FROM THE PRODUCTIVITY GAP TO A SHORTAGE OF SKILLED LABOUR

Sean Finn

Canada suffers from a well-known productivity gap with its major partners and competitors. And despite balanced budgets, reduced debt and healthy surpluses, Canadians, as individuals and businesses, are still paying “too much tax,” to quote Finance Minister Flaherty from his 2007 budget speech. But then, notes the Chair of the Canadian Chamber of Commerce, “he proceeded to do very little about it,” in a budget that saw program spending rise by three times the rate of inflation. But perhaps Canada’s most pressing economic challenge, writes Sean Finn, is a “looming skills shortage” in the labour market. He offers some thoughts on addressing it.

Le Canada souffre d’un écart de productivité notoire vis-à-vis de ses principaux partenaires et concurrents. Et malgré des budgets équilibrés, une dette réduite et d’excellents surplus, nos citoyens et entreprises continuent de « payer trop d’impôts », disait le ministre des Finances Jim Flaherty dans son discours du budget 2007. Mais selon Sean Finn, président de la Chambre de Commerce du Canada, le ministre n’a guère donné suite à ces propos en déposant un budget dont les dépenses de programmes ont triplé par rapport au taux de l’inflation. Pour autant, notre défi économique le plus pressant réside sans doute dans l’« imminente pénurie de main-d’œuvre » qui frappera le marché du travail. L’auteur propose quelques idées pour relever ce défi.

Canada is falling behind. It’s a well-documented fact that our productivity has dropped to just 78 percent of that of the United States. Among the 30 members of the Organisation for Economic Co-operation and Development, Canada now ranks 17th in productivity.

Our lagging productivity has not only undermined our competitiveness around the world, it has lowered our standard of living at home, to more than 20 percent below that of the US. That translates into an annual income gap of about $8,100 per capita (at today’s exchange rate) compared with the average American. If we don’t turn things around, the gap will almost double in the next decade.

Over the long run, if Canada’s productivity and standard of living continue to lag, our ability to support and pay for programs like education, health care and public infrastructure will be compromised, and so will our quality of life.

The Canadian Chamber of Commerce addressed these issues in a 2006 report to the federal government, called Towards Canada’s Prosperity: Tackling the Barriers to Productivity Growth.

We offered a number of specific recommendations that would help create the right climate to increase our productivity and competitiveness. They included:

- Reducing personal income tax rates across all income tax brackets.
- Reducing the general corporate income tax rate.
- Bringing down the debt-to-GDP ratio to below 25 percent by 2012.
- Limiting the growth in program spending to about 3 percent a year.
- Launching a national action plan to address the critical shortage of skilled labour in Canada.
- Reducing unnecessary regulations and burdensome paperwork.
- Increasing investment in higher education, research and development and infrastructure.

Did the government listen? We thought so. Our paper was remarkably similar to the “Advantage Canada” document rolled out by Finance Minister Jim Flaherty during his fiscal update in November.

There seemed to be widespread agreement about what needed to be done. Since then, however, the government appears to have lost its productivity focus. It needs to get it back.

Much has been written and said about the fact that Canada’s high taxes and proliferating public sector spending have to be sharply reduced for our businesses to compete vigorously at home and internationally.
Canadians remain one of the most heavily taxed people in the world. The average family in this country spends approximately 45 percent of its income on taxes. Our general corporate income tax rate of 34.2 percent is higher than China’s and India’s.

In his 2007 budget, Finance Minister Flaherty stated, “Canadians still pay too much tax.” Then he proceeded to do very little about it. He did, however, do a lot about government spending — it’s projected to increase by 7.9 percent in fiscal 2006-07.

Certainly, with a budget surplus of $13.2 billion in fiscal 2005-06 and forecasted to be $9.2 billion in 2006-07, the government has the means to deliver the tax cuts Canada needs to improve its productivity.

It has chosen not to.

Other priorities require quick, bold action as well, none more urgently than an issue that the Canadian Chamber highlighted in Towards Canada’s Prosperity — and that’s our shortage of skilled labour.

As it has in most Western industrialized nations, which are characterized by rapidly aging populations due to low birth rates and a continual rise in life expectancy, the skilled labour shortage has become a significant challenge for Canada. Whether it’s a lack of technicians for manufacturing in Ontario and Quebec, skilled trades-people in Alberta, truckers in the Maritimes or high-technology developers in BC, our businesses face a chronic shortfall in skilled workers.

It’s estimated that in the construction industry alone there’s a shortage of between 35,000 and 60,000 workers. This isn’t simply a human resources issue. It’s an economic issue — it’s about finding the workforce Canada will need to sustain us into the future.

How did we come to face this looming skills shortage?

The reasons are many and complex. They include an aging workforce as the baby boom generation approaches retirement, increased and even unprecedented demand in certain sectors of the economy, too few apprentices, an education system that needs to be better linked to the job market and poor use of immigrant skills.

In 1946, at the outset of the baby boom, seniors — those 65 and over — accounted for a mere 7.2 percent of the Canadian population. Today, they account for more than 13 percent.

Meanwhile, the proportion of Canadians aged 19 and under has declined sharply — from more than one-third of the population in 1946 to less than a quarter today. If the trend continues, in half a century there will be more seniors in Canada than children and young people.

Canada grows older, as its workforce. As older workers retire, or decide to work part-time, the shortage of skilled labour deepens. At this rate, we’ll be short one million skilled workers by 2020.

Last September, we called on all levels of government to launch a “national business action plan” that would help address the challenges facing Canadian business due to our aging population and acute shortages of skilled workers. We recommended that a national plan include the following initiatives:

- Finding innovative ways to retain older workers in the workforce (including tax credits and flexible hours).
- Mechanisms for increased labour mobility across provincial and territorial jurisdictions.
- Accelerated targeted immigration and better recognition of foreign credentials.
- A strategy to attract more students into technical and skilled occupations.

We went farther than simply making recommendations on what the plan needed to include. We decided to undertake a comprehensive study on Canada’s skilled labour shortage, an investigation that would ask tough questions and provide straight answers.

The study, now well underway, is based on four key elements or pillars:

- Reforming pension and benefits regimes.
- Improving labour mobility in Canada.
- Skills development and training.
- Finding tomorrow’s labour force.

When it comes to pensions and benefits, it’s vital to consider whether existing policies create barriers that inhibit or even prevent older workers from staying in the workforce. We need to fully utilize the extraordinary energy and talents of mature Canadians — not penalize them for wanting to work.

The second element of the study, improving labour mobility, is rooted in Canada’s very DNA.

We’re a trading nation. Almost 40 percent of our GDP comes from exports, and yet some of our own provinces still restrict trade with each other. Alberta and British Columbia have got it right. Their TILMA agreement — trade, investment and labour mobility agreement — was a huge step in creating an open and efficient economic environment.

We’re a trading nation. Almost 40 percent of our GDP comes from exports, and yet some of our own provinces still restrict trade with each other. Alberta and British Columbia have got it right. Their TILMA agreement — trade, investment and labour mobility agreement — was a huge step in creating an open and efficient economic environment.
place, and the concept of unrestricted trade is being discussed in Atlantic Canada as well.

Through the study’s third element — skills development, training and funding — we’re examining ways of better matching the supply of skills with the demand for them.

The final element of our study, “Finding Tomorrow’s Labour Force,” represents perhaps the greatest opportunity for Canada.

Immigration is often cited as the go-to source for the talent of the future. Indeed, by 2011 we’ll see 100 percent of the growth in our labour market met by immigration.

Canada needs to do a much better job in the global competition for skilled immigrant labour. For example, it can take up to five years for a prospective immigrant’s application to be processed by Canadian authorities, and many qualified immigrants can’t get their credentials accepted in Canada.

We’ve all heard the stories about the physician from Southeast Asia who’s driving a cab in one of our major cities. That creates frustration and the departures of talented immigrants.

One-third of young male immigrants leave Canada with 20 years of arrival, and more than 60 percent who do leave depart within the first year, a Statistics Canada report found. The most desirable immigrants are the most likely to leave — 40 percent of them leave the country within 10 years of arrival.

The preliminary results of the Chamber study are expected by September. Those early findings, as well as the conclusions that will result from additional research, will do much to increase our understanding of the skilled labour shortage in Canada.

This issue has a great deal of meaning for me. I work for a company, CN, which operates in an industry with a rapidly aging workforce. The average age of a CN employee is 48. In the next five years, more than half of our workforce will be eligible for retirement.

With our industry association, the Railway Association of Canada (RAC), we’re preparing for that. In 2002, RAC identified many of the issues that would face the railway industry due to large-scale retirements, including the fact that the railway conductor and rail traffic controller occupations would be severely affected.

In response, the industry worked with colleges across the country to create pre-employment training programs. Last year, more than 150 students graduated from the industry college programs, greatly expanding the pool of qualified conductors and controllers.

All of us need to be thinking creatively about ways in which we can better utilize Canada’s vast human potential, which is critical to improving our national productivity.

Our economic future depends on it.

Sean Finn is chair of the Canadian Chamber of Commerce, which represents 170,000 members. Adapted from a speech in Halifax on June 15, 2007.

Prime Minister Harper and Finance Minister Flaherty give a thumbs-up to the 2007 budget. Sean Finn, chair of the Canadian Chamber of Commerce, finds that the government talks the talk without walking the walk on tax cuts, while allowing program spending to rise too quickly.