge that the crucial economic problem in Canada is a lack of available work, then job-creation should be the central priority of the federal government's macroeconomic policy, including fiscal policy. To that end, we make the following general suggestions regarding the focus for the coming 2014/15 federal budget:

A. Maintain Direct Federal Program Activity and Stop Federal Government Downsizing.

The federal government has significantly reduced its direct program activities and spending well below budgeted levels, producing a so-called fiscal "surprise" and accelerating the timeline for eliminating the deficit entirely. This continued austerity-by-stealth is neither necessary nor desirable. The resulting loss of tens of thousands of federal government jobs has only contributed to the weakness of Canada's overall labour market over the past three years. It has also undermined the capacity of the federal government to fulfil its responsibilities in key areas: including transportation safety and regulation, industry policy, and income supports.

B. Support Major Increases in Infrastructure Spending at All Levels of Government.

The inadequacy of public infrastructure, resulting from decades of underinvestment in public capital, has become painfully obvious in recent years, and is hampering Canada's productivity and growth in many ways – including through transportation congestion and other inefficiencies. Investments in infrastructure at the provincial and municipal levels have been constrained by budget pressures. The federal government has the capacity, and the responsibility, to boost infrastructure spending through additional support and co-funding for these projects. We reject the current federal strategy to require the use of public-private partnerships in all supported infrastructure projects; these arrangements increase public costs for infrastructure in the long run. Infrastructure funding should also emphasize efforts to enhance Canadian spin-off employment benefits (including the use of Canadian-made machinery and equipment).

C. Negotiate a Generous and Stable Revenue-Sharing Arrangement for Health Care and Other Social Programs.

The coming renegotiation of federal-provincial fiscal transfer agreements for health care and other social programs will be an essential moment in the evolution of these programs. Our medicare system, in particular, is a key source of competitive advantage for employers here (by dramatically reducing the cost of employer-paid benefits), as well as a central element of Canada's social contract. The federal-provincial health care agreement must be renegotiated at a level which meaningfully reflects real health care innovations and trends, the federal government's stronger fiscal situation, and the importance of this service to all Canadians. It is important to remember that health care is also an important economic driver for Canada – creating over 100,000 new jobs since 2008.

D. Develop Industrial and Sector Strategies to Support Investment and Job-Creation in Key Tradeable Sectors.

Canada's weak export performance since the 2008-09 downturn has been a major factor in the weakness of our recovery. There are many reasons for this weakness, including the overvalued Canadian currency (which makes our exports, on average, look 15% too expensive relative to their true costs of production), uncertain economic conditions in many of our trading partners, and an over-reliance on exports of raw energy products and other resources (rather than developing strong footholds in higher-technology value-added products and services). The bottom line is an all-time record current account deficit (currently \$60 billion per year) that is far more damaging than the federal budget deficit which attracts so much more political attention. Canada should learn from the experience of other successful high-value exporting countries (like Germany, Korea, Japan, Israel, and more recently Brazil and China) and implement pro-active strategies to expand investment, innovation, production, and exports in strategic sectors (including value-added resources, sophisticated manufactures, and tradeable services). Free-trade agreements and tax cuts (including tax incentives for R&D) will not achieve this goal. International experience indicates that direct support for innovation programs, fiscal incentives tied to capital spending by business, and pro-active trade strategies are more effective in stimulating the development of key global industries. While the Canadian dollar has softened somewhat in the last year, it is still far above its fair value,³ and the federal government (in addition to the Bank of Canada) should recognize the damage this is doing to Canada's exports and do what it can to correct the imbalance.

³ According to the OECD, the purchasing power parity equilibrium value for the Canadian dollar is 81 cents U.S. (*Purchasing Power Parities for GDP and National Currencies*, OECD Key Tables, OECD.stat). Anything above that and Canadian products look artificially expensive; anything below it and they look artificially competitive.

E. Manage Resource Developments With the Goal of Maximizing Long-Run Canadian Employment.

A special focus in sectoral development strategy must be placed on Canada's important resource industries. While there is enormous potential wealth embodied in Canada's resources, their extraction, processing, and export must be carefully managed with an emphasis on sustainable, long-run job creation and prosperity – rather than the short-term, boom-and-bust development model which has typically prevailed. Similarly, the unregulated export of raw energy resources actually creates a drain on Canadian employment over the long-term, due to the squandering of opportunities for positions in value-added work (refining, processing, and manufacturing). To that end, Unifor repeats its call for the development of a national energy and environmental strategy, which would aim to ensure steady, sustainable investments in all forms of energy (including renewable and non-renewable sources), place an emphasis on matching our production with Canadian use (rather than promoting more exports of raw resources), and undertake deliberate efforts to maximize the domestic value-added spin-offs that could prevail (both upstream, through the greater use of Canadian-made inputs, machinery, and services in resource developments), and downstream (through more made-in-Canada refining, processing, and manufacturing of our resource products) from our resource industries.

* * *

Some analysts will argue that the government should continue its recent stance of fiscal austerity, in order to hasten the elimination of the federal deficit, and beyond that even to generate surpluses, reduce debt, and/or fund tax cuts. We do not accept that approach. Canada's federal deficit is relatively low, both historically and internationally. Achieving a balanced budget as fast as possible should not be the priority of fiscal policy, in a time in which Canada's economy faces a shortage of aggregate demand, and when other sectors (including business investment, consumer spending, and net exports) are showing signs of continuing weakness. The true long-run constraint on fiscal policy is not to balance the budget in any particular year, but rather to stabilize the debt/GDP ratio at a sustainable level. And the supposed economic benefits of Canada's recent "fiscal prudence" are more in the realm of ideology than economic reality: our deficit-reduction has not, in and of itself, helped to solve the problems of weak business investment, weak exports, and heavily indebted consumers. Indeed, federal net debt as a share of GDP is already declining. At less than 35% of GDP, it is low – all the more so in light of historically low interest rates which have reduced the burden of debt service charges. A more prudent fiscal approach would accept the federal government's

responsibility to stimulate more job-creation, which is far more crucial to the future prosperity of Canadians than rushing to balance the federal books by an arbitrary, politically convenient “deadline.”

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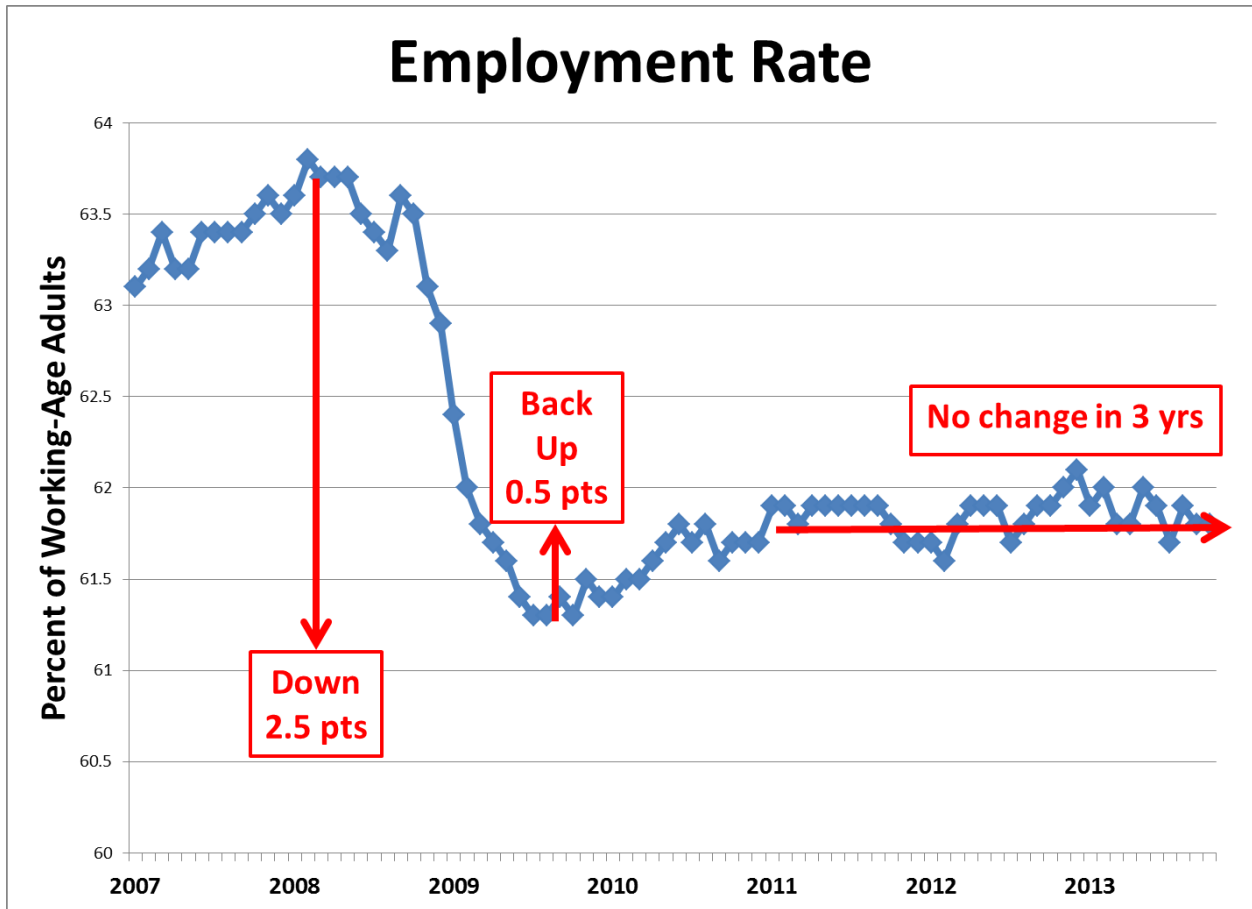
4. A National Good Jobs Summit

Unifor is committed to working cooperatively with government, business, education institutions, community groups and NGOs, and all other stakeholders to develop a vision for an economy in which every willing Canadian has the real opportunity to utilize their skills and contribute to both personal and national prosperity. To that end, Unifor has undertaken to host a national Good Jobs Summit, which will be held in Toronto in early October 2014, and will engage all those stakeholders in an effort to identify the current barriers to good jobs and meaningful employment (experienced especially strongly by young people), and develop practical policy responses to those challenges. We will invite the federal government and its relevant agencies to participate in that Summit.

We thank the Committee again for your consideration of our views.

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Figure 1



Source: Unifor Research from Statistics Canada CANSIM Table 282-0087.

Table 1
Change in Employment Rate Since the Recession
OECD Countries, 2008-2012

Rank	Country	2008	2012	Change	Rank	Country	2008	2012	Change
1	Israel	59.8	66.5	6.7	18	Australia	73.2	72.3	-0.9
2	Chile	57.3	61.8	4.5	19	Italy	58.7	57.6	-1.1
3	Turkey	44.9	48.9	4	20	Canada	73.6	72.2	-1.4
4	Germany	70.2	72.8	2.6	21	Finland	71.3	69.5	-1.8
5	Lux.	63.4	65.8	2.4	22	U.K.	72.7	70.9	-1.8
6	Hungary	56.7	57.2	0.5	23	Norway	78.1	75.8	-2.3
7	Poland	59.2	59.7	0.5	24	Estonia	69.7	67.2	-2.5
8	Austria	72.1	72.5	0.4	25	Slovak R.	62.3	59.7	-2.6
9	Korea	63.8	64.2	0.4	26	N.Z.	74.7	72.1	-2.6
10	Mexico	61.3	61.3	0	27	U.S.	70.9	67.1	-3.8
11	Czech R.	66.6	66.5	-0.1	28	Iceland	84.2	80.2	-4
12	Switz.	79.5	79.4	-0.1	29	Slovenia	68.6	64.1	-4.5
13	Japan	70.7	70.6	-0.1	30	Denmark	77.9	72.6	-5.3
14	Sweden	74.3	73.8	-0.5	31	Portugal	68.2	61.8	-6.4
15	Belgium	62.4	61.8	-0.6	32	Spain	65.3	56.2	-9.1
16	Neth.	75.9	75.1	-0.8	33	Ireland	67.9	58.8	-9.1
17	France	64.8	63.9	-0.9	34	Greece	61.9	51.3	-10.6
OECD Avg		66.5	65	-1.5					

Source: Unifor Research from OECD Employment Report 2013, http://www.oecd-ilibrary.org/employment/employment-rate-2013-1_emp-table-2013-1-en.