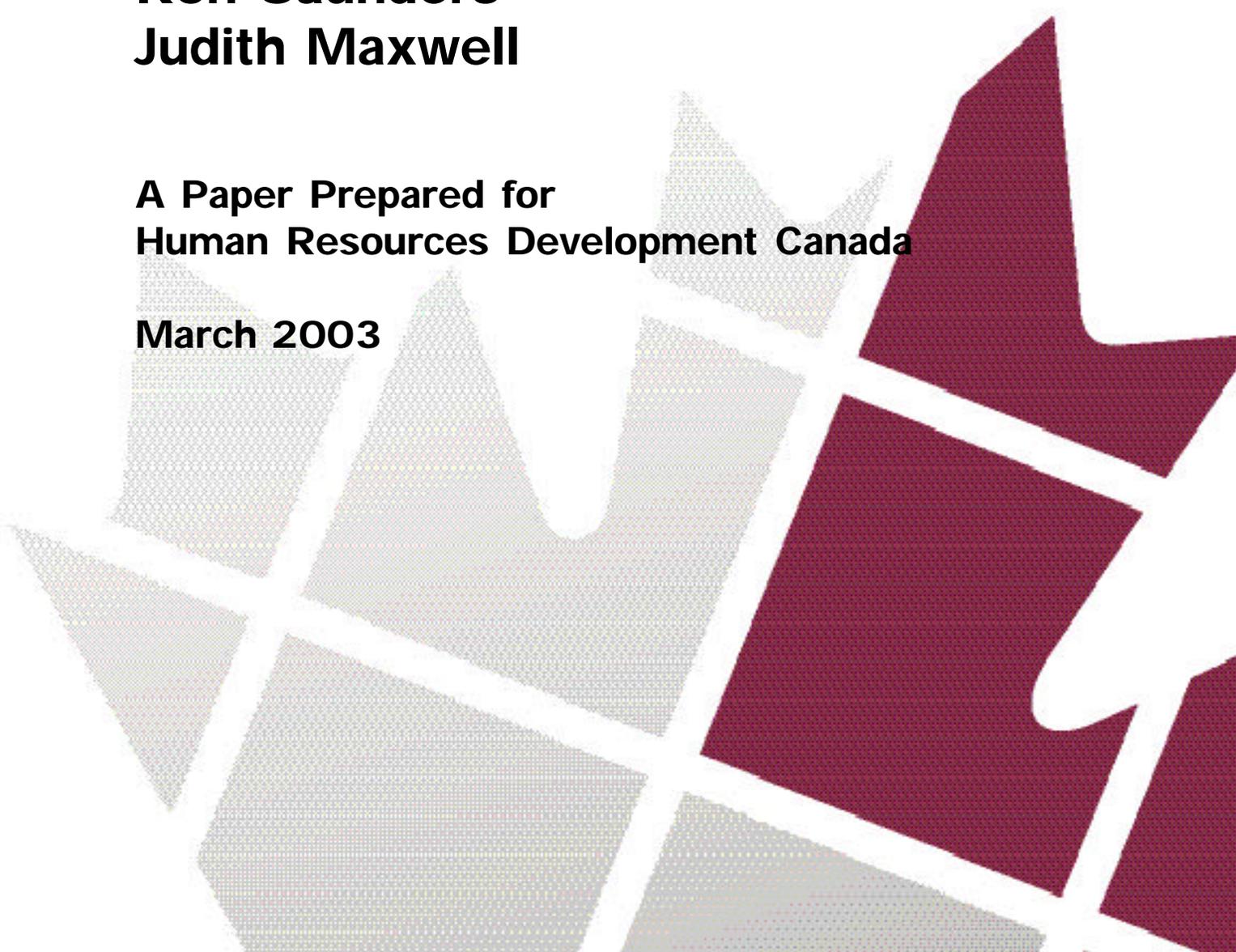


# Changing Labour Markets: Key Challenges Facing Canada

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**A Paper Prepared for  
Human Resources Development Canada**

**March 2003**





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# **Changing Labour Markets: Key Challenges Facing Canada**

Labour markets in Canada continue to be affected by three principal forces of change: globalization of competition; technological advances; and changes in the demographic structure of the workforce. This paper briefly reviews these forces of change and identifies three key labour market challenges that Canada faces over the next 5 to 10 years. The paper also identifies other labour market policy issues that are not being addressed by Canadian governments.

## **Forces of Change**

### **Demographics**

The aging of the baby-boom cohorts is a familiar aspect of labour market change. Labour force growth has slowed and a retirement bulge looms. Female participation in the labour force has grown over the last 25 years, but has now plateaued. Immigration is increasingly relied upon to meet the demand for skilled workers and support economic growth.

The ageing of the labour force presents a key challenge. Will skill needs be met? Will Canadians be able to realize their aspirations (regarding learning, work, and retirement) in their older years?

### **Technological Change**

Changes in technology have had a number of impacts on the labour market. They have contributed to the shift in Canada's industrial structure away from primary and manufacturing industries and towards services. Mass-production systems (large scale, standardized methods, highly delineated jobs) have been transformed into production systems characterized by smaller scale, greater flexibility in the organization of work, greater emphasis on skill, and flatter hierarchies.

Technological change has also increased the demand for highly skilled work relative to that for less skilled work, a phenomenon referred to in the economics literature as 'skill-biased' technological change. Studies by Kuhn (see, for example, Kuhn (1996)) and others point to this as the main reason for the rise in wage inequality in Canada and the United States.

### **Globalization**

The globalization of the economy has been characterized by:

- more mobile capital (resulting in part from greater protections for foreign investors in trade agreements such as NAFTA or through the WTO);
- freer trade in goods and services;
- enhanced mobility of highly-skilled workers;
- enhanced mobility of highly-skilled jobs (e.g., information technology work for North American companies being located in Asia);

- the growth of multinational corporations with head offices in one country, components produced in others, assembly in yet others; and
- enhanced flows of new ideas and technology across borders.

Globalization, by making the markets for goods and services more competitive, has heightened the need for economic and social policies to foster competitiveness. It has also put a higher premium on workplace practices that support flexibility and adaptability, such as multi-skilling, teamwork, and pay-for-performance schemes. There is also evidence that globalization has contributed to a reduction in wage differentials across countries for labour of similar skill, but has (along with technological change) led to an increase in wage inequality between lower and higher skill levels within high-wage countries. (Chaykowski and Gunderson, 2001, pp.33-34.)

By enhancing the mobility of capital, globalization has arguably constrained government policy such that policies that are seen as weakening economic efficiency are avoided as they could lead to capital flight. However, while globalization constrains policy choice, it does not eliminate policy discretion. As Chaykowski and Gunderson (2001) have noted, labour market interventions, if well-designed, may correct for market failure and enhance efficiency. For example, occupational health and safety regulation can be seen as addressing what would be a lack of information about hazards in the workplace, leading to better outcomes for both the firm and its employees. Moreover, Banting, Sharpe, and St-Hilaire (2002) have pointed out that recent research does not support the view that countries with greater income inequality have higher economic growth.

## **Key Labour Market Challenges**

In light of these forces of change, the three key labour market challenges facing Canada over the next 5 to 10 years are a) the inclusion of vulnerable workers, b) achieving better work-life balance, and c) societal aging. We deal with each one in turn.

### The inclusion of vulnerable workers in work that provides adequate income and basic employment rights

The new labour market is, to some extent, characterized by highly educated “knowledge workers” whose skills are in demand. However, while the share of high skill jobs in the economy has increased, many low-paid jobs still exist. The result is that not all workers are in a position to capture the benefits of a strong economy. A large part of the labour force works for low pay, without representation, and with poor prospects of improving their conditions of work. Many of these workers are highly educated. We will deal with the issue on two dimensions – the incidence of low paid work and access to employment rights and benefits.

#### ***1. Low Paid Work***

Almost 2 million adult (aged 20 or over) Canadians work for less than \$10 an hour. About one-third of these workers are the only wage earner in their family. Almost two-thirds of them are women. The barriers they face to improving their pay may include such factors as lack of

educational or professional credentials (including lack of recognition of credentials acquired by immigrants in their home country), skills that are outdated, disability, and discrimination on the basis of age, gender, or race. Yet over a third of these workers have a post-secondary diploma or degree.<sup>1</sup>

We need to understand better the incidence and implications of low paid work. To what extent is low paid work concentrated among women, recent immigrants, Aboriginals, and disabled people? To what extent do adult workers remain in low paid jobs for long periods? What are the consequences of long duration low paid work for health, human capital development (including effects on children), and productivity growth?

We also need to understand better the instruments that may assist low paid workers. Are there ways to build a social consensus on how to support the inclusion of these workers in jobs with adequate pay? What are the appropriate roles and responsibilities of the individual, the community, employers, and government in this regard? Does government need to provide more support for programs to improve the skills of employed workers? Is there scope for increases to minimum wages across the country without significant adverse employment effects?

## ***2. Access to Employment Rights and Benefits***

Employment rights refer to statutory minimum standards of employment such as minimum wage, overtime pay, hours of work limits, public holidays, paid vacations, notice of termination, and job protection for maternity or parental leave. Such employment protections typically apply only to those in traditional employment relationships. They do not apply, for example, to those who operate as independent contractors. Moreover, some of these standards only become operative after the worker has been employed for some minimum period of time, which means that those who work in a series of short-term employment relationships with different employers may lack access to the full scheme of statutory minimum standards.

Employment benefits refer to non-wage perquisites that are not required by statute. They are provided by employers on a voluntary basis, or as the result of a collective agreement with representatives of the employees. This would include such matters as extended health plans (including pharmaceuticals), dental care, sick leave, long term disability benefits, group life insurance, and pension plans. Non-standard workers – those not in paid, permanent, full-time employment with a single employer – are typically excluded from some or all of such benefit plans, although employees of temporary help agencies may have access to some of these benefits.<sup>2</sup>

To the extent that many workers lack access to employment rights and benefits, the question is raised as to whether and how such access should be extended. As Langille (2002) has asked, are there platforms other than the contract of employment for delivering such rights and benefits? What are the pros and cons of increased regulation? What non-regulatory measures may assist? To what extent could associations based on occupation, profession, or “craft” serve as a vehicle for providing benefits to non-standard workers? And finally, what are the trends in non-standard employment? Is the share of the workforce employed in non-standard work arrangements growing and are some groups in society more affected than others?

It is important to recognize that even workers with regular, full-time jobs may still lack meaningful access to employment rights. In some cases, this may be because they are unaware of these rights. For example, they may be told that they are independent contractors, whereas in fact they are in an employment relationship. In other cases, particularly for workers who are low paid and lack representation, they may be reluctant to assert their rights. In these circumstances, real access to minimum employment standards depends upon the extent to which government regulatory bodies are successful in identifying high risk sectors and employers, and taking active measures to foster compliance. This may involve such measures as proactive audits of employers in high risk sectors, awareness campaigns, and using transparency as a policy instrument by publicly identifying serious or repeat offenders. It would be useful to examine best practices among labour departments across the country in this regard, and identify what would be required to enable such practices to be used more widely.

### **Achieving Better Work-life Balance**

Research by Duxbury and Higgins (2001) indicates that work-life conflict increased in the 1990s. People are working longer hours and many are bringing work home from the office (with the help of new technologies). The result is that workers report more stress, more health problems, less job satisfaction, greater difficulties in managing family responsibilities, and less commitment to their employer. While women continue to feel more overloaded than men do, the problem is large and growing for both genders.

The toll is not just a personal one. A high level of work-life conflict leads to employer costs through, for example, higher absenteeism. There are also societal costs through greater use of the health care system. There is also evidence that employees experiencing high work demands choose to have fewer children, or none at all.

The challenge is to find a path to reasonable workloads and to greater support by managers for employees to find the time to meet personal and family needs. Given the competitive pressures that firms face, the path needs to be one that is seen by employers and managers to be consistent with high levels of productivity and competitiveness. However, given the evidence of effects of work-life conflict on morale, absenteeism, turnover, and commitment to the organization, opportunities surely exist for ‘win-win’ solutions to be found. Partly this depends on leadership from far-sighted executives in individual companies. But there is also a challenge for governments to find a policy mix that better supports the objective of work-life balance. The mix might include regulation, education/exhortation, financial incentives, and support for further research. As Duxbury and Higgins have noted, governments also have an important role to play in setting an example for other employers.

While awareness of the challenge of work-life balance has certainly increased in the last decade, and some employers have adapted HR practices, the dimensions of the problem have increased significantly since 1991, particularly “role overload”<sup>3</sup>. If we cannot find a way to change workplace practices to achieve better work-life balance, we risk the possibility of some combination of reduced labour force participation and further cutbacks in personal and family time.

## **Societal Ageing**

The ageing of the baby-boom cohorts is a much-discussed phenomenon, and its implications are debated. In particular, there is disagreement as to whether the ageing of the workforce is likely to generate widespread skill shortages. Some, especially employers who rely on skilled tradespeople, have argued that severe skill shortages loom. Others have pointed out that the younger cohorts are more highly skilled than their predecessors, that there is still some aggregate slack in the labour market, and that there is plenty of opportunity for older workers to work longer, so skill shortages are unlikely to be a serious problem. Given differences in skill requirements across sectors, it is likely that elements of both views are correct.

We need to understand better what are the different views of the demographic shift from the perspective of demographers, sociologists, human resource specialists, union leaders, and others. How does the demographic picture differ by sector? What evidence is being relied upon by the participants in this debate? Where is the information solid, and where less so? Answers to these questions are important for informing public policy on matters such as immigration levels, support for apprenticeship programs, incentives for the upgrading of employed workers' skills, and the scale of other active labour market measures.

However, some policy needs seem clear regardless of how the skill shortages debate is resolved. For example, it is surely desirable, regardless of the level of immigration, to enable immigrants to fully utilize their skills, through, for example, measures that facilitate the recognition of their credentials, or the speedy acquisition of Canadian credentials. It also seems clear that, with an ageing population and growing life expectancies, we need policies that facilitate people continuing to work into their 'retirement' years. This is desirable both from the point of view of society, to sustain the producer-consumer ratio, and from the point of view of the individual, in helping people stay active and utilize their skills and knowledge. In particular, we need to identify and dismantle the barriers to partial retirement, and support learning by older workers.

More generally, it is clear that the old model of full-time school followed by full-time work followed by full-time retirement no longer works. In an ageing society characterized by the need for continuous upgrading of skills, Canada needs a more flexible approach to work and learning over the life cycle.

## **Other Labour Market Policy Issues that Need Attention**

In addition to these key challenges, other labour market policy issues that are not being adequately addressed by Canadian governments include the following.

- *Meeting the need for post-secondary education.* Post-secondary education (PSE) is generally regarded as important for gaining the skills, knowledge, and credentials needed in a knowledge-based economy. The participation rate by young people in PSE has grown. However, barriers to access to PSE are emerging. Moreover, at least in some jurisdictions, the capacity of the PSE system to meet demand without compromising quality is in question.

- *Identifying and supporting workplace practices that promote employee health.* Research is emerging that establishes causal links between human resource practices of employers and health outcomes of employees. (Work-life balance is one aspect of this.) Governments have a role to play in ensuring that the key findings of this research are widely accessible, in encouraging employers to adopt ‘healthy’ policies, and in behaving as model employers in this regard. They also need to ensure that the broader public sector (municipalities, schools, universities, colleges, hospitals) has the resources needed to implement such policies.

## **Conclusion**

The globalization of the economy and changes in demographics and technology continue to be powerful forces of change in Canadian labour markets. Key labour market challenges that Canada will face over the next five to ten years include assisting vulnerable workers, achieving better work-life balance, and identifying and addressing such implications of societal ageing as the need for more flexible approaches to retirement and the importance of lifelong learning.

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<sup>1</sup> 2000 Labour Force Survey micro datafile, cited in Maxwell (2002).

<sup>2</sup> Not all non-standard workers are vulnerable. For example, some are in permanent part-time jobs, and prefer to work part-time, although this may reduce their access to, or the size of, certain employment benefits. Some prefer to operate their own small businesses, and/or to act as contractors for other firms. But some workers are in precarious jobs (sometimes referred to as “contingent work”) and would prefer stable employment.

<sup>3</sup> “Role overload”, as defined by Duxbury and Higgins, “exists when the total demands on time and energy associated with the prescribed activities of multiple roles are too great to perform the roles adequately or comfortably”. In other words, it occurs when people have “too much to do and too little time to do it in”. (Duxbury and Higgins, 2001, pp.2-3). They report (p.14) that the percentage of the workforce experiencing high role overload increased from 47% in 1991 to 59% in 2001.

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