

Labour Force Ageing and Skill Shortages in Canada and Ontario

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Executive Summary

This report considers the ways in which the ageing of the labour force may influence skill shortages in Canada and Ontario. Concerns about the potential negative effects of skill shortages, defined as an excess demand for skilled workers, have been expressed by governments, labour organizations and many leading industry representatives. However, skill shortages are hard to measure empirically and there has been disagreement about the degree to which widespread skill shortages are currently being experienced in Canada, or are likely in the future.

Over the last few decades the skills required by employers have changed as a result of the shift from primarily resource-based to knowledge-based economies in Canada and Ontario. At the same time, there are important demographic changes underway worldwide. As in other industrialized countries, the labour force in Canada and Ontario is ageing, due to lower fertility, longer life expectancy, and the ageing of the baby boom. In the past, most people's working lives extended from their late teens or early twenties, when they finished education, to between 60 and 65, when they retired from paid work. Now, there are three important shifts taking place. First, young people are taking much longer to complete their education and begin a career job. Second, many people are ending their careers earlier than 60. And third, because of demographic ageing, the proportion of the population of working age is expected to become smaller in coming decades. In fact, the Canadian labour force is projected to shrink in absolute size after 2016.

In the 1990s, it was widely suggested that the ageing of the Canadian labour force would have negative effects for the Canadian economy and on our standard of living more generally. Two types of concerns were raised. Many expected that the funding of pensions and health care would become problematic, resulting in higher taxes and poor economic growth.

The purpose of this study is to examine the second concern -- that older and smaller labour forces may lead to a shortage of skilled workers. Shortages may be caused by a number of factors, including technological change, hiring and retirement practices, issues surrounding training and education, and the nature of the work involved. This study argues that although there is not strong evidence of economy-wide skill shortages, the ageing of the labour force may interact with other factors to result in localized, industry-specific shortages. The age structure of some specific occupations and industries may put them at risk of experiencing skill shortages in the context of an older population. Thus the study concludes that skill shortages are not so much a looming "crisis" as a challenge that can be managed with careful planning by employers and policy makers.

The study unpacks the issue of skill shortages into four distinct questions.

- How will the age structure of the population evolve in the next 20 years?
- How do industries and occupations differ in their age structures and retirement ages?
- What is the relationship between skill shortages and labour force ageing?
- What structural and institutional factors affect skill shortages in particular situations?

The examination of the age structure of industries and occupations in Ontario shows that some industries and occupations have considerably older age profiles, as well as low average retirement ages. Occupations in health and education are older and are projected to have high cumulative retirement rates over the next decade, while occupations in information technology and sales and service occupations tend to be younger and are less at risk of large-scale retirement.

The examination of four “cases”, including nursing, information technology, skilled trades in manufacturing, and the biotechnology sector in Ontario demonstrates that age structure alone does not determine future skill shortages. The case studies identify four key factors that affect skill shortages: the age structure of the current work force, the length of time required to train, the geographic mobility of workers, and working conditions that make it difficult to attract or retain workers.

Some occupations, such as nursing, do risk potential labour shortages due to retirement. However, this is also related to the nature of the work, involving long hours, difficult working conditions and irregular shifts, which may lead many nurses to opt for early retirement. The length of training and competition from other jurisdictions for Ontario nurses also makes it difficult for the profession to recruit new members.

On the other hand, the information technology sector is much younger, with little threat of retirement-related shortages. However, the young age structure may indicate potential problems for IT firms hoping to recruit in an older labour market. Other factors which affect potential skill shortages include the geographic mobility of work and people, and whether skilled workers are likely to immigrate to fill these jobs.

This paper considers several policy options that may increase the flexibility of labour markets in meeting the demand for skills, particularly in relation to labour force aging. These policy options include the following:

- Use immigration policies to more directly target skills in short supply
- Encourage higher rates of labour market participation among groups that are under-represented in the labour market, such as Aboriginal people and lone mothers
- Remove barriers to training and labour force participation more generally
- Promote phased retirement and workplace flexibility policies that would encourage the participation of older workers
- Promote *life-long learning* and *active ageing*, including training throughout working life and promotion and advancement opportunities for older workers; and
- Seek an age-balanced workforce, in which employers actively recruit to create the optimal age structures for their enterprises.

The overall conclusion of the study is that skill shortages will likely emerge in specific industry, occupations, and locations in coming decades, depending on a wide variety of economic, demographic and workplace-specific factors. One of these factors is the ageing of the Canadian and Ontario populations. As the Canadian labour force ages, employers and policy-makers will

have to become much more age-oriented in their decision-making. Good planning will be needed to prevent skill shortages and to overcome them, when they emerge.