

# CANADA'S DEMOGRAPHIC CRUNCH: Can underrepresented workers save us?



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# Foreword

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In Canada, we tend to think of ourselves as a young and growing country—a young, sovereign democracy; an up-and-coming society of dynamic, pioneering people born on these shores and hailing from overseas; burgeoning cities and communities across an expanse of forests, prairies and tundra; a prosperous nation whose voice in the world is set to strengthen. The hard reality is that we are, in fact, a rapidly aging nation—one of the most rapidly aging countries in the world. Like many industrialized nations, Canada is in the midst of a major demographic shift. The proportion of our population aged 60 and over is expected to mushroom from roughly one-fifth of the Canadian population today to nearly a third by the mid-2020s.

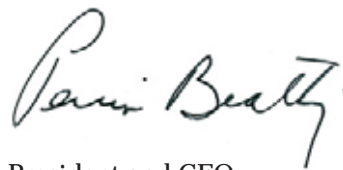
Not only is Canada's population aging, but so is its workforce. This year, nearly all growth in the labour force will stem from immigration. And yet new Canadians themselves are an aging demographic, as they tend to be older and have fewer children than past cohorts of newcomers. The tale is not merely one of fewer available workers, but of fewer people with the high skills levels needed for Canada to compete and prosper in a globalized, knowledge-based economy of high-value-added goods and services. Many companies and sectors are already facing shortages of the talented people they need to remain competitive and grow. The grave concern for Canada's business community and the well-being of Canadians is that these shortages are expected to increase within the present decade as the baby boomer generation retires in droves.

A wider national discussion on the demographic crunch is needed, not just at the policy level and in business, but also in society at large. We must ask ourselves how to best address the impact of this looming demographic crunch, which, left unmitigated, will result in lost business competitiveness, spiralling fiscal pressures on younger generations, declining economic growth, lower per-capita output, a lower quality of life for Canadians and a weakened international voice for our country.

What must Canada do to ensure it has sufficient skilled people to replenish its workforce? There is a need to tap more extensively into the large underrepresented workforce within our borders as a first step—young people, older workers, the Aboriginal population and people with disabilities. Yet this pool of people is finite and will not suffice on its own. Immigration—the enhanced, targeted immigration of talent from overseas—will remain an essential second step in Canada's efforts to sustain its skilled workforce. Even so, immigration will not be a panacea, because of the age profiles of new Canadians. To overcome a shortage of people, Canadian companies must make bold improvements to their labour productivity—the efficiency of each hour worked—where Canada's record has been very poor.

This discussion paper presents the Canadian Chamber of Commerce's ideas for addressing the challenge of the demographic crunch head-on. Our research and discussions with our members and thought leaders convince us of the urgency of concerted action by governments, and also by the wider business community and other stakeholders, to ensure that Canada can renew its workforce with able people and boost the efficiency of the work our people and businesses do.

We hope this paper will further encourage discussion on Canada's demographic challenge. We Canadians must reflect on what becoming an older nation will mean for us and how we will adapt.



President and CEO  
Honourable Perrin Beatty  
The Canadian Chamber of Commerce

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## Executive summary

Canada, a young nation, growing old. Canadians tend to think of their country as a young one, given its relatively short history as a sovereign state, and also a dynamic one. Many view it as a land of opportunity that welcomes people from every continent seeking to build a better life; a constellation of growing cities and communities in an expansive, wilderness-clad territory; a leading-edge economy; a vibrant society whose prime lies before it. Canada's youthfulness, combined with the hard work, entrepreneurship and pioneering spirit of its people, propelled its strong economic growth and social development. Its population, and with that its workforce, grew in size and quality since Confederation, thereby contributing to the economic well-being of Canadian communities from coast-to-coast-to-coast and from one generation to the next. This has transformed Canada into one of the world's wealthiest countries, bestowed it with a fine quality of life, and has allowed Canada to strengthen its voice on the world stage.

It may thus seem paradoxical that while ours is a young country, it is also a rapidly aging one. Yet that is the reality of Canada today. Like many industrialized nations, Canada is in the midst of a major demographic shift that will see the number of people over the age of 60—by far the fastest growing age-segment of the population—soar from a little less than a fifth of Canada's total population in 2009 to a little under a third by the middle of the next decade. Our country's total fertility rate of 1.6 childbirths per woman is one of the lowest in the world, even lying below those of industrialized countries like the United Kingdom, France and the United States.

The impending retirement of the baby boomer generation over the course of the next decade, with few able workers available to replace them, presents our country with the dilemma of significant skilled labour shortages. Currently, all growth in the labour supply stems from

immigration, and yet new Canadians are growing older and having fewer children. Many companies and sectors are already facing challenges in finding the talented people they need to run and expand their businesses. Some even cite this as their number-one concern. The impact of the demographic shift could be severe, as the small and large businesses that sustain the livelihoods of Canadian families and communities are constrained to rely on a shrinking workforce to generate more economic output and support a burgeoning number of retirees—retirees living longer lives. The looming workforce shortages will be aggravated by Canada's inertia in labour productivity growth (i.e. the efficiency with which output is produced for each hour worked), where it lags further and further behind the United States and many other industrialized countries.

Canada's demographic shift, left unmitigated, will have profound economic and social consequences on our country. It will result in declining economic growth, lower per-capita output (and per-capita income), and a lesser quality of life for Canadians, absolutely and relative to the United States and other countries. It will place a heavy fiscal burden on younger generations called to sustain quality public services and benefits for an aging demographic.



This could risk souring intergenerational ties down the line. Unmitigated, the demographic shift will harm the competitiveness of Canadian businesses, which need skilled people to drive their growth and develop new comparative advantages in a globalized, knowledge-based economy that trades and invests in high-value-added goods and services. It could also cause Canada's place in the international sun to dwindle.

Canada will not stand still before this challenge. Mitigating the effects of an aging population and workforce calls for concerted efforts by the federal government, the provinces and territories, businesses and key stakeholders such as academic institutions and the not-for-profit sector. The way in which businesses transform and adapt is as important as the policy leadership governments can provide to ensure Canada continues to flourish. Many good initiatives have already been taken, and much work remains ahead.

What needs to be done? All too often, discussions focus on only part of the solution, whether it is the greater participation of older workers or Aboriginal peoples in the workforce, or enhancing the immigration system. Then there is labour productivity growth—the critical way to make up for a dearth of skilled workers, especially since Canada fares so poorly in this regard. Many also point to the continuing importance of fertility. While some remedies are more geared toward making up for current or short-term shortages in skilled labour, others are focused on the longer run.

Through research and discussions with the wider business community and several thought leaders, the Canadian Chamber of Commerce has found that a multipronged approach, whose aim is to replenish the skilled workforce and boost labour productivity, is needed. The following key themes have emerged:

- To boost the size of its workforce, Canada will need to draw far more extensively on underutilized sources of labour within its borders—large segments of the population that are relatively underrepresented in the

labour force, or whose average unemployment rates are significantly higher than that of the general population. These include young people, older workers, the Aboriginal population and people with disabilities.

- Young people (ages 15 to 24) suffer from higher unemployment rates than other age groups. Many shun the pursuit of post-secondary studies to work, and even among those pursuing post-secondary studies, many drop out. It is crucial that young people be able to work, though not at the expense of post-secondary studies upon which their long-term employability in the knowledge-based economy will depend. More needs to be done to allow students to work and study.
- People over the age of 60 are the fastest growing age group, and are living longer and healthier lives. Many want to continue working, and view work as part of their life balance. With their wealth of skills, knowledge and experience, older workers must be recognized as tremendous assets for businesses in their day-to-day operations and in the transferring of human capital and knowledge to younger workers. Through reform of the Canadian Pension Plan (CPP)



and other measures, disincentives to the workforce participation of older Canadians must be removed. Businesses must also better accommodate the needs of older workers, many of whom wish to (or can only) work on a part-time or flexible basis.

- Aboriginal peoples are the fastest growing segment of the Canadian population, and yet overall, they continue to suffer from a lower economic standing, higher unemployment, lower educational achievement and under-representation in the knowledge-based economy workforce, relative to non-Aboriginals. The Canadian Chamber will release a policy paper later this year that explores these and other Aboriginal issues in greater detail.
- Employment Insurance (EI) must be reformed to encourage labour market adjustment (i.e. upgrading of one's skills and relocating to where the jobs may be), thereby enhancing overall economic output and productivity. Fiscal conditions permitting, a national eligibility standard (560 hours) and a standardized duration of benefits (22 to 45 weeks) to ensure regional fairness must be adopted.
- Immigration—to which virtually all growth of the Canadian workforce is now owed—will remain an important facet of Canada's strategy to replenish its workforce. However, it is no silver bullet. The age profile of new Canadians is rapidly converging with that of the Canadian-born population. What is needed is a smarter immigration system to respond to current and longer term workforce needs. The economic class of immigration must remain Canada's priority. Many good initiatives have been put in place in recent years and must continue.
- Recent immigrants tend to have higher levels of education and skills than the general Canadian population, yet they tend to have higher unemployment rates and do work that is not commensurate with their qualifications. Language barriers and shortcomings in foreign qualification recognition are part of the problem. More must be done to see recent immigrants secure work that optimizes their productive potential, to the benefit of Canada's economic well-being.
- Canada's immigration system must continue to improve its programs to more closely match the profiles and qualifications of newcomers with employers' needs, and to ensure timely processing of applications.
- For the Federal Skilled Worker (FSW) Program, in-demand occupational categories must be regularly revised through consultations with the wider business community to ensure they keep pace with economic change and Canada's evolving labour needs. A database allowing the federal and provincial governments, business and other stakeholders to compile and exchange information on labour needs and foreign qualifications may be useful. The recent change to testing proficiency in Canada's official languages is a positive move forward.
- The Canadian Experience Class (CEC), which allows qualified temporary foreign workers and foreign students who graduated from Canadian post-secondary institutions to become permanent residents, is a commendable initiative. The CEC must prioritize those international students graduating in fields corresponding with real Canadian labour needs.
- Canadian immigration must balance current and long-term labour needs. New Canadians with official language proficiency, good educational qualifications and Canadian connections will find it easier to transfer their skills across jobs in the knowledge-based economy, where job and career changes occur rapidly. The shorter term labour needs of Canadian companies must continue being met through the Temporary Foreign Workers Program.

- Canada must continue marketing itself overseas as a destination for skilled immigrants, at a time when most industrialized countries and booming cities in developing countries are competing to attract people from this pool. With its strong economy and businesses, high quality of life and openness to diversity, Canada must remain a leader in attracting the world's best and brightest.
- With fewer skilled workers, it is essential for Canadian businesses to boost their labour productivity, i.e. output-per-worker and hour worked. Canada's overall record on business sector productivity is dire; it was 78 per cent of that of the United States in 2008, down from 90 per cent in the early 1980s. Canada has been sliding down the ranks of Organisation for Economic Co-operation and Development (OECD) member countries on productivity growth. Achieving a leap in productivity growth does not entail people working longer or harder, but rather more efficiently.
- More Canadian businesses must boost productivity growth through greater investment in capital equipment and new technologies, research and development (R&D), adoption of international best practices and human capital (employee skills) formation in the workplace at the managerial and sub-managerial levels. Productivity is achieved through the bringing of new, innovative goods and services to market, and by integrating efficiency-boosting innovations into company operations. For smaller enterprises, productivity gains are realized by scaling up on successful business plans. The shifting expectations of generations within the skilled workforce will also require enhanced management of human resources.
- The federal government and the provinces and territories have undertaken ambitious initiatives to incentivize companies to boost their labour productivity. Beginning with fiscal reforms in the 1990s, incentives include fostering the development of economic clusters through public-private partnerships, lowering business taxes, opening Canada to foreign investment, liberalizing and diversifying Canada's foreign trade and investment, and investing in critical public infrastructure. There are areas where policy needs to go further. However, the onus is on businesses to act upon the incentives in place.
- Canada does well in primary research, yet too little of that research is developed into innovative new products and processes. Governments need to continue encouraging businesses to strengthen linkages with the research community in universities and colleges, and more businesses must proactively build bridges with the research community.
- Canada must continue incentivizing labour productivity-boosting investment by businesses by lowering business taxes to 15 per cent by 2012, in line with the federal government's commitment.
- Having an internationally top-ranking education system will ensure Canada has a productive, highly skilled labour force in the future. Outstanding skills in problem-solving, mathematics and science must be fostered in school. Values such as creativity, ambition, entrepreneurship and a robust work ethic also matter. Young Canadians must be encouraged to undertake post-secondary studies corresponding with real



labour shortages and areas where Canada can develop commercially viable niches of expertise.

- It is high time that internal (i.e. inter-provincial/territorial) barriers to the free movement of workers, goods and investment in Canada be removed. Many regulatory barriers on interprovincial trade and the movement of labour are devoid of sound economic sense, and foster a defensive mindset between provinces and territories that obscures the reality of a Canada whose economic competitors are global. Internal barriers harm productivity through unnecessary financial and timeliness costs for businesses, and by hampering the development of economies of scale.
- Canada must continue liberalizing and diversifying its trade and investment through ambitious, comprehensive free trade agreements and foreign investment promotion and protection agreements, and through multilateral trade liberalization. In addition to providing Canadian companies

with export and investment opportunities, these agreements incentivize companies to boost their labour productivity through exposure to global competition and best practices.

- Canada must continue to foster targeted investment as fiscal conditions allow in critical public infrastructure, such as broadband and transportation networks, that catalyse productivity growth.
- Above-replacement fertility and a youthful workforce remain important to the economic well-being of industrialized economies such as Canada's. Work patterns must be flexible to allow young parents to better balance their jobs and children. The tax burden on young families must not increase as the Canadian population ages, lest it further deter people from having children.

The consultations of the Canadian Chamber of Commerce have produced 37 recommendations that can be found throughout this document.

# Introduction

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## Canada's demographic shift and the economy

Canada, like many industrialized countries, is in the midst of a major demographic shift. The shift is characterized by a rapidly aging population and even swifter aging of the workforce. Within the decade, our country faces the prospect of significant skilled labour shortages across a wide spectrum of industries and occupations as the large baby boomer generation retires.

At present, Canada's total fertility rate (i.e. childbirths per woman) is one of the lowest in the world. At 1.6, it lies well below the replacement rate of 2.1, and below that of other developed countries like the United States, the United Kingdom and France.<sup>1</sup> In fact, Canada's fertility rate has been below-replacement since 1971.<sup>2</sup> Canada has sought to counter this by absorbing hundreds of thousands of immigrants into its population and workforce each year—the second largest per capita intake of immigrants of any developed country after Australia. While immigrants remain indispensable—they are expected to become the *only* source of net growth in the labour force beginning this year—immigration alone cannot sustain the long-term needs of the economy. In fact, the fertility of new Canadians quickly converges with that of the Canadian-born population.

Firsthand observers in government, business, academia and civil society are blowing the whistle on the looming dilemma. Many companies are already experiencing difficulties in finding the talented people they need to run and grow their businesses. For many businesses, access to a qualified workforce is the number-one factor for them to develop their enterprises. This is the tip of the iceberg, with more difficulties expected down the line. The impact of the demographic shift could be severe, as small and large busi-

nesses that sustain Canadians' livelihoods are forced to rely on a shrinking workforce to generate more economic output and support a burgeoning number of retirees.

Left inadequately addressed, the demographic downturn will impair the health of Canada's economy, the competitiveness of its businesses and the quality of life of Canadian communities and families. Labour shortages will impose increasing—even unsustainable—costs for Canadian companies competing in the global marketplace, eroding their profit margins and competitiveness. This, in turn, can undo opportunities for personal economic advancement. Businesses may be compelled to move high-value-added activities south of the border or overseas, where skilled personnel can be found. Canada's attractiveness as a destination for foreign direct investment would diminish at a time when countries are competing intensely for access to international capital. Additionally, as Canada's population ages, a smaller percentage of workers will carry a larger share of the personal income tax burden. The government will need to modernize its tax system to reduce dependence on personal income tax revenues.

Countering the labour supply crunch is not simply about filling numbers in the workforce. Increasingly, Canada and its G20 counterparts—the United States, the European Union, Japan, South Korea, and cities and regions across China, India, Brazil and others—which represent more than 85 per cent of global output, are becoming innovative, knowledge-based economies whose success is driven by brains, not brawn. The goods- and service-producing sectors are moving up the value-added chain and are increasingly knowledge-driven. Having access to high-calibre human capital is vital. Canada's businesses are seeking the most competent, knowledgeable

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1 World Bank, World Development Indicators

2 Ibid. The replacement rate is number of births per woman for the population to remain the same size over generations.

and experienced individuals out there, and so are all its competitors. If Canada is to maintain a competitive edge to guarantee its prosperity, Canadian businesses of all sizes and in all sectors will need more highly capable individuals to galvanize innovativeness. Without preparation, our economy could find itself facing long-term structural unemployment—a situation of people without jobs and *jobs without people*.<sup>3</sup>

With a pool of fewer workers to rely on, companies will also need to continually enhance the productivity of labour, measured as output per hour worked or per employee. This is not driven by hiring more workers or working longer and harder hours, but by corporate innovation—investment in new capital equipment and technologies, research and development (R&D), the commercialization of new products, the integration of international best practices and employee training. Canadian companies will need to catch up and keep up with their global competitors to optimize the productivity of their workforce. Governments also play a vital role of supporting Canadian businesses by removing barriers that hinder productivity growth.

Looking beyond the economic and social impact of an aging Canada, there are also geopolitical consequences. What will all of this mean for our country's place in a fast-changing world, a world where incumbent powers find themselves rubbing elbows with ascendant ones in addressing global challenges? A youthful, diverse and vibrant Canada with a realistic understanding of its national interest will have the resources, vitality and ambition to guarantee its political, economic and normative place in the international sun, whereas an older Canada risks becoming more inward-looking, risk-averse and less reactive to change. A productive, innovative and growing Canada will be treated more seriously by its counterparts worldwide than a Canada perceived to be past its zenith.

## 1. *Numbers matter*

Since Confederation, our youthfulness as a nation, combined with the hard work, entrepreneurship and pioneering spirit of Canadians and the businesses they built and continue to build, have fuelled this country's strong economic growth and social development. The growth in the size and quality of the workforce, virtually uninterrupted over the past decades, has increased the economic well-being of Canadian communities from coast-to-coast-to-coast from one generation to the next. It has transformed Canada into one of the world's most prosperous countries, bestowed it with a high quality of life, and has allowed Canada to strengthen its voice on the world stage.

A high fertility rate during the two baby boom decades following World War II, coupled with immigration and the increasing quality and accessibility of education, endowed Canada with a large and dynamic workforce. That generation of baby boomers, the wider end-section of Canada's population pyramid, is expected to retire in droves over the next decade, leaving tens of thousands of empty job positions in its wake. With a smaller number of available workers, many positions will go unfilled with worrying consequences for businesses and the economy.

A large and skilled labour force, like capital equipment and resources, is a critical component for the production and delivery of value-added goods and services in all sectors, and for the development of new technologies and processes that further boost the productivity and competitiveness of those sectors. It was—and remains—key to Canada's past, current and future success as an economy.

Economists recognize that a country's ability to produce economic output is closely tied to the availability of able workers. In the absence thereof, businesses boost output by substituting

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<sup>3</sup> Rick Miner, *People Without Jobs, Jobs Without People: Ontario's Labour Market Future* (Miner Management Consultants, February 2010)

capital for labour. Productivity increases greatly at first; however, beyond a certain point, that incremental output yield tapers. After all, it is people who ultimately take the countless daily decisions that make businesses run; it is people who conceive and create innovative value-added products and processes; it is people who market products; and one needs people to operate even the most sophisticated equipment.

To grow, Canadian businesses will continue to need competent people, just as they need to invest in capital and technology. Yet the growth rate of the labour force is rapidly declining in tandem with that of the general population. Over the past three decades alone, growth in Canada's working age population has decreased by a third.<sup>4</sup> Canada's fertility rate, at a little over 1.6 childbirths per woman in 2008, is well below the replacement rate of 2.1.<sup>5</sup> According to World Bank data, Canada's fertility rate has been consistently below 2.1 for the past 40 years, with population growth stemming from immigration. It ranks among the lowest fertility rates in the world, below those of advanced economies such as the United Kingdom, France

and the United States. The United States is exceptional among industrialized countries in having a replacement-level fertility rate.

Based on Statistics Canada projections, growth in the working age population is projected to slow further averaging just one per cent per year over the next five years, and less so over the next two decades. The composition of the workforce is also changing—the proportion that is 55 years of age and over has been increasing rapidly since 2001, and will grow substantially over the next two decades. Individuals over 55 years of age typically have lower labour force participation; thus the population shift towards older workers will put downward pressure on the aggregate employment rate, i.e. the share of the working age population that is employed.

The possible loss of many key experienced workers could create labour shortages in skilled trades and professional and managerial occupations, with far-reaching consequences for Canada's economy. Sectors will increasingly be competing against each other for scarce young workers.

*Fertility rates in select countries<sup>6</sup>*

Average births per woman	Canada	United Kingdom	France	United States
1970	2.26	2.44	2.48	2.48
1980	1.74	1.89	1.95	1.84
1990	1.83	1.83	1.78	2.08
2000	1.49	1.65	1.88	2.06
2004	1.53	1.77	1.90	2.05
2008	1.60	1.94	2.00	2.10

<sup>4</sup> *Downturn, Recovery and the Future Evolution of the Labour Market* (The Canadian Chamber of Commerce, February 2010)

<sup>5</sup> United Nations World Population Prospects

<sup>6</sup> World Bank, World Development Indicators

## 2. *The needs of the knowledge-based economy*

Economic globalization presents great opportunities and challenges for the workplace. Advances in communications and information technology, liberalization of cross-border trade and investment and enhanced labour mobility are hastening the pace of global economic integration, intensifying competitive pressures and creating ongoing adjustment demands for the workforce. Globalization is increasingly flattening the international playing field, which calls for industries and companies to adapt and adjust to remain competitive. It is changing the way businesses are structured. For example, multinational corporations are no longer limiting their activities to a single country and are locating their financing, sourcing, manufacturing, distribution and management operations where the best efficiencies are found. Intra-company and inter-company value-chains are spread out across continents. Many firms also increasingly focus on their core value propositions and are specializing by outsourcing peripheral functions domestically or internationally.<sup>7</sup> Most of Canada's lower-value-added industries, unable to match the labour cost advantages of developing countries, have shut down or transferred production overseas.

To compete effectively, Canadian businesses must differentiate their products and services from those of the competition by focusing on adding new value. Businesses will need the most competent, knowledgeable, experienced and creative individuals. Without them, our country could find itself in a situation where existing jobs simply lack the people with the skills to do them.

Increasingly, Canada and other advanced and developing economies are moving up the value-added chain and mutating into knowledge-based economies. At the core of the knowledge-based



economy is an accelerating pace of technological change, ranging from digital, information, communication and environmental technology to nanotechnology.<sup>8</sup> This technological change is seen in the resources, manufacturing and commercial services industries.

If we are to remain competitive, we must unleash the innovating potential of our workers by investing in education, skills training, cutting-edge capital equipment and technologies, and R&D—investments serious competitors the world over are making to stay ahead. It also involves the necessary retraining of more at-risk workers in uncompetitive traditional sectors to ensure their employability in value-added activities.

## 3. *Meeting the demographic challenge*

What does a country like Canada do when faced with a demographic shift of this magnitude? Can we solve our demographic problem by better using workers who are currently underrepresented?

If our human resource problem is so large that even better workforce utilization will not solve it, then what is needed on the part of governments and businesses to ensure that Canada's com-

<sup>7</sup> *Downturn, Recovery and the Future Evolution of the Labour Market* (The Canadian Chamber of Commerce, February 2010)

<sup>8</sup> *Ibid.*

panies continue to grow as competitive global players for the benefit of communities from coast-to-coast-to-coast? How does one involve other stakeholders—professional regulatory and licensing bodies, the not-for-profit sector and academic institutions? How can we ensure that Canada’s growth potential is not subdued by a dearth of highly skilled and productive people who are the lifeblood of the knowledge economy? How must Canada address its dismal record on labour productivity growth and redress it?

*Canada’s Demographic Crunch: Can underrepresented workers save us?* aims to provide answers to these questions by reviewing the key challenges Canada faces in replenishing its

workforce and remedying its record on labour productivity. It offers prescriptions on action governments and businesses need to take to meet these challenges. These prescriptions are structured around three pillars:

- Unleashing the latent potential of the underutilized workforce within Canada
- Replenishing the workforce through skilled immigration
- Enhancing labour productivity

# The first pillar: Unleashing the latent potential of the underrepresented workforce

## I. The latent potential of the under-participating workforce

To boost the *size* of its workforce, Canada will need to draw far more extensively on the latent potential of underutilized sources of labour within its borders—large segments of the population that are relatively underrepresented in the labour force, or whose average unemployment rates are significantly higher than that of the general population. These include:

- young people;
- older workers;
- the Aboriginal population; and
- people with disabilities.

Governments and businesses must act in concert to comprehensively deal with the obstacles that prevent these underrepresented groups from fully participating in the national economy. For people in these groups, greater workforce participation is key to improving their social and economic well-being and that of their families and communities.

### 1. *Young people*

Canada's young people (15 to 24 years of age) represent nearly 14 per cent of Canada's population.<sup>9</sup> According to official projections, the relative demographic weight of this age group is expected to remain fairly constant, at roughly 12 per cent of the total population over the next decade.<sup>10</sup> The workforce participation rate of

young people is generally below that of their peers in older age categories (i.e. 25 to 44 years of age)—65 per cent versus 87 per cent.<sup>11</sup>

Young people may have a lower participation rate because some are enrolled in post-secondary programs. However, a more problematic picture emerges when looking at the youth unemployment rate. Prior to the recent economic recession, the youth unemployment rate stood at approximately 11 per cent. At the start of 2010, it surpassed 15 per cent, more than twice that of the 25 to 44 age group.<sup>12</sup>

The federal government has recognized the issue of youth unemployment and launched programs like the Youth Employment Strategy (YES), in place since 1997, which helps young Canadians obtain career information, develop their skills, find good jobs and stay employed. Nonetheless, young people continue to face obstacles in finding and keeping good positions in the job market owing to a lack of skills and prior work experience. Youth in lower-income urban and rural areas and in Aboriginal communities where jobs may be few are often at greater risk of professional marginalization. The inability of many young workers to juggle work and school, or the unwillingness of employers to hire young people whose time is divided between work and studies, is an additional barrier.

Post-secondary education is key to ensuring the long-term employability of young people. Yet the drop-out rate for post-secondary students has reached alarming levels, particularly for male students. In 2007, one in seven young Canadians

<sup>9</sup> *Population by sex and age group* (Statistics Canada, CANSIM, November 30, 2009)

<sup>10</sup> Calculations based on *Projected population by age group and sex according to three projection scenarios for 2010, 2011, 2016, 2021, 2026, 2031 and 2036, at July 1 (2010)* (Statistics Canada, July 1, 2010)

<sup>11</sup> *Labour force and participation rates by sex and age group* (Statistics Canada, January 1, 2010)

<sup>12</sup> *Ibid.*

who pursued higher education dropped out before they graduated.<sup>13</sup> In most provinces and territories, undergraduate studies in universities and degree programs offered through colleges are three to four years in length, while college vocational programs typically range from one to four years, depending on the program. In Ontario, three-year bachelor degree programs are being phased-out in favour of four-year programs, while three-year bachelor degree programs in Quebec follow two to three years of CGEP studies.

It is incumbent upon governments, business and educational institutions, to ensure that options exist to encourage students to pursue post-secondary studies alongside their jobs and to facilitate their successful transition from school to full employment. Strengthening initiatives that offer paid or sponsored apprenticeships and internships, and encouraging youth participation in such initiatives, are one way to build up young people's skills and work experience and can help them land in the job market running after graduating. Work-study co-op programs combining studies and work experience should be extended beyond the vocational tracks in colleges where they already exist, to academic tracks in universities. Educational institutions currently offering four-year degree programs should explore the possibility of extending

- four-year bachelor degree programs that include one full year of practical work experience; and
- three-year bachelor degree programs.

More flexibility is also needed in allowing students to transfer their academic credits between universities and colleges, to allow them to pursue part of their studies in institutions

located near work opportunities. The greater availability of work-study tracks would be conducive to removing the false choice of “work versus studies” for young people who wish or need to work for personal financial reasons. It may encourage greater part-time labour force participation for university and college students currently not working. The option of three-year bachelor degree programs would allow both undergraduate and graduate students to enter the workforce a year earlier. Naturally, the compression of any four-year program into three years must be done with care to ensure high quality education, lest Canada's education brand be harmed.

The 2008 OECD report of Canada's youth unemployment found a high incidence of repeated use of Employment Insurance (EI) and other social benefits by young people. EI is justified in helping eligible workers cope with involuntary unemployment. However, it is essential that EI be structured to strongly incentivize unemployed people, including young people, to quickly and actively secure jobs. A situation of serial or chronic dependence on unemployment benefit programs is fiscally damaging to Canadians, and long-term unemployment in youth will decrease their opportunities for quality employment. Unemployment benefit programs for youth, in conjunction with YES and provincially- and territorially-administrated youth employment initiatives, must continue to encourage unemployed young people to actively look for work. Regular reporting on job-searching by EI recipients may be a useful option.

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<sup>13</sup> Danielle Shaienks and Tomasz Gluszynski, *Participation in Postsecondary Education: Graduates, Continuers and Drop Outs, Results from YITS, Cycle 4* (Statistics Canada, November 2007)

## Recommendations:

- 1. That initiatives allowing for young people to pursue post-secondary studies alongside work, such as work-study co-op programs, apprenticeships and internships, be extended and encouraged across universities and colleges.** This would help do away with the false choice between education and work for young people who wish or need to work and would facilitate the post-graduation transition to the workplace of students participating in the initiatives.
- 2. That the possibility of extending four-year bachelor degree programs, inclusive of one full year of work experience, and three-year bachelor degree programs that allow for earlier entry into the workforce, be seriously studied.** Changes must guarantee the current, high quality of the education received.
- 3. That Employment Insurance (EI) be structured to strongly incentivize young beneficiaries to actively look for work.** A situation of serial or chronic dependence on unemployment benefit programs is fiscally damaging to Canadians, and long-term unemployment in youth will decrease their opportunities for quality employment with time.

## 2. *Older workers and reform of the Canadian Pension Plan (CPP)*

The senior population, defined in this report as people aged 60 and over, represented a little less than 20 per cent of Canada's total population in 2009.<sup>14</sup> By 2021, this age group will burgeon to 25

per cent of the total population, and is projected to approach the 30 per cent mark by 2026.<sup>15</sup> This will be, by far, the fastest growing segment of the population over the course of the next decade. In addition, the life expectancy of Canadians has grown quickly over the past several decades. According to the World Bank, Canada's average life expectancy increased from 73 years in 1970 to 77 in 1990 and 81 in 2008—a gain of nearly 10 years in just four decades.<sup>16</sup> People over the age of 75 represent approximately 6.5 per cent of the Canadian population today, and this figure is expected to reach nearly 10 per cent by 2026.<sup>17</sup>

Fixing the retirement age is unwise. After all, the previous mandatory retirement age of 65 corresponds with an era when able working hands and minds were plentiful and older generations of the labour force made room for the baby boomer generation by retiring early. Things have changed. People live longer, healthier lives and wish to work until a later age. Moreover, a growing number of older workers are opting to leave their working lives gradually, instead of simply stopping to work, by working on a part-time basis. Reasons range from a desire to remain physically and mentally active, not to mention socially and professionally connected, to a desire or need to supplement one's income. Anticipated rising wages induced by a shortage of labour may encourage a greater number of people aged 60 and over to continue working on a part- or full-time basis.

The notion that older workers are expendable or less useful, still prevalent in some areas, must be dispelled. With their wealth of skills, knowledge and experience, older workers must be recognized as tremendous assets for businesses, in a country facing a labour supply crunch, in day-to-day operations and in the transferring of human capital and knowledge to younger workers. Recognizing this, in 2007 the federal government established an Expert Panel on

<sup>14</sup> *Population by sex and age group* (Statistics Canada, CANSIM, November 30, 2009)

<sup>15</sup> Calculations based on *Projected population by age group and sex according to three projection scenarios for 2010, 2011, 2016, 2021, 2026, 2031 and 2036, at July 1 (2010)* (Statistics Canada, July 1, 2010)

<sup>16</sup> World Bank, World Development Indicators

<sup>17</sup> Calculations based on *Projected population by age group and sex according to three projection scenarios for 2010, 2011, 2016, 2021, 2026, 2031 and 2036, at July 1 (2010)* (Statistics Canada, July 1, 2010)



Older Workers to find ways to enhance the labour market prospects of older workers and support older worker adjustment. Progress has been made and efforts must continue to remove stigmas and institutional deterrents against greater senior participation in the workforce.

Where older people are capable and willing to work, policy must encourage them, not deter them from doing so. Nowhere is action by government more crucial than in reforming the Canadian Pension Plan (CPP) to remove systemic barriers and disincentives to work, by providing choices and flexibility for older workers who wish to participate in the labour force and earn income. The Expert Panel on Older workers recommended that federal, provincial and territorial governments:<sup>18</sup>

- move to eliminate the work cessation clause in the CPP;
- allow eligible individuals to work and receive benefits while still contributing to a pension plan;
- minimize work disincentive effects associated with the Guaranteed Income Supplement claw back provisions; and
- continue to promote phased retirement through facilitated changes in the tax and pension systems.

Progress has been made in implementing these recommendations and must be further built upon. Changes to the CPP under Bill C-51 (Economic Recovery Act), which received Royal Assent in December 2009, are a positive step forward. The changes include the removal of the work cessation test as of 2012, increases in the general drop-out rates in 2012 and the continuation of CPP contributions (until age 65) for CPP retirement benefit recipients. Provisions in Budget 2007 and Budget 2008 also reduced disincentives to older worker participation in the labour force.

In 2006, mandatory retirement at any age was treated as discriminatory in Alberta, Manitoba, Prince Edward Island, Quebec and the territories. Since then, the other provinces, which previously proscribed age discrimination only up to the age of 65, have revised their human rights code to prohibit age discrimination at any age, thereby ending legal sanction for mandatory retirement. This was a very positive step. The federal government must likewise eliminate mandatory retirement in the federal jurisdiction by amending the Canadian Human Rights Act so as to remove exceptions under the Act that effectively permit mandatory retirement for persons aged 65 and older, allowing for flexibility where bona fide occupational requirements based on age exist for safety reasons.

Senior people may want to work, but they may have neither the desire nor the physical ability to work full-time. While the general trend is toward longer work shifts and greater use of technologies in the workplace, part-time or flexible schedules should be extended to older workers. The practice exists in many countries, and in recent years numerous Canadian businesses have followed suit; for example, through plans such as “retirees on call,” which allow retirees to work on a part-time basis, and phased retirement options that reduce work hours over a number of years. In this “wired” age, allowing

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<sup>18</sup> Expert Panel on Older Workers: Supporting and Engaging Older Workers in the New Economy (Human Resources and Skills Development Canada)

older employees to work part-time from home may reduce corporate costs on workspace, which previously would have made retaining part-time staffers unviable for many companies. Training of older workers in the use of new technologies must also be encouraged.

## Recommendations:

- 1. That the federal, provincial and territorial governments continue removing systemic barriers and disincentives to work.** Changes announced under Bill C-51 (2009) are a positive step in the right direction.
- 2. That the federal government eliminate mandatory retirement in the federal jurisdiction by amending the Canadian Human Rights Act so as to remove exceptions under the Act that effectively permit mandatory retirement for persons aged 65 and older.** Flexibility should be allowed for bona fide occupational requirements based on age that exist for safety reasons.
- 3. That governments and businesses further encourage willing and capable older workers to work on a part-time or flexible basis where appropriate.** People are living longer; many older workers want to and can contribute their knowledge and experience to the success of companies.

### 3. *Aboriginal peoples*

Aboriginal peoples in Canada—First Nations, Métis and Inuit—numbered more than 1.1 million individuals in 2006, with First Nations representing 70 per cent of that number.<sup>19</sup> Aboriginals are the fastest growing segment of Canada's population. The population grew by 45 per cent between 1996 and 2006, compared with eight per cent for the non-Aboriginal population. According to the 2006 Census, the mean age of Aboriginal peoples was 27 versus 40 for the rest of the population.<sup>20</sup> Earlier projections found that in 2017, nearly one of every 20 Canadians may be of Aboriginal background. In Saskatchewan and Manitoba, the provinces with the proportionally largest Aboriginal populations, roughly one of every five persons may be Aboriginal in 2017.<sup>21</sup> Over the next decade, 400,000 Aboriginal Canadians will reach working age.<sup>22</sup>

Aboriginal peoples are a young and growing group in an aging country, yet their economic standing is, on average, below that of the general population. Their unemployment rate is more than double that of other Canadians (i.e. 14.8 per cent versus 6.3 per cent in 2006).<sup>23</sup> Also, the average annual income of Aboriginal peoples was C\$24 thousand (median income of C\$16.8 thousand) in 2005 compared with nearly C\$36 thousand (median income of C\$ 26 thousand) for other Canadians.<sup>24</sup> The economic well-being of First Nations individuals living on reserves was direr than that of members of First Nations living off-reserve. Engaging Aboriginals as full economic partners and promoting their advancement into gainful employment is a national priority. Improving the economic

<sup>19</sup> *Aboriginal peoples* (Statistics Canada, Release no. 5: January 15, 2008)

<sup>20</sup> *Ibid.*

<sup>21</sup> *Projections of the Aboriginal populations, Canada, provinces and territories, 2001 to 2017* (Statistics Canada, June 28, 2005)

<sup>22</sup> *Building a Competitive Advantage for Canada, Pre-budget submission to: The Honourable James Flaherty, Minister of Finance* (Association of Universities and Colleges of Canada, November 18, 2009)

<sup>23</sup> *2006 Census* (Statistics Canada)

<sup>24</sup> *Ibid.*

development potential of Aboriginals, by raising their living standards and economic mobility, is desirable for the populations themselves and benefits the larger economy.

Enhancing the participation of Aboriginal peoples in the workforce, in more skilled professions and jobs associated with the knowledge-based economy, is crucial. While much focus is placed upon attracting immigrants to fill our need for skilled workers, we cannot rely solely upon this strategy. In his May 5, 2010 presentation to the Senate Committee on Social Affairs, Science and Technology, Paul Davidson, President of the Association of Universities and Colleges of Canada remarked, “The global competition for highly qualified personnel will grow, making it increasingly difficult to maintain the growth in highly educated immigrants to Canada. Therefore, to meet future employment market demand of the Canadian economy we will need to be more self sufficient.”

One of the keys to achieving this is in improving the educational success of Aboriginal peoples, especially at the post-secondary level, so that they are equipped with the skills needed for jobs in the high-value-added economy.

*The Canadian Chamber of Commerce will release a policy paper later this year that explores, in more detail, the issues around improving the educational success of Aboriginal peoples and their representation in our workforce.*

#### 4. *Workers with disabilities*

People with disabilities represent another latent source of workers whose potential has not been fully unleashed. Of some 2.4 million Canadians who reported a physical or psychological disability

in 2006, 43.9 per cent were not in the labour force.<sup>25</sup> Of these, less than two-thirds reported that they were completely prevented from working, suggesting that the other third would be able to work with the right accommodation. Providing Canadians with disabilities with opportunities for greater participation in the workforce is not only advantageous to Canada’s workforce needs, it also directly contributes to improving the economic and social well-being of people with disabilities by opening doors to their professional development.

Of those Canadians with disabilities who do participate in the labour force, about one third require job redesign or an adapted or reduced work schedule to be able to work. For some, working from a home office would make good sense due to mobility-challenging physical impairments. In many office buildings and public spaces, accessibility for mobility-challenged people is still lacking. Progress is being made under government initiatives such as the Enabling Accessibility Fund (EAF), which financially supports community-based projects across Canada that improve accessibility to enable all Canadians, including those with physical disabilities, to participate in their communities and the economy. Another program is the Disability Component of the Social Development Partnership Program, which provides funding to eligible non-profit organizations working to meet the social development needs of people with disabilities.

These initiatives and others that foster the workforce participation of people with disabilities must be encouraged and continued. Businesses need to be aware of the latent potential people with disabilities represent and creatively explore ways to include this segment of the population in the workplace. With time, technological advances in medicine and in information technology may further boost work participation among people with disabilities.

<sup>25</sup> *Participation and Activity Limitation Survey of 2006: Labour Force Experience of People with Disabilities in Canada* (Statistics Canada, November 17, 2008)

**Recommendation:**

**That government-led initiatives aimed at facilitating and boosting the labour participation of people with disabilities, in collaboration with businesses and communities, be strengthened and continued.**

## II. Reforming Employment Insurance

A skilled, highly productive and mobile labour force is essential to maintaining long-term economic growth, competitiveness and prosperity, particularly as growth in the labour force slows.

The Organisation for Economic Co-operation and Development (OECD), in its 2004 *Economic Survey of Canada* stated that the rules governing Employment Insurance (EI) in Canada should be reformed to address persistent unemployment. The OECD made a number of recommendations that are equally valid today.

- Adopting more effective case management techniques and activation requirements (especially for workers who are frequent users) oriented towards addressing the skill gaps that currently limit the options of such users in the labour market.
- Reconsidering the present rules that offer more generous EI benefits in regions where unemployment is high so as to achieve a better balance between providing stronger incentives for job search and a fair access to benefits among regions.
- Addressing the favourable treatment of seasonal, full-time work for those working close to the minimum qualifying hours, especially in high unemployment areas.
- Incorporating experience rating of employers into their premium rates. This would effectively eliminate the significant subsidy that arises because EI is used disproportionately and repeatedly by some

firms for seasonal and short-term layoffs at the expense of other employers. An employer-based experience rating system would internalize these costs without reducing income protection to those who become unemployed.

The federal Technical Committee on Business Taxation (1998) added that “a restructuring of employer contributions could contribute significantly to the goals of promoting employment and growth and enhancing fairness.”

- Employers pay 1.4 times the employee premium rate, or 58.2 per cent of EI premiums. This is a significant cost for businesses, particularly small- and medium-sized businesses. The rationale behind this is that employers have greater control over layoff decisions and, therefore, should bear a higher overall share of program costs. In recent years, however, EI benefits totally unrelated to layoffs (for example, parental leave benefits) have contributed to higher program costs, and represent about 37 per cent of income support provided through EI. There is no reason for employers to pay more for these benefits than employees do.
- If employee EI premium payments exceed the maximum contribution limit, employees are refunded the difference between what they have paid in any given year and the maximum annual contribution limit when they file their yearly income taxes. Employers are not afforded the same treatment. Even though an employee has contributed the maximum amount in his/her previous job during a given year, the employee’s new employer must also contribute on the basis of current employee earnings. Given the fact that EI premiums represent a barrier to job creation, the federal government should devise and implement a system that allows for over-contributions by employers to be refunded.

## Recommendations:

- 1. That the government, fiscal conditions permitting, adopt a national eligibility standard (560 hours) and a standardized duration of benefits (22 to 45 weeks) to ensure regional fairness.** This would encourage labour market adjustment (i.e. upgrading of one's skills and relocating to where the jobs may be), thereby boosting overall economic output and productivity.
- 2. That the employer EI premiums be gradually reduced (i.e. over a five year period) to equal that paid by employees.**
- 3. That a system be implemented that allows for over-contributions by employers to be refunded.**

*Drawing from the latent potential of groups in Canada who are underrepresented in the workforce is a first step to addressing the issue of looming labour shortages. However, the size of these groups of people is finite. Moreover, while older workers already possess many of the high-calibre skills needed in the knowledge-based economy, training young people, including young Aboriginal peoples, with the necessary skills is a longer term process. Canada will therefore need to draw from talent outside Canada as well.*

## The second pillar: Expanding the skilled workforce through immigration

Immigration to Canada spans back to the arrival of European settlers in the early 17th century. Since then, millions of people from every continent have made this country their home and contributed to its social and economic success. Given Canada's four decades of below-replacement fertility rates, new Canadians are an essential component of demographic growth and the replenishment of the workforce. In 2008, immigration accounted for two-thirds of net growth in the labour force, a figure expected to reach 100 per cent this year.<sup>26</sup>

Immigration falls under the jurisdictions of the federal government—administered by Citizenship and Immigration Canada (CIC) and Human Resources and Skills Development Canada (HRSDC)—and the provinces and territories. More than 60 per cent of the quarter million newcomers to Canada each year arrive under the programs of the economic class of immigration which include the Federal Skilled Worker Program, the Provincial Nominee Program, the Federal-Quebec Business Program (investor and entrepreneur class), Live-in Caregivers and the Canadian Experience Class. Quebec admits skilled workers through the Quebec Skilled Worker Program. These programs assess the qualifications of potential immigrants and admit a target number of qualified economic immigrants annually.

A robust and targeted immigration program will remain an important part of Canada's efforts to mitigate a long-term decline in the labour force. The economic class of immigration is singularly important as it aims to “foster the development of a strong, viable economy in all regions of the country” under the terms of the Immigration and Refugee Protection Act. Continued effort on the part of governments and business are necessary to improve the immigration system.

More must be done to:

- better integrate immigrants into the workforce at levels commensurate with their skills and experience;
- enhance the match between government immigration selection criteria and the shorter- to long-term requirements of employers and the economy;
- accelerate the processing of immigrant applications with fast-tracking for immediate needs;
- better prepare immigrants prior to arrival in Canada; and
- strengthen Canada's “brand” as the world's top destination for talented immigrants.

Governments in Canada have taken important initiatives in recent years to address these issues and enhance the functioning of the economic class programs. Canada must ensure that it continues to attract the best and brightest to replenish its skilled labour force, mindful of short- and long-term labour needs. Competition for international talent is fierce. The highly skilled will not wait long at Canada's doorstep if other countries are bidding for their talents. Timeliness in processing applications is of the essence. It is also imperative to keep an eye on the bottom line—the need for new Canadians to successfully integrate into the workforce and Canadian society, and to bring a positive net benefit to Canada's economic well-being.

While immigration is important for Canada, it is not a silver bullet. Immigration on its own will *not* solve the aging and contraction of Canada's labour force. Research by Statistics Canada has found that the fertility rates of new Canadians quickly converge with those of Canadian-born

<sup>26</sup> *Immigration: the Changing Face of Canada* (The Canadian Chamber of Commerce Policy Brief, February 2009)

people. In 2001, visible minority women, more than 70 per cent of whom are foreign-born, had an average fertility rate of 1.7 (1.57 for Canadians as a whole), versus an average fertility rate of 1.94 in 1996 (1.69 for Canadians as a whole).<sup>27</sup> Moreover, the average age of immigrants (43 in

2006) is rising as recent arrivals tend to be older, with fewer and older children than past cohorts of newcomers. The demographic distribution of recent immigrants below the age of 55 increasingly resembles that of the Canadian-born population.

*Age distribution of recent immigrants compared to the Canadian-born population*<sup>28</sup>

Age	Immigrants	Canadian-born
Under 15 years of age	20.1%	21.1%
15-24	15.1%	14.4%
25-54	57.3%	42.3%
55-64	4.1%	10.7%
Over 65 years of age	3.4%	11.5%

### 1. *Overview of an evolving mosaic*

According to the 2006 census, there were over 6.2 million foreign-born persons living in Canada, representing nearly 20 per cent of the population, a higher proportion than in any other Western country barring Australia. Canada has welcomed between 220 and 250 thousand immigrants to its shores annually during the past decade, the second largest intake of people as a percentage of total population of any industrialized country. Nearly 150 thousand immigrants arrive under the economic class. Official projections estimate that foreign-born Canadians could reach 25 to 28 per cent of Canada's total population in 2031.<sup>29</sup>

Until the 20th century, most immigrants were from France and the British Isles, followed by large-scale arrivals from Southern and Eastern

Europe in the last century. Whereas in 1970, 61.6 per cent of newcomers were European-born, of the 1.1 million newcomers to Canada between 2001 and 2006, roughly six-in-ten were of Asian origin (including the Middle East). Canadians represent a diverse mosaic of over 200 ethno-cultural groups, 11 of which count more than one million people.

Nowhere is immigration more tangible than in Canada's three largest cities, Toronto, Montreal and Vancouver, home to nearly 63 per cent of Canada's foreign-born population in 2006, and which respectively attracted 40, 15 and 14 per cent of immigrant arrivals between 2001 and 2006—a combined total of 69 per cent. Toronto and Vancouver have proportionally larger foreign-born populations than any major city in

<sup>27</sup> Study: *Fertility among visible minority women* (Statistics Canada, June 30, 2006)

<sup>28</sup> *Immigration: the Changing Face of Canada* (The Canadian Chamber of Commerce Policy Brief, February 2009)

<sup>29</sup> Study: *Projections of the diversity of the Canadian population, 2006 to 2031* (Statistics Canada, March 9, 2010)

the United States and Australia. The presence of large, established ethnic communities in these cities, many of which provide social-support networks for newcomers, are an important draw. Recently, a greater fraction of immigrants are choosing to settle in emerging gateway cities such as Calgary, Ottawa and Edmonton, or in suburban and exurban areas around Toronto, Montreal and Vancouver.

## 2. *Better integrating recent immigrants into the workforce*

Immigrants, on average, have higher levels of educational attainment than the Canadian-born population. For example, in 2007, some 37 per cent of foreign-born individuals of core working age (25 to 54) had a university degree, compared to 22 per cent of the Canadian-born population in the same age group. Yet the unemployment rate of recent immigrants of core working age, landed between 2002 and 2007, was 11 per cent—double that of their Canadian-born counterparts. That of university-educated immigrants, at 10.7 per cent in 2007, was four times that of Canadian-born individuals with a university degree.<sup>30</sup> While previous generations of newcomers to Canada began working at lower income levels than the general population, their income converged with that of their Canadian-born counterparts in a matter of years. Over the past four decades, the income gap between each successive cohort of new Canadians and Canadian-born persons has widened, and alarmingly, it does not appear to disappear with time.<sup>31</sup> It is also concerning that, on average, the quality of employment of recent immigrants is incommensurate with their educational attainment and experience. Anecdotes of foreign-trained physicians and engineers driving taxis in Canada abound.

Canada's inability to fully integrate recent immigrants into the workforce bodes ill for Canada's long-term growth prospects. A large population

of newcomers consistently employed in less-than-gainful positions causes disillusionment within this group and dents social cohesion. This is economically self-defeating for Canada as the underutilization of immigrant skills prevents it from fully maximizing its productivity potential.

Language barriers are the single biggest hurdle to the incorporation of recent immigrants into the workforce. The English and French communication skills of many new Canadian jobseekers do not match the needs of the Canadian workplace and the North American business context. Bridging this language gap will require more work. The federal and provincial governments, through programs administered by dedicated not-for-profit groups, can help recent immigrants bring their communication skills more in line with workplace requirements. There are also cultural barriers greater than those faced by past cohorts of European immigrants whose cultures were in some ways closer to those of their Canadian-born counterparts. These barriers can be surmounted through adequate cultural training for immigrants, employers and employees and through private sector efforts to prepare employers and employees for greater workforce diversity.

Another major problem is that of foreign qualification recognition in both regulated and non-regulated occupations. In Canada, the provinces and territories are responsible for licensing trades and professions, including a total of more than 50 regulated occupations whose qualifications are certified by more than 400 regulatory bodies, amounting to roughly 15 per cent of Canada's labour market.<sup>32</sup> For the other 85 per cent, assessing the educational and professional qualifications of potential employees is the responsibility of employers. While newcomers' qualifications may be recognized by the Canadian government through the immigration application process, oftentimes

30 Jason Gilmore and Christel Le Petit, *The Canadian Immigrant Labour Market in 2007: Analysis by Region of Postsecondary Education*, Statistics Canada (July 18, 2008)

31 Don Drummond and Francis Fong, *An Economic Perspective on Canadian Immigration* (IRPP, Policy Options, July-August 2010, Vol. 31, No. 07)

32 Penny Becklumb and Sandra Elgersma, *Recognition of the Foreign Credentials of Immigrants* (Library of Parliament – Parliamentary Information and Research Service, October 2008)

these are not recognized by regulatory bodies or employers. Immigrants often lack awareness or knowledge of Canadian labour market standards or of the steps they need to take to have their foreign qualifications recognized. The great diversity in backgrounds, mother tongues, education and training among recent immigrants poses an operational challenge for Canadian qualification recognition programs.

Employers often have insufficient knowledge of the growing panoply of educational institutions where immigrants were trained in their countries of origin, which makes evaluating and recognizing educational achievement an arduous task.<sup>33</sup> Many employers also find it difficult to understand, authenticate and measure the calibre of overseas work experience and relate it to Canadian job requirements. As a result, many businesses prefer to rely on familiar standards of Canadian or U.S. work experience when hiring.

The government has actively addressed the problem of qualification recognition through several major initiatives. The Foreign Credential Recognition (FCR) program was implemented between 2003 and 2009 by HRSDC to fund programs aimed at improving the foreign qualification recognition process for a number of regulated occupations, including in the medical and pharmaceutical fields and engineering. The Foreign Credentials Referral Office, launched in 2007, helps newcomers steer through the numerous organizations responsible for foreign qualification recognition and provides labour market information, job search advice and information on the translation of foreign degrees into the official languages. Similarly, the provinces administer various programs

to help new Canadians get their qualifications recognized. The government must maintain such programs to bridge the foreign qualifications divide between new Canadians and employers.

Enhancing the recognition of educational and professional qualifications and experience, and closer cooperation between HRSDC and employers to match government- and business-recognized foreign qualifications more closely, is imperative to ensuring that newcomers rapidly secure employment that maximizes their long-term professional potential and value-added.<sup>34</sup> The recently launched federal-provincial Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications, which aims to facilitate the transition of skilled immigrants from less-than-gainful employment to value-adding jobs, is an excellent initiative to tackle the problem. The Framework must be fully implemented across Canada.

Newcomers' quest to become business owners in Canada must be facilitated. Small and medium-sized enterprises (SMEs) are an indispensable motor of value-creation in the Canadian economy. In the United States, start-ups founded by immigrant entrepreneurs drove the success of Silicon Valley. Statistics reveal that although immigrants are most likely to start up new enterprises, they are also more likely to fail, due to a lack of access to capital for their projects (a problem faced by many SMEs in Canada) and a lack of familiarity with the Canadian business context. Not-for-profit organizations and academic institutions can play a crucial role in training new Canadian entrepreneurs to create and manage successful businesses.

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<sup>33</sup> Ibid.

<sup>34</sup> Don Drummond and Francis Fong, *An Economic Perspective on Canadian Immigration* (IRPP, Policy Options, July-August 2010, Vol. 31, No. 07)

## Recommendations:

1. **That the government continue programs, in conjunction with the not-for-profit sector, to assist recent immigrants to acquire the language skills needed to transition into the Canadian workplace.**
2. **That the recently launched Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications, which aims to facilitate the transition of skilled immigrants from less-than-gainful employment to value-adding jobs, be fully implemented.** It is in Canada's social and economic interest to see recent immigrants quickly transition to value-adding jobs.

### 3. *An improved Canadian immigration system going forward*

The barriers faced by recent immigrants in Canada provide lessons on how our country's immigration system can be improved to ensure a more optimal match between the real labour needs of the Canadian economy and the skills- and experience-profiles of potential immigrants. Looking forward, what must the immigration system seek to achieve economically for Canada? It must ensure that Canadian businesses of all sizes and across sectors continue to have timely access to talented people from overseas with the knowledge and aptitudes they need to bolster their competitiveness and growth. To avoid the extensive mismatches of the past and to facilitate the quick transition of newcomers to gainful employment, it is equally essential to prepare potential immigrants prior to arrival and to ensure that the official languages, educational and professional qualifications of potential immigrants assessed by government correspond more closely with those of employers.

But is that all? Ultimately, the benefits of immigrants' integration at gainful-employment levels accrue to businesses and society at large, yet there is also a downside cost borne by the Canadian economy when immigrants find themselves working at less-than-gainful employment levels over the long-run. The immigration system must, therefore, strike a necessary balance between filling current workforce needs and ensuring that new Canadians possess skills sets and experience that can be readily transferred across jobs and careers in an era when most job growth will take place in the knowledge-based economy. The focus of Canadian immigration must remain skilled immigrants.

The Foreign Skilled Worker Program witnessed a mushrooming number of international applications, all of which had to be processed, according to pre-2008 criteria. This led to the build-up of an enormous queue of more than 600 thousand immigrant applications in 2008, with processing times across visa posts ranging from two to over six years. This compared with processing times of 14 months or less for Australia. Additionally, the match between actual Canadian labour market requirements and the profiles of immigrants admitted to Canada is insufficient. Employers' standards for foreign qualification recognition differed from those of government.

In 2008, the government introduced important changes to immigration law under the Action Plan for Faster Immigration, allowing Canada to set the number of applications considered for processing each year, and the order in which these applications are to be processed, with the aim of processing applications from job-ready immigrants in a year or less and doing away with the application backlog.

### **Enhancing the Federal Skilled Worker (FSW) Program**

Beginning in 2008, applicants for Canadian permanent residence under the Federal Skilled Worker (FSW) Program were only considered if

they were in one of 38 in-demand occupations or if they had arranged employment. Once these qualifications were met, applicants would have to earn points across six assessment categories (education, language skills, work experience, age, arranged employment and adaptability), with a ceiling of earnable points in each category.

The risk in admitting foreign skilled workers under fixed occupational categories, given that application processing that can take several years, is that by the time they arrive in Canada, their occupational skills may no longer be in demand. This is what happened in the early 2000s with the arrival of many ICT professionals after the dot.com boom. Effective June 26, 2010, the 38 occupational categories were replaced with 29 in-demand occupations. The updating of the occupational categories is a positive step, and it is crucial that these be regularly revised through consultations with the wider business community to ensure they keep pace with Canada's rapidly evolving labour needs.

It is also essential that the employer-driven orientation of economic immigration be strengthened to ensure applicants in the occupational categories are fully employable. The federal government should study the feasibility of creating an online database as a private-public initiative to exchange information with the provinces, territories and businesses on current and anticipated labour market needs in real-time and on an ongoing basis, across the country. This could facilitate government efforts to keep track of evolving labour needs, and to adjust its application processing priorities accordingly, in a flexible and timely manner. The database could help pinpoint and match qualified profiles with employers. It would also allow for governments, employers and other stakeholders to jointly compile and exchange information relating to the foreign education qualifications (down to specific fields and institutions) and professional certification of applicants, so as to optimize the fit between qualifications assessed by government and those sought by employers. CIC officials could match applicants' overseas qualifications with those acknowledged by businesses through

the database as a first step in the application process. Employers unfamiliar with foreign qualifications could also refer to peer-vetted foreign qualifications in the database. The wider business community would need to actively engage for such a system to be effective.

While the eligibility criteria were narrowed, the occupational categories continued to receive a very large number of applications. This has hindered CIC's ability to process new applications effectively and manage the backlog. As a result, as of June 26, 2010, CIC will process a maximum of 20,000 complete FSW applications each year under the new categories, with a cap of 1,000 FSW applications per occupation each year. No limits exist for applicants with job offers. This is a positive step. The government must continue to reduce the backlog of applications and ensure the processing of applications for economic class immigrants takes no longer than in other countries, like Australia, which actively compete to attract highly skilled people. Also, while the 1,000 application cap per occupation will render processing more manageable, it is vital that these caps remain flexible and that they be periodically reassessed, given the possibility of unanticipated labour demand surges in certain occupations.

Finally, the requirement that FSW applicants present passing official language test scores upfront when submitting their applications for processing is a very good step to better ensure that foreign skilled workers arrive in Canada with the ability to work effectively in an English- or French-speaking environment. At the same time, Canada must ensure that the language factor does not become the single cause of refusal for otherwise highly talented potential immigrants who would be beneficial to Canada. Canada must provide direction to skilled potential immigrants in their countries of residence, notably to those of allophone background, to bring their official language skills up to the levels required for FSW applications to be considered. Diffusing information on linguistic preparation through the Going to Canada Portal, and through information sessions provided by Canadian embassies and consulates, could be useful to that end.

## Recommendations:

1. **That in-demand occupational categories under the Federal Skilled Worker Program be regularly revised through consultations with the wider business community to ensure they keep pace with economic change and Canada’s evolving labour needs.**
2. **That the government study the feasibility of creating a database, as a public-private initiative, to allow the federal and provincial governments, business and other stakeholders to compile and exchange information in real-time on labour needs and to match the assessment of foreign qualifications by government with what businesses require.**
3. **That the government ensure that the backlog of applications be reduced, and that the processing of applications for economic class immigrants take no longer than in other countries that actively compete to attract the most skilled immigrants.** The 1,000 application caps per occupation must remain flexible and be periodically reassessed, given the possibility of unanticipated labour demand surges in certain occupations.
4. **That the government maintain the recently implemented upfront requirement of official language proficiency for application processing, while informing potential skilled immigrants in their countries of origin on how to prepare to meet language requirements.**

## Other programs in the economic class

The Provincial Nominee Program allows participating provinces and territories of Canada to nominate immigrants who wish to settle in their jurisdictions, based on their labour needs and through separate provincial nomination processes. Provincial nominees’ applications are subsequently granted priority processing by CIC, according to Canadian immigration requirements. The Provincial Nominee Program has grown from an intake of less than 10 thousand newcomers in 2005 to more than 20 thousand last year—the fastest growing program in the economic immigration category. The program is an effective mechanism that allows the provinces and territories to rapidly match vacant jobs in their jurisdictions with the profiles of people they need. It is important that federal, provincial and territorial governments enhance the coordination of this program to ensure that economic immigrants to Canada not only meet current labour needs but that they thrive in the long-run.

The Canadian Experience Class (CEC), modelled on an Australian program, was implemented in 2008. It is designed to allow temporary foreign workers in designated “skilled occupations” and foreign students who graduated from Canadian post-secondary institutions, with knowledge of English or French and qualifying work experience, to move from temporary to permanent residence. Over 10 thousand foreign students and temporary workers were targeted for permanent residence in 2008. The CEC is a welcome innovation that allows international students trained in Canada to integrate into the workforce following graduation. It is in Canada’s interest to prioritize educated immigrants belonging to younger age categories, as they are more likely to spend more of their working lives contributing to the Canadian economy. At the same time, the CEC must consistently prioritize those students who graduate in fields corresponding with a real demand in Canada’s labour markets.

Where temporary workers are concerned, assessing individuals for eligibility under the CEC must take into account the transferability of their skills beyond their designated skilled occupations and hence their long-term employability, cognizant of the reality that a majority of future jobs will be created in the knowledge-based economy.

### Recommendations:

- 1. That the federal, provincial and territorial governments enhance coordination on delivery of the Provincial Nominee Program to ensure that provincial nominees meet current and longer term labour needs.**
- 2. That the Canadian Experience Class (CEC) consistently prioritize students who graduate in fields that correspond with real demand in Canada's labour markets, and that it ensure temporary workers have transferable skills to guarantee their long-term employability in Canada.**

### Balancing current and long-term needs

A delicate and necessary balance must be struck between fulfilling the short- and longer term needs of the Canadian labour market. The consensus view among economists is that most sectors of the Canadian economy will continue to ascend the value-added scale, and will increasingly rely on “knowledge workers” who possess high levels of both specialized and multipurpose, transferable aptitudes. The Federal Skilled Worker Program seeks to balance current labour needs in occupational categories with assessments through the point system that matter for the long-run.

Points are earned in six categories, including official languages, education, age and adaptability. The significance of language ability was mentioned earlier. Education is also important. There is evidence that immigrants with higher levels of education tend to be more resourceful in settling, are more quickly reemployed and tend to have more highly educated children.<sup>35</sup> Age is also essential. Not only are younger skilled newcomers more likely to smoothly adapt to the Canadian workplace, they will also spend a longer portion of their working lives contributing to the Canadian economy. Then, there is the adaptability factor, which measures an applicant's prior experience in Canada and whether she or he has a spouse or relatives in Canada and so forth. Having personal contacts in Canada—family, friends, but also business contacts—can increase immigrants' chances of a successful economic transition in Canada.<sup>36</sup>

Short-term labour shortages are filled through the Temporary Foreign Worker Program, which allows eligible, usually lowerskilled foreign workers to work in Canada for an authorized period of time, provided their employers obtain a positive Labour Market Opinion demonstrating that they are unable to find suitable Canadians or permanent residents to fill jobs. Many industries in Canada could not survive without temporary workers. The program must continue to fill temporary labour shortages as they arise. The option of allowing temporary workers in skilled occupations to apply for permanent residency on a case-by-case basis via the CEC is a positive development. However, no across-the-board shift of the status of temporary workers to permanent residency should be envisaged. The focus of immigration must remain on the economic class, on the educated and skilled individuals whose aptitudes will be needed in the knowledge-based economy.

<sup>35</sup> Jeffrey G. Reitz, *Selecting Immigrants for the Short Term: Is it Smart in the Long Run?* (IRPP, Policy Options, July-August 2010, Vol. 31, No. 07)

<sup>36</sup> Don Drummond and Francis Fong, *An Economic Perspective on Canadian Immigration* (IRPP, Policy Options, July-August 2010, Vol. 31, No. 07)

**Recommendations:**

- 1. That the government continue to attach weight to official languages, education, age and adaptability as important factors for the long-term success of new Canadians.**
- 2. That the Temporary Foreign Worker Program continue to fill temporary work shortages as they arise.** Many competitive industries in Canada will continue needing temporary workers to operate.

### **The needs of mid-sized and smaller urban centres**

As their populations age and given the mobility of young workers, small Canadian communities, those between 10,000 and 100,000 persons, face great challenges in remaining economically sustainable due to aging populations and the exodus of young workers. Immigration endorsement is an important way to offset the impacts of shifting demographics in these smaller communities. Without coordinated action, many communities will experience an accelerated decline in economic prosperity while being challenged to support the services required of the shrinking population. Economic immigration must be encouraged outside Canadian Census Metropolitan Areas, and incentives must be devised to encourage newcomers to settle in the communities that receive them.

**Recommendation:**

**That the unique needs of smaller urban centres be addressed through immigration and settlement integration policies.**

### **Preparing immigrants prior to arrival**

Educating immigrants on Canada’s culture and institutions, and more importantly, providing them with information on the practical steps to take before arriving can go a long way in helping newcomers to smoothen their integration into Canadian life and work. The federal government provides useful information online, as well as through embassies and consulates. Another positive initiative is the Canadian Immigration Integration Project (CIIP) funded by the federal government and managed by the Association of Canadian Community Colleges (ACCC). CIIP is designed to help immigrants under the Federal Skilled Worker Program prepare for integration into the Canadian labour market while they are still in their countries of origin, through orientation seminars. The project operates in China, India and the Philippines. Seminars are to be held in the Gulf States, Scandinavia and Britain, through a new office in London, and similar work is expected to begin in Seoul and Taipei. The federal government should continue to pursue initiatives such as these.

**Recommendation:**

**That the government continue initiatives to help immigrants prepare for life and work in Canada, prior to their arrival.**

### **Advertising Canada as a destination for immigrants**

Competition for international talent has become fierce. Whereas little more than a decade ago, skilled people would willingly wait years for the privilege of settling and working in prosperous countries like Canada, Australia and the United States, today the tables have turned. The best and the brightest find options to build their careers and prosper almost everywhere—in advanced economies as well as in developing countries,

in cities like Shanghai, Mumbai, São Paulo or Dubai. Canada is no longer on the receiving end. Governments must continue to actively promote Canada as the destination of choice for the world's most skilled and sought individuals. With its strong economy and businesses, fine quality of life and openness to diversity, Canada has what it takes to be a leader.

While governments do their part to select and bring skilled people to Canada, at the end of the day, it is businesses that employ people. It is crucial for Canadian businesses to become more engaged in recruiting new Canadians who can bring a great wealth of new knowledge, experiences, perspectives and innovative ideas to the workplace—the ingredients of success. More importantly, Canada is at a critical juncture where it must move with greater confidence and ambition onto the global stage with the aim of greatly enhancing its trade and investment ties with large markets such as China, India, the European Union and Brazil, to name a few. One important asset many new Canadians possess is knowledge of the languages, cultures and business networks in their countries of origin. As more Canadian companies go global, they must be cognizant that new Canadians can contribute to their success as bridges between Canada and global markets.

## Recommendations:

- 1. That Canada continue to actively promote itself as the destination of choice for the world's best and brightest.**
- 2. That Canada better utilize the unique resources brought by new Canadians and recognize their potential to serve as bridges with world markets, as Canadian trade and investment go more global.**

*Immigration will remain a central component of Canada's efforts to replenish a skilled workforce. However, newcomers tend to be older and have fewer and older children. What is more, our country will be challenged to attract the world's best and brightest at a time when competition between countries for international talent is fierce. Canadian companies cannot solely rely on people. Labour productivity—the efficiency of work—is an area where Canada lags and must improve, to ensure it can grow its economy with a smaller aggregate workforce.*



# The third pillar: Enhancing labour productivity

The contribution of labour to the success of a business and to the growth of the wider economy is a function, not only of the number of workers across sectors or the number of hours they work, but also of the productivity of each worker. Productivity, the measure of how efficiently goods and services are produced, is the single most important determinant of a country's per capita income over the long run. Countries whose businesses are innovative and can adjust to changes in the global economy boast high productivity and thus a superior standard of living.<sup>37</sup> Economists agree that Canada's record on productivity is dire. In the face of an aging workforce and global competitive pressures, this will harm the country's economic well-being unless improvements are made.

Canada's debate on productivity is not new—governments, business and academia have long been engaged in this discussion. The Canadian Chamber of Commerce has highlighted tools for boosting productivity in past reports and submissions. Why does labour productivity matter to an aging Canada? What are the incentives—the enablers—of labour productivity growth in the private sector?

## I. Why labour productivity matters

All too often, discussions on Canada's greying workforce focus on the need to find able women and men to fill the job positions baby boomers will leave behind when they retire, as well as new jobs that will emerge as the Canadian economy grows. While companies will need to replenish their workforce, the notion that the growth of a company's output relies on proportionate growth in the number of employees, is mistaken. By raising labour productivity, that is, output per hour worked, businesses grow and remain competitive even as growth in the labour force slows. Labour productivity growth essentially hinges on

companies expanding and optimizing their capital equipment, adopting new technologies, improving operations and developing their human capital (employee skills) so as to raise the value-added of their employees' work. Economists know well that without productivity growth, the competitiveness of businesses stagnates or declines over time, depressing wages. Productivity growth raises the Canadian quality of life in the form of more quality jobs, higher wages, faster per capita GDP growth and greater adaptability to global economic shifts. There is no substitute for productivity growth.

Productivity growth does not entail people working longer or harder hours. It is about working more efficiently to raise output for each hour worked. It is about businesses investing in cutting-edge capital equipment, undertaking research and development (R&D) in new technologies and developing the skills of their employees. It involves making ambitious bets to bring promising new products and ideas to market. Government policies that focus on macroeconomic stability, low corporate taxes, the free movement of goods, capital and workers, openness to international competition, education and public infrastructure incentivize companies to boost productivity. The federal, provincial and territorial governments have undertaken ambitious initiatives to that end. There are areas where policy must go further. However, the onus is on Canadian business to respond to incentives.

Canada has much work to do. Though many home-grown companies enjoy productivity growth that places them on par with their international peers, Canada, overall, remains a notorious underperformer when it comes to labour productivity, and its record is worsening relative to its main competitors, notably the United States. According to the Organisation for Economic Co-operation and Development (OECD), Canadians on average worked a total of

<sup>37</sup> *Economy: Labour Productivity Growth* (Conference Board of Canada, July 2009)

1,725 hours in 2008, more than their counterparts in the United States (1,703 hours) and most European countries, including the United Kingdom (1,653 hours), France (1,544 hours) and Germany (1,430 hours), and only slightly less than their counterparts in Australia (1,732 hours). And yet despite these long working hours, Canada's labour productivity trails that of its OECD peers. Canadian productivity, already in decline since the 1970s, has slowed to a crawl since 2000, a trend not mirrored by other developed countries.<sup>39</sup> In 2008, Canada's GDP per hour worked was equivalent to only 78 per cent of the U.S. level and was below Australia (80.5 per cent), the United Kingdom (81.2 per cent), Germany (91.4 per cent) and France (96.2 per cent).

Canada's stagnant productivity growth over the past decades has negatively impacted the standard of living of Canadians. Between 1990 and 2008, Canada's per capita GDP slipped from fifth to 11th place among OECD countries.<sup>40</sup> Productivity grew by a paltry 0.8 per cent on average between 2000 and 2008, down from 1.6 per cent on average between 1973 and 2000. Canada's business sector productivity in 2008 was 78 per cent of that of the United States, down from 90 per cent in the early 1980s.<sup>41</sup> In 2008, the standard of living of Canadians was 16 per cent below that of Americans, with lower productivity accounting for 14 percentage points of that gap, equivalent to an annual income gap of almost C\$8,700 per person.<sup>42</sup> A greying workforce, on top of intensifying global competition in value-added industries, makes productivity growth an urgent task.

*GDP per hour worked in select countries as a percentage of U.S. GDP per hour worked, 2008<sup>43</sup>*

Country / Jurisdiction	Average hours worked per person in 2008	GDP per hour worked as percentage of U.S. (U.S.=100) in 2008
Canada	1,725	78.2
Australia	1,732	80.5
United Kingdom	1,653	81.2
Sweden	1,626	83.1
Euro-zone	1,597	84.0
Germany	1,430	91.4
France	1,544	96.2
United States	1,703	100.0
Netherlands	1,392	100.4
Norway	1,422	136.0

<sup>39</sup> Don Drummond and Alistair Bentley, *The productivity puzzle: Why is the Canadian record so poor and what can be done about it?* (TD Economics, June 3, 2010)

<sup>40</sup> Ibid.

<sup>41</sup> Kevin Lynch, *Canada's productivity trap* (Globe and Mail, March 25, 2010)

<sup>42</sup> *The Economic Edge: It's Canada vs The World* (The Canadian Chamber of Commerce, November 2009)

<sup>43</sup> OECD estimates of labour productivity levels (OECD.Stat Extracts)

## II. What businesses need to do to boost their labour productivity

Labour productivity is influenced by a number of variables including the amount and type of capital equipment available to employees, technological progress and organizational structure, the allocation and management of human capital and the economic policy and public infrastructure provided by governments. Businesses boost workforce productivity by upgrading their stock of capital equipment and by utilizing leading-edge technologies that maximize the overall efficiency of their operations, and hence, the value-added of each member of their workforce. They also increase their productivity by developing more innovative goods and services, accomplished by devoting resources to R&D and by extracting value from the fruit of that research and bringing it to market or using it to improve internal processes. The recruitment and retention of skilled people and the development of their full potential through ongoing workplace training is also essential to productivity growth. While most focus to date has been on recruiting skilled workers (when they were plenty), learning how to retain scarce skilled workers by better managing human resources will be an important task for companies.

### 1. *Driving labour productivity growth through investment in innovation, training and the adoption of international best practices*

Why businesses in Canada experience low labour productivity growth is a complex question that economists and policymakers have analyzed at length. Much of the lapse in labour productivity growth in Canada is attributable to a sagging corporate record on innovation—slumping corporate investment in high-technology capital

equipment and low expenditures devoted to R&D.<sup>44</sup> Canadian businesses are well behind other countries, including their American, British and German competitors, in investing in machinery and equipment, notably information and communications technology (ICT). In 2007, Canadian businesses invested 16 per cent less per worker in all machinery, equipment and software and 37 per cent less per worker in ICT, compared to U.S. businesses.<sup>45</sup> The Expert Panel on Business Innovation concluded that “too many businesses in Canada are technology followers, not leaders,” and that “a fresh discussion on innovation in Canada is needed, one that focuses on the factors that influence adoption of innovation-based business strategies.”<sup>46</sup> Canadian companies need to step up and do more to make the acquisition of more technologically-advanced capital equipment a cornerstone of their long-term business growth, in line with what international competitors are doing.

Canadian businesses’ expenditures on R&D also fall behind those of their counterparts in other countries. In 2008, business expenditure on R&D in Canada stood at 0.9 per cent of GDP (the second lowest in the G7), well below the OECD average of 1.4 per cent. What is more, Canadian businesses ranked 16th in the OECD in R&D intensity—the ratio of R&D expenditures to sales.<sup>47</sup> In its first public report, the Science, Technology and Innovation Council stated that it had made little progress in understanding why businesses around the world are more likely than Canadian companies to see R&D investments as contributing to their business goals.<sup>48</sup> There is a persistence of suboptimal linkages between the high-quality primary (blue-sky) research conducted in Canadian research institutions and universities, the venture capital markets that bet on promising ideas, and the companies that transform the fruit of primary research into

44 Grant Bishop and Derek Burleton, *A New Normal: Canada’s Potential Growth during Recovery and Beyond* (TD Economics, November 10, 2009)

45 “Opportunity in the Turmoil,” *Report on Canada* (Institute for Competitiveness & Prosperity and the Martin Prosperity Institute, April 2009)

46 Peter Nicholson, *Innovation and Business Strategy: Why Canada Falls Short* (The Centre for the Study of Living Standards, International Productivity Monitor Number 18, Spring 2009)

47 *The Economic Edge: It’s Canada vs The World* (The Canadian Chamber of Commerce, November 2009)

48 *State of the Nation 2008* (Science, Technology and Innovation Council, May 2009)

new and better goods, services and efficient operational processes through additional R&D. University-industry collaboration and economic clusters are important to maximize Canada's innovation potential, as is access to venture capital.

Insufficient investment in upgrading human capital at the managerial and sub-managerial levels through workplace training is also a stumbling block. Canada scores low among developed countries in continuous skills development in the workplace. According to a 2007 report by the Certified General Accountants Association of Canada, 28 per cent of all employees reported that they had unmet training wants or needs. Businesses must also adopt international best practices, in terms of technology-use and organization. A recent TD Economics report suggests that "Canadian businesses have not been effective at improving organizational structure," and that they "... have been reluctant to adopt the improvements made in foreign countries." Investing in capital, adopting new technologies, learning from global competitors and taking smart risks to bring innovative ideas to fruition are essential managerial aptitudes.

Service providers can assist companies to improve their operations and integrate best practices. For example, they efficiently fulfil business functions lying beyond client-companies' core mandates. Then there are consultancy services, which improve corporate organization and operations measured against top-level international benchmarks.

Successful small companies must be encouraged to grow into larger ones when expansion is welcomed by markets, to gain greater efficiencies of scale, wider profit margins and enhanced labour productivity. For this to happen, small businesses need adequate access to financial capital. Successful small business owners must also have the knowledge and ambition to grow their companies.

It is critical that businesses think of innovation as an investment they need to make to optimize the productivity of their workforce, and hence, their competitiveness at home and in markets overseas. Many Canadian companies are highly successful in global markets as a result of their commitment to innovation-led productivity growth. More Canadian companies, large and small, need to join their rank.

## *2. The need to better manage human capital across generations*

As businesses transition from an era when skilled workers in Canada were plenty to one when they are few, they will need to think about how best to retain these workers after having recruited them, and how to maximize their productive potential in light of employees' shifting job expectations. Unlike the under-skilled labour force, the smaller pool of skilled workers—in high demand—will have more leverage in advancing their professional goals with regards to employers. If employers fall far short of employees' expectations, these workers may transfer to more accommodating job positions. Some young professionals, less held back by homeownership or family ties, may also transfer to jobs in skills-seeking cities in the United States and overseas. Richard Florida of the Martin Prosperity Institute has spoken of a "creative class" of young professionals who are mobile and highly selective of where they want to live and work.

Enhancing management of skilled workers across generations by better matching their expectations with the operational requirements of companies will be a central labour productivity consideration for businesses in the decades to come.

Baby boomers are beginning to enter the older workforce category. As noted earlier, many older workers wish to continue working, but have neither the ability nor the desire to work full-time. The role of coach or mentor in transferring knowledge to younger colleagues, on part-time and flexible bases, will appeal to many

older workers. Not only that, such mentorship roles, by pairing experienced older workers with younger colleagues, will be essential to the retention of knowhow within companies and industries.

Then, there are skilled middle-aged workers (i.e. “Generation X”). According to Linda Duxbury of the Sprott School of Business at Carleton University, properly managing this category of employees will be especially crucial, given that businesses will need to replenish their managerial staff from this pool as baby boomers move into part-time work or retirement. However, this generation’s work ethic is different from that of the baby boomers. While they are willing to become managers, many put a greater premium on work-life balance than the baby boomers. To transform skilled “Generation X” employees into an effective managerial class, companies will need to develop these workers’ managerial skills through workplace training.

Finally, there are skilled professionals aged 29 and younger—in contrast with the young worker category that is underrepresented in the workforce and less skilled. These young professionals—dubbed “Generation Y”—tend to be less responsive to traditional command-and-control management. They are high-performance, prone to changing jobs and careers, and put a premium on work-life balance. Recruiting and retaining highly-skilled, highly-sought young professionals will require that companies understand their priorities and expectations: employability versus job security, career shifts and mobility versus lifetime employment, flexible working hours versus nine-to-five shifts, and the development of marketable skills and experience in the workplace versus ascension within the corporate hierarchy.<sup>54</sup>

Changing expectations within the skilled workforce are a difficult reality businesses will need to grapple with. For many businesses, pressure to adapt to a declining work ethic (lest skilled

employees leave) at a time of increasingly intensive global competition, will feel like being squeezed between a rock and a hard place. This matters even more for smaller businesses whose key resource is the dedication of their people. By fostering the development of skills in the workplace, businesses will be able to boost the efficiency of each hour worked by their employees in managerial and sub-managerial positions. Exchanging human resource management ideas with U.S., European and other business communities will be a worthwhile endeavour to that end.

### **III. Where government can make a difference—incentives for labour productivity growth**

Government can provide incentives for companies to enhance their labour productivity through the right policies and by making the right strategic investments. The federal government, in cooperation with the provinces and territories, the wider business community and other stakeholders, has taken commendable action to incentivize productivity growth.

Canada’s fiscal position has been consolidated since the 1990s. By strengthening macroeconomic soundness, healthy public finances create space for companies to make productivity-enhancing investments. Following the counter-recessionary stimulus in 2009, Canada is set to further shore up its public finances, making them the soundest in the G7. In the view of the OECD—shared by the Canadian Chamber of Commerce—“fiscal consolidation should be as growth-friendly as possible. Specifically, it means that on the spending side, growth enhancing programmes, such as on education, innovation and infrastructure should be preserved to the extent possible, and efforts, for example, to improve public sector efficiency and phase out inefficient subsidies should be

pursued. Moreover, consolidation measures should concentrate first on cutting government spending.”<sup>49</sup>

Other measures have also been taken. These include developing public infrastructure and broadband which serve as catalysts and incentive-bases for Canadian companies to undertake the needed action on innovation, as noted earlier. Then there are smart regulatory, taxation, trade and investment policies, which are crucial to the competitiveness of businesses and key to fostering labour productivity growth through more commercially-oriented innovation.

### 1. *Fostering labour productivity through more commercially-oriented R&D*

Enhancing productivity through innovation requires commercialization of leading-edge knowledge and discoveries made through research efforts. Canada’s record on primary research, conducted mainly in universities, is good. Where Canada falls behind other countries is in transferring research to the private sector, which develops and transforms promising new discoveries and knowledge into innovative goods, services and processes. University-industry partnerships need to be strengthened. Research alliances with universities provide businesses with access to highly qualified people and equipment and enable the sharing of costs and risks.

There are 25 university research and science parks in Canada that are home to over 750 high-tech companies and research centres, employing more than 39,000 people and contributing over C\$3.8 billion annually to the Canadian economy.<sup>50</sup> There is also great latent potential in colleges and technical institutes, which traditionally have not engaged in research activities. Yet they are well positioned to provide entrepreneurs and small- and medium-sized enterprises with applied research, business planning and prototyping services to help them innovate.

The federal government is taking positive steps to encourage more and stronger linkages between research institutions and the private sector, through initiatives like launching the new Small and Medium-sized Enterprise Innovation Commercialization Program, establishing business-led Networks of Centres of Excellence and supporting and directing the federal granting councils to accelerate the translation of knowledge into practical applications. The federal government, together with the provinces and territories, has also worked to bring the university and college research and knowledge communities together with businesses in sector-centric economic clusters located in cities across Canada. A good example is the development of economic clusters in Western Canada under the efforts spearheaded by Western Economic Diversification Canada. These government-coordinated efforts need to be continued. For their part, more Canadian companies need to strengthen their ties with Canada’s excellent research institutions and to bet ambitiously on promising discoveries. In addition, businesses must be engaged participants in the development of economic clusters.

**Recommendation:**

**That Canada continue to improve linkages between research and the commercialization of innovative products and processes, through the development of economic clusters in cities, and initiatives such as the SME Innovation Commercialization Program, business-led Networks of Centres of Excellence and the support of federal granting councils.** More Canadian companies need to strengthen ties with the research community, bet ambitiously on promising new discoveries and be engaged participants in the development of economic clusters.

<sup>49</sup> *Remarks by Angel Gurría, OECD Secretary-General, delivered at the International Forum of Americas* (Organisation for Economic Co-operation and Development, June 9, 2010)

<sup>50</sup> *The Economic Edge: It’s Canada vs The World* (The Canadian Chamber of Commerce, November 2009)

## 2. *An investment environment conducive to innovation*

A difficulty facing many Canadian businesses in upgrading their capital stock and in funding R&D is a lack of access to capital. Even with robust ties between research institutions and the private sector, developing promising blue-sky discoveries into goods and services is a long, expensive and inherently risky process. Even where they see potential behind discoveries, many companies simply do not have sufficient financial resources to devote to this process. This is especially the case for small and medium-sized enterprises (SMEs). In countries such as the United States, venture capital markets are broad, deep and specifically geared toward high-risk, high-return financing activities. It is venture capital that allowed thousands of garage start-ups in Silicon Valley to blossom into huge, innovative enterprises—productivity leaders. Risk capital of this sort serves as the bridge between primary research and the final product. While Canada's capital markets are among the strongest and most resilient in the world, Canadian pools of risk capital are not as broad or deep as those of many larger economies.

It will be important for Canadian companies to successfully compete to attract overseas investment, from the United States, Europe, and newer global investors in Asia and the Gulf region, to fund corporate growth in promising directions. Amendments to the Investment Canada Act in 2009 were a welcome step toward enhancing Canadian access to overseas investment, and it is important for Canada to continue actively welcoming commercially-oriented foreign direct investment in its sectors. Foreign direct investment gives life to promising business plans and brings innovative new technologies and practices to Canada. As Canada's robust financial sector continues to grow, greater regulatory and fiscal incentives should be provided to our country's financial companies to further develop their venture capital activities, including through linkages with pools of venture capital in the United States and elsewhere.

## Recommendation:

**That Canada continue to actively welcome commercially-oriented foreign direct investment.** In an era of globally integrated capital markets, it is important to maximize Canadian businesses' access to foreign investment needed to develop their capital stock, fund R&D and thereby boost productivity.

## 3. *Lowering businesses taxes*

It is vital for a country to have a business taxation framework that is conducive to innovation and growth. Low business taxes free up cash flows for large companies as well as for SMEs, whose financial resources are more limited, allowing for more investment in capital equipment, the training of employees in new skills and R&D. They enhance the competitiveness of Canadian companies at a time when they need to expand in world markets and raise Canada's appeal as a destination for overseas investment and as a place to setup and grow innovative businesses. As our global competitors have moved to lower business taxes over the past few years, the federal government has moved to keep Canada one step ahead of the pack. It is crucial that business taxes not be raised. That would stymie productivity growth and hurt Canada's standard of living. According to a recent study by Oxford University, a US\$1 increase in corporate taxes tends to reduce real median wages by 92 cents.<sup>51</sup> The government must move to lower the general business tax to 15 per cent by 2012, in line with its commitment.

The elimination of all general provincial capital taxes by 2012 and recent moves by Ontario and British Columbia to harmonize their retail sales tax with the General Sales Tax (GST) are equally conducive efforts. Retail sales tax harmonization must be pursued by the other provinces and territories.

<sup>51</sup> Perrin Beatty, *Corporate tax cuts necessary for economy* (thestar.com, April 12, 2010)

## Recommendations:

- 1. That the federal government lower the general business tax to 15 per cent by 2012, in line with its commitment.** Lowering taxes is key to labour productivity growth, as it frees up business cash flows with which to invest in physical and human capital and R&D.
- 2. That all the provinces and territories move toward retail sales tax harmonization with the General Sales Tax.**

#### 4. *Pushing education*

Unless Canada can fill a shortage of talented people in the labour force, it will be unable to conceive, create and deliver the innovative goods and services of tomorrow. Labour productivity hinges tightly on the availability of world-class human capital, in other words, people with high-calibre knowledge and skills. Since developing world-class human capital begins with education, which is a long-term process, the time for action is now. Canada's education system has greatly improved in many ways, and it must further strengthen the teaching of problem-solving, sciences and advanced mathematics at the primary, secondary and post-secondary levels. The aptitude of Canadian students in these subjects must quickly reach and consistently remain at the top of the international rankings. Intellectual curiosity, creativity, ambition, self-confidence, entrepreneurship and a robust work-ethic must also be nurtured in young Canadians, at school and at home to prepare them for professional success. The value of higher education must be emphasized, given our country's worrying post-secondary dropout rate.

Highly skilled workers include entrepreneurial, scientific and engineering talent. More must be done to encourage young Canadians to undertake post-secondary studies that provide them with the knowledge and skills that are sought in

sectors with real labour shortages and in sectors where Canada can develop commercially viable niches of expertise. The focus of post-secondary studies must be on the aptitudes needed in the knowledge-based economy. It is important that students continue to acquire advanced skills in mathematics, engineering and applied sciences through the excellent academic and vocational tracks in Canadian universities and colleges. Business schools must continue to train the next generation of Canadian entrepreneurs to be global-savvy businesspeople, ambitious leaders, innovative thinkers and smart risk-takers.

In addition, ensuring the labour productivity of Canadian companies going more global will require high-quality international skills, including a deeper knowledge of the world, specific countries and markets, and proficiency in the languages spoken in those major markets, such as Hindi, Mandarin, Portuguese and Spanish. Canada must encourage the study of priority foreign languages in high school and post-secondary institutions. While English will likely remain the global business language, speaking the local language provides a competitive edge to companies doing business overseas. Exchange programs between universities in Canada and overseas are also a useful way for young Canadians to develop their international skills.

## Recommendations:

- 1. That Canada's education system continue to equip students with internationally top-level communications, mathematics and science skills.**
- 2. That Canada's education system encourage students to undertake post-secondary studies in areas where there are real skilled-labour shortages and where Canada can develop commercially-oriented niches of expertise.**
- 3. That Canada's education system allow students to acquire international skills, including training in local languages spoken in key markets.**

- 5. Removing internal barriers to the free movement of workers, goods and investment in Canada*

Ensuring well-functioning markets is essential for growth in productivity. A well-functioning market is one that allows supply and demand, whether for labour, goods, services or financial capital, to quickly meet, match up and clear. In

virtually every other country and jurisdiction in the world, including federations like the United States and Australia, citizens and permanent residents move freely to look for employment within national borders, and goods are freely traded internally. In the European Union, people, products and investment move freely across the boundaries of member states. Today, Canada is almost unique in maintaining internal (inter-provincial/territorial) barriers on the internal free movement of both people and goods.

These barriers are a detriment to individuals' opportunity to improve their standard of living by working where they wish to and are a detriment to businesses which cannot hire the talented people they need from other parts of the country. The absence of complete labour mobility within Canada prolongs frictional unemployment unnecessarily in times of economic shift and keeps structural unemployment high. It is essential for people to be able to easily transfer to open job positions when and where they exist in Canada. It is also crucial for professionals and other workers to be able to work across provincial and territorial borders in both short- and long-term capacities. This is especially harmful to the services sector. Many services professionals are located in one part of the country, but are unable to provide their services in other provinces or territories on a one-off or continuous basis due to interprovincial barriers.

Similarly, while Canada is actively pursuing beneficial free trade agreements with other countries to dismantle international barriers to trade, it has yet to dismantle internal barriers to trade—more than a contradiction, these barriers are an anachronism. It is imperative for inputs, final goods and services to be exchangeable between companies and sellable to markets in different provinces and territories. The internal barriers harm productivity growth by adding unnecessary costs in financial terms and in timeliness for businesses, and by hampering the development of economies of scale.

Internal barriers on trade and labour mobility deny provinces and territories the benefits of greater innovativeness that the free-flow of products and skills bring to companies, by providing them with new ideas and incentivizing them to improve their products and operations, ultimately making them more competitive. Many of the myriad regulatory barriers on inter-provincial/territorial trade and the movement of labour are devoid of sound economic sense. Some are plainly of a rent-seeking nature. They foster a defensive, often protectionist mindset between the provinces and territories, a mindset that obscures the reality of a Canada whose economic competitors are global.<sup>52</sup>

The New West Partnership Trade Agreement (NWPTA) between British Columbia, Alberta and Saskatchewan that allows for the free movement of goods, services, capital and labour across these provinces is a move in the right direction. It is high time for the federal, provincial and territorial governments of Canada to come together and begin a forward-looking, results-oriented process that will lead to the rapid easing, and then swift removal, of inter-provincial/territorial barriers to the free trade of goods and services, free investment and free movement of labour within Canada. There are elements of the NWPTA that can be adapted for use in a pan-Canadian agreement. Where standards for regulated professions are concerned, a reasonable middle ground that is generally acceptable to provincial and territorial regulatory bodies must be sought.

## Recommendation:

**That Canada move to ease, then rapidly remove, inter-provincial/territorial barriers to the free trade of goods and services, free investment and free movement of labour within Canada.** Certain elements of the New West Partnership Trade Agreement (NWPTA) between British Columbia, Alberta and Saskatchewan could serve as the foundation for a nationwide pact. The wider business community in Canada believes the dismantling of inter-provincial/territorial barriers to trade, investment and labour mobility is imperative for Canadian competitiveness and productivity.

### 6. *Ensuring an open, competitive trade and investment environment*

Competitiveness in international markets leads to productivity growth, just as competition within a country does. The federal government's active efforts to expand Canadian access to world markets through the negotiation of ambitious, comprehensive free trade agreements (FTAs) with key economies, multilateral Doha Development Agenda (DDA) negotiations in the World Trade Organisation (WTO) and foreign investment promotion and protection agreements (FIPAs) is good for Canada in several ways. By opening the door to the Canadian market through bilateral and multilateral trade and investment liberalization, Canadian businesses also gain access to international markets far larger than their own domestic ones, a crucial determinant of prosperity for a trade-dependent country such as our own. It provides companies with opportunities to reduce costs through economies of scale across borders. Canadian consumers get access to more and cheaper products.

<sup>52</sup> Brian Lee Crowley, Robert Knox and John Robson, *Citizen of One, Citizen of the Whole* (MacDonald-Laurier Institute, True North, Vol. 1, Issue 2, June 2010)

Levelling the competitive, rules-based playing field for trade and investment brings new, innovative technologies, management strategies and workplace practices into Canada that can contribute to making the operations and management of Canadian companies more efficient. Rules-based, cross-border competition incentivizes businesses to boost their productivity through greater investment in improving the efficiency of operations in line with international best practices, training their employees and developing new and higher-value-added goods and services. It also leads to the creation of more quality jobs for Canadians. Naturally, it is important for competition to adhere to WTO and other international rules and norms.

**Recommendation:**

**That Canada continue to foster its international competitiveness through the liberalization and diversification of its cross-border trade and investment.** Bilateral free trade agreements (FTAs), multilateral trade liberalization and foreign investment promotion and protection agreements (FIPAs) open new markets to Canadian products and incentivize Canadian companies to boost their productivity.

**7. *Fostering investment in critical infrastructure***

There are certain types of strategic infrastructure, or critical infrastructure, which are needed by the private sector to allow for productivity to grow in the knowledge-based economy. Broadband access and transportation networks are critical. A government role is necessary in fostering, leading and coordinating public-private partnerships in developing such strategic infrastructure.

The development and deployment of high-speed, accessible and affordable broadband networks and facilities is vital to ensuring Canadian competitiveness and productivity in a digitally-driven global knowledge-based economy. Companies of all sizes use technologies such as the Internet to gather information and do business. Canada has slipped over the past 10 years from first place to 11th in broadband penetration, according to the Organisation for Economic Co-operation and Development (OECD)'s rankings. In addition, Canada is at the 15th spot in terms of average broadband speeds among OECD countries. Private sector-led investment and competitive market forces must continue to drive the rollout of broadband networks and facilities in Canada. Government can provide appropriate incentives to stimulate investment in next-generation networks.

Efficient physical infrastructure is a cornerstone of commercial prosperity and an enabler of productivity growth for a trade-dependent country such as Canada. State-of-the-art seaport, airport, border and transportation infrastructure, matched with fluid and reliable operation of that infrastructure, act as facilitators and catalysts of growth both in trade and in the number of jobs associated with trade. Transportation infrastructure facilitates the movement of goods and people in, out of and across Canada. It allows businesses located along the transportation network to create additional value—new products and expertise—around flows of products and people moving through Canada. Canadian cities located along the transportation network can grow into global business hubs and prosper by plugging their business and knowledge communities and clusters into expanding global value chains. Government efforts to bolster Canada's transportation networks and trade corridors such as the Asia-Pacific Gateway and the Detroit River International Crossing are positive and must continue, in a fiscally responsible manner.

## Recommendations:

- 1. That government incentivize private sector investment in next-generation broadband networks through appropriate tax incentives.** Broadband speed, access and affordability are key to driving productivity in the knowledge-based economy.
- 2. That government continue efforts to bolster Canada's key transportation networks and trade corridors, fiscal conditions permitting.**

## A fourth pillar? Demographics is destiny

Immigration will be an important part of the effort to replenish a skilled workforce, but it is no panacea, for the age profiles of new arrivals and the Canadian-born population are converging. According to a recent report by the C.D. Howe Institute, only implausibly huge increases in net immigration rates, more than 2.5 times those of the recent past, could offset the impact of lower fertility on workforce growth. The report found that even such increases and extreme age filters favouring younger workers could only slow the coming increase in Canada's old-age dependency ratio.<sup>53</sup> Raising the labour participation rate of young, older and disabled workers, and that of Aboriginal peoples, will mitigate the effects of an aging workforce, but will not suffice to meet long-term labour needs. This report emphasized the critical importance of labour productivity growth to make up for a dearth of skilled workers. Even so, a below-replacement fertility rate, should it persist, will pose a great challenge for Canada on an ongoing basis.

A total fertility rate just above replacement remains important to the prosperity of advanced economies. Having a skilled, youthful workforce reinforces innovation and entrepreneurship, allows for more savings and investment, and facilitates the maintenance of balanced public finances. Young professionals also tend to be more adaptable and mobile. Granted, Canada is certainly not a unique case. Most industrialized countries have experienced a demographic transition to low fertility rates over the past four decades. The fertility rates of nearly all European countries and Japan are well below replacement. According to United Nations projections (based on current trends), the populations of Germany and Japan will decrease by an astounding 14

and 20 per cent respectively by 2050.<sup>54</sup> Several developing economies are in the early stages of a demographic transition. Asian countries such as Korea and China that boasted high fertility rates only two decades ago have seen their fertility rates plummet below replacement. The fertility rates of India and many Latin American nations have decreased, but remain above-replacement. It is a global sea change. According to Peter Drucker, "the confluence of a bulging aged population and a shrinking supply of youth is unlike anything that has happened since the dying centuries of the Roman Empire."

A major concern for Canada is that it is set to diverge with its neighbour and closest economic partner and competitor, the United States, in demographic terms.<sup>55</sup> The United States is unique among industrialized countries in having experienced a surge in fertility to near-replacement levels in recent decades. The country's most dynamically growing region, the Southwest, has above-replacement fertility. Owing to its fertility rate and immigration, the U.S. population is projected to grow by *at least* 100 million between now and 2050.<sup>56</sup> This Canada-U.S. demographic divergence, coupled with the growing productivity gap between our two countries, could see Canadians' standard of living falling further behind that of their U.S. counterparts.<sup>57</sup> A greater abundance of younger workers and higher productivity south of the border could also pull investment away from Canada.

How does one explain the demographic dynamism of our southern neighbour? Delving into this question and its many plausible answers lies beyond the scope of this report. That said, many analysts cite Americans'

53 Robin Banerjee and William B.P. Robson, *Faster, Younger, Richer? The Fond Hope and Sobering Reality of Immigration's Impact on Canada's Demographic and Economic Future* (C.D. Howe Institute, No. 291, July 2009)

54 World Population Prospects: The 2008 Revision Population Database (United Nations, 2009)

55 Brian Lee Crowley, *Fearful Symmetry: The Fall and Rise of Canada's Founding Values* (Key Porter Books, 2009)

56 Joel Kotkin, *The Next Hundred Million: America in 2050* (The Penguin Press, 2010)

57 Brian Lee Crowley, *Fearful Symmetry: The Fall and Rise of Canada's Founding Values* (Key Porter Books, 2009)

“rugged individualism” and spirit of self-improvement through work (i.e. the “American Dream”). Others mention their general sense of optimism—even in difficult economic times such as these—in contrast to the relative pessimism (or declinism) found in parts of Europe and Japan, especially among younger people. The underlying idea is that people who are more optimistic about the future tend to be more willing to have children. Experts have noted the roles of family and community as grassroots social-support structures that incentivize couples to have children. Some have also pointed to religious sentiment, more prevalent in many parts of the United States than in Canada, Europe or Japan.<sup>58</sup>

The comparison between the U.S. experience and Canada’s can only go so far, due to the myriad social, economic and cultural realities that are specific to each country. The United States will face its own workforce challenges, such as a bulge in less skilled workers. In addition, prevailing trends may slowly change with time for any number of reasons. Nevertheless, since geography has placed our country next to the United States, the impact of demographic divergence, on top of a widening chasm in productivity growth between the two countries, is likely to be felt within our borders.

And then there is the question of how an aging population will affect Canada’s prosperity and place in the wider world. There are real geopolitical consequences worth pondering. A 2008 report by the Center for Strategic & International Studies (CSIS), an influential, bipartisan think-tank in Washington, found that the population and GDP of the developed world will decline relative to emerging powers, and with that, its share of global influence.<sup>59</sup> Will this not impact the rules and norms of an international system many in the developed world take for granted? How much of a voice will an aging, mid-sized country like Canada

have in safeguarding—let alone advancing—its economic and security interests, whether alone or in concert with others—especially if it is perceived to be in decline? Then, there is also the question of soft power (i.e. a country’s power of persuasion or attraction). Will the mores and institutions of demographically older, developed countries remain attractive and relevant to younger societies, or to ascendant powers for that matter?<sup>60</sup>

This is a fast-changing world, where incumbent powers find themselves rubbing elbows with emerging ones. Demographic vitality is not the sole factor contributing to a country’s international standing. Geography, natural resource endowments, the size and diversity of the economy, military strength and soft power also matter. Nevertheless, having a skilled and relatively youthful workforce remains important for a country’s economic vigour—moreover so when one factors the globalized, knowledge-based economy’s need for adaptable and mobile workers. A youthful, innovative and growing Canada will have the resources, vitality and ambition to play a significant international role. An older Canada risks becoming more inward-looking, risk-averse and less adaptable to change. It will be a Canada that matters less.

So how can the fertility rate be brought to or just above the replacement level of 2.1? This is a charged debate and there are no definitive answers. Some European countries, such as France and Sweden, encourage childbirths by providing government-financed incentives ranging from free childcare and public transportation benefits to sponsored vacation. The impact of such measures is questionable. For instance, while France and Sweden have higher-than-average fertility rates within Europe, these remain below replacement, and below that of the United States where such government-provided incentives are not in place. Also, fertility rates would not be nil in the absence of such benefits,

58 Joel Kotkin, *The Next Hundred Million: America in 2050* (The Penguin Press, 2010)

59 Richard Jackson and Neil Howe, *The Graying of the Great Powers, Demography and Geopolitics in the 21<sup>st</sup> Century* (Center for Strategic & International Studies, May 2008)

60 Ibid.

which raises the question of how much of a fertility rate can be attributed to government-financed incentives. And since they are financed by government, such measures actually risk creating a disincentive for having children by raising taxes or expectations of future tax hikes and can harm much-needed productivity growth.

It may be more useful for employers to adjust so as to allow young parents to better balance their jobs and children; i.e. flexible career patterns that permit parents to move in and out of employment, or to work on a flexible or part-time basis where feasible to accommodate the cycles of family life. In a wired world, it may be possible for some parents with young children to continue to work full-time, in part at home where they can tend to their children's needs. Naturally, it is important that flexible work patterns be implemented in ways that do not harm businesses' productivity. This calls for creativity.

Another great concern is that a smaller, young generation of Canadians may find itself having to bear an ever greater income tax burden to sustain the sharply increasing healthcare needs and other benefits of older Canadians. This could further deter people from having children. Shifting that tax burden to businesses is no solution either, since it would impair Canadian companies' global competitiveness and severely needed labour productivity growth to the detriment of wage growth and Canadians' overall economic well-being. At the end of the day, the fiscal burden on the younger generation—especially young families—must not grow. Should it grow, some of the most skilled and mobile workers may even choose to vote with their feet, by moving internationally. Canadians value quality public services. However, efficiency gains in the delivery of these services are imperative, as there will be a need to do more with less.

## Recommendations:

- 1. That work patterns become more flexible to allow young parents to better balance their jobs and children.** Flexible work patterns must be compatible with business productivity.
- 2. That the tax burden on young families not increase as the Canadian population ages, lest it further deter people from having children.**

# Meeting the demographic challenge ahead

Canada will need to work hard to mitigate the negative impact an aging population and workforce will have on its economic well-being and business competitiveness. In this report, the Canadian Chamber of Commerce has highlighted some of the key policy areas in which governments, business and other stakeholders must act, to ensure that Canada overcomes the demographic challenge ahead—the challenge of labour shortages—and continues to grow more prosperous. To address that challenge, there is no silver bullet solution to follow. Rather, it will be necessary for Canada to adopt a multipronged approach, built upon three pillars. Canada will need to:

- fully tap into the latent potential of groups underrepresented in Canada’s workforce;
- better attract and integrate the skilled immigrants Canada needs to meet its short- and long-term labour needs; and
- greatly enhance its record on labour productivity—output per hour worked.

The issues identified in this report give rise to larger questions with long-term implications for Canada; questions that must be addressed in the national discussion on the demographic challenge:

- How can the employability of young people be improved, and how can they be encouraged to pursue post-secondary studies—key to their long-term employability—even as they work?
- What barriers to the greater and more flexible participation of older workers in the workforce need to be undone, at a time when this demographic group is growing and living longer?

- What does Canada need to do to enhance the participation of Aboriginal peoples in the workforce, as full economic partners?
- What reforms to Employment Insurance (EI) are needed to enhance labour market adjustment at a time of scarcer human resources?
- What short- and long-term labour needs must our immigration system seek to meet?
- What must be done to ensure that recent immigrants to Canada secure gainful employment, commensurate with their often advanced qualifications?
- What can we learn from our experience with recent newcomers to Canada, and also from the experiences of other countries such as Australia, to improve the functioning of our immigration system?
- What must Canada do to ensure it can attract the world’s best and brightest—the talent our country needs?
- What must businesses do to boost their record on labour productivity, where Canada lags behind its competitors overall?
- How can innovation through more commercially-oriented R&D contribute to productivity growth?
- Where does the government play a role in ensuring taxation, trade and investment regimes that incentivize innovation?
- How will our education system prepare a new generation of Canadians equipped to meet the workforce needs of the knowledge-based economy?

- Do provincial barriers to the free movement of people, trade and investment within Canada not stymie labour productivity?
- What are the long-term implications for Canada of its wide fertility and productivity gaps with regards to the United States?
- How will low fertility impact Canada's place in a world experiencing significant geopolitical shifts?

The federal government, together with the provinces and territories, and by engaging the wider business community, professional regulatory and licensing bodies, academic institutions and the not-for-profit sector, has taken many significant measures to address the issues at hand. The progress realized to date needs to be further built upon. Governments must continue to play a key role in improving the legal and regulatory frameworks for labour markets to remove barriers to greater participation of underrepresented groups in the workforce. This includes reforming the pensions system and

Employment Insurance. Then, there is the need to enhance our immigration system to ensure that Canada can attract the best and brightest to cover short- to longer-term labour needs. We must see skilled new Canadians integrate into the workforce at levels commensurate with their qualifications. Finally, initiatives to incentivize labour productivity growth must be continued and extended.

At the end of the day, it is businesses that create jobs and employ people. Entering an era of scarcer skilled workers will require ingenuity on the part of companies in managing their human resources, in recruiting, training and retaining talented people. To remain competitive, companies will need to complement their workers with more investment in capital, R&D in new technologies and human capital development in the workplace at both the managerial and sub-managerial levels. They will need to look at what successful international competitors are doing and adopt their best practices.

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