



Executive Action

August 2010

Sustaining the Canadian Labour Force Alternatives to Immigration

At a Glance

- ◆ Drawing more heavily on the under-represented portions of our national population—such as Aboriginal people—to boost workforce growth is an important option. But while a net increase in the workforce from these groups would be welcome, the gains would not be significant, relative to the overall size of the labour force.
- ◆ Another core option for sustaining economic growth is via faster increases in productivity.
- ◆ While other options for growing the Canadian labour force are available and should be pursued, immigration remains one of the most effective means of underpinning Canadian economic growth over the medium term.

In the July–August 2010 edition of *Policy Options*, we argued that increased immigration will be needed to sustain Canadian economic growth over the coming decades.¹ Our article “Canada’s Future Labour Market: Immigrants to the Rescue?” prompted comments and questions from readers on whether increasing immigration—from an annual level of about 250,000 today to 350,000, as projected in The Conference Board of Canada’s long-term economic forecast—is essential for future economic growth. Specifically, they asked, what other alternatives are available if Canadian labour force growth is to be sustained?

THE COMPONENTS OF ECONOMIC GROWTH

A country or region’s long-term economic growth potential is determined by three components: growth in its labour force, investment in physical or fixed capital, and productivity growth. Economic growth in the short to medium term can, of course, be influenced by many

¹ Glen Hodgson, “Canada’s Future Labour Market: Immigrants to the Rescue?” *Policy Options* (July–August 2010), 54–57.

variables—from government fiscal stimulus to the accumulation of inventories. But over a longer period, potential or sustainable growth is guided by the three fundamental factors of labour, capital, and productivity.

Each of these factors can, in turn, be broken down into sub-components. Long-term growth in the labour force, for example, relies on a mixture of elements—the domestic fertility rate, structural changes to the workforce (such as the growing participation rate of women or other under-represented groups), and new labour force entrants (such as immigrants).

Raising the participation rate of Aboriginal people, identified in the 2006 Census, to the national average would add 46,000 more workers to the Canadian workforce.

And why does economic growth matter? Simply put, it is the source of higher real living standards for individuals. Economic growth also generates a growing fiscal capacity for governments to provide the public services we value—such as health care, education, and infrastructure. Without economic growth, societies are challenged to divide a stock of income and wealth that is static—creating the potential for increased social tension.

OTHER SOURCES OF WORKFORCE GROWTH

What alternatives to immigration are there when it comes to sustaining Canada's workforce and economic growth? A first option would be to draw more heavily on the under-represented portions of our national population. These groups include Aboriginal people, visible minorities, immigrants already in Canada, women, disengaged youth, and people with disabilities. Similar arguments can be made for encouraging mature workers, who are considering retirement, to remain in the labour force. However, while a net increase in the workforce from these groups would be welcome, the gains would not be very significant relative to the overall size of the labour force.

Take the case of Aboriginal workers. Aboriginal people represent a rapidly growing segment of Canada's home-borne population, and they have the potential to play a larger role within the Canadian economy. According to the 2006 Census, the Aboriginal population aged 15 and older that year stood at 824,000. That number, therefore, represents the potential existing supply of Aboriginal people to the workforce. In 2006, the participation rate for Aboriginal people 15 and older was estimated at 63 per cent. If policies that brought the participation rate of Aboriginal people up to the national average of just over 67 per cent were designed and implemented, we estimate that would add another 32,000 workers to the Canadian workforce. While any structural increase would be welcome, that would still amount to only about 0.15 per cent of the workforce.

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Of course, actually increasing the participation rate of Aboriginal people is a task that could only be accomplished progressively over time. Much of the focus would be on the next generation of Aboriginal people now preparing to enter the workforce. The 2006 Census data identified 348,900 Aboriginal people aged 0–14. If the participation rate in the workforce for these younger Aboriginal people can be increased to the national average, an additional 14,000 Aboriginal workers would be provided over time. In sum, raising the participation rate of Aboriginal people identified in the 2006 Census to the national average would eventually add 46,000 more workers to the Canadian workforce—a valuable complement to an enhanced immigration policy, but not really material to the debate on the required immigration levels.

Going forward, Aboriginal people could make a much more important contribution to growth in the labour force over the medium term. Research by other organizations suggests that Aboriginal employment could grow by 200,000 by 2026 if the national average for

labour force engagement can be attained.² This is equivalent to a 1 per cent increase in total Canadian employment, or about 80 per cent of a single year's immigration at current levels. The increases would be most important in Manitoba and Saskatchewan, but would matter in other regions as well.

To raise the participation rate for Aboriginal people of all ages will require an array of policy interventions that encourage education and skill development and increased labour force attachment. These policies would need to be led by the federal government, but coordinated on the ground with Aboriginal leaders, with each province, and with the cities and regions where many Aboriginal people have chosen to live. The policies would also have to be designed for implementation both on and off reserve.

Increasing the skill levels of existing Aboriginal workers, and using those skills to their fullest, would help to increase the workers' productivity and income potential.

A reasonable first objective for the policy shift would be for the Aboriginal population to attain a high school graduation rate equal to the national average. Aboriginal Canadians who complete high school have a labour force participation rate virtually identical to that of non-Aboriginal Canadians.³ However, the current high school graduation rate for Aboriginal people living on reserve is only about 50 per cent, far below the national average for non-aboriginal Canadians of 90 per cent. The graduation rate for Aboriginal people living off reserve is a bit higher, at 67 per cent, but is still well below the national average.

The policy objective should be to achieve a successively higher high school graduation rate for each graduating class of Aboriginal students—providing a growing number with advanced core knowledge and skills, and a greater

appreciation of the life and career opportunities that lie ahead. In addition, increasing the skill levels of existing Aboriginal workers, and using those skills to their fullest, would help to increase those workers' productivity and income potential—one more positive contribution to the economy's growth.

Another viable objection would be the development and delivery of relevant Aboriginal training and skills programs to remote communities, on and off reserve. This could be achieved by the use of information and communication technologies—through Aboriginal institutions of higher learning, and via community-based Aboriginal learning systems. The programs would have to respond to the often unique learning and cultural needs of Aboriginal persons.

More detailed workforce projections for Aboriginal people—segmented by province and territory, age cohort, skill sets and knowledge, and other factors—would help to reveal the labour market opportunities and expected gaps. The projections would also underpin the development of enhanced education and social policies and practices aimed at increasing the labour force participation of Aboriginal people. For example, the development of a targeted Aboriginal labour market strategy would help to further integrate Canada's Aboriginal people into the labour force. Similar detailed labour force analyses and strategies could be produced for other under-represented groups, and for mature workers. The Conference Board of Canada has the experience and tools to produce such analyses, if there is adequate interest and support from businesses and governments.

While adding an estimated 46,000 more Aboriginal workers to the Canadian workforce would make only a small dent in the looming Canadian labour force shortage, there are numerous economic and social reasons why the option of drawing more Aboriginal people and other under-represented groups into the labour force growth should be pursued. The incomes of individuals in the groups identified could be increased, poverty could be reduced, and Canadian social cohesion could be advanced. Nevertheless, that option alone will not resolve the coming decline in Canada's overall economic growth potential.

2 See, for example, Andrew Sharpe and Jean-François Arsenault, *Investing in Aboriginal Education in Canada: An Economic Perspective* (Ottawa: Canadian Policy Research Networks, 2009).

3 The same is true for Aboriginal Canadians who complete university—they have virtually the same employment and labour force participation rates as those of non-Aboriginal Canadians.

FASTER PRODUCTIVITY GROWTH

The other core option for boosting economic growth is via faster increases in productivity (measured most simply as increases in output per hour worked). Productivity is about working “smarter”—producing more output for each hour on the job. It is not about working harder, as some people think. Here, Canada’s recent track record is less than stellar. We have under-performed on productivity growth for about 25 years relative to our Organisation for Economic Co-operation and Development comparators, particularly the United States. The result is an income gap with the U.S. that is currently estimated by The Conference Board of Canada at around \$7,000 per capita.

For many years now, The Conference Board of Canada has advised firms and governments to develop and implement a strategic plan to improve Canada’s dismal track record on productivity growth. As we have written previously, there is no silver bullet for increasing productivity growth—action would be required on many fronts. The following actions are key to success:

- ◆ Deepen Canada’s human capital through increased investment in people. Renewed public investment in education by governments, but also enhanced training and development by private firms, would contribute to human capital development in Canada.
- ◆ Foster stronger investment in physical capital. Recent tax reforms—such as the elimination of capital taxes by the federal and some provincial governments, and the lowering of corporate income tax rates—should create better incentives for capital investment.
- ◆ Invest adequately in public infrastructure such as transportation, which provides a foundation for the operations of a modern trading economy.
- ◆ Reduce barriers across the economy and improve the alignment of regulations. Some progress has been made on this front in recent years—such as the Trade, Investment, and Labour Mobility Agreement (TILMA) between Alberta and British Columbia, and improved regulatory alignment between different levels of government on environmental assessments of projects. But this remains an unfinished agenda.
- ◆ Re-energize free trade and investment within North America and globally. (The recent Conference Board report *Re-Energizing Canada’s International Trade*:

*Strategies for Post-Recession Success*⁴ provides detailed analysis and guidance on how to strengthen trade policy and strategy.)

- ◆ Perhaps most importantly, foster a culture of innovation in private and public sector organizations that encourages ongoing change.

The prevailing economic conditions today may finally be ripe for an improvement in Canadian productivity growth. The combination of a structurally stronger loonie, and the expectation of a much tighter labour market due to the aging of the workforce, may be sufficient to convince Canadian organizations—both private and public—that now is the time for greater innovation and for a jolt to productivity. But given our mediocre track record, we should not assume that innovation and productivity will automatically take off. Therefore, it is critical that we explore enhancements to policy and practice on all the fronts identified here.

CONCLUSION

Increasing the annual rate of immigration is one important option for maintaining Canada’s economic growth potential—but it is not the only one. We could also draw more heavily on the under-represented portions of our national population for growth in the Canadian workforce (such as Aboriginal people—although, as we have explained, this would make only a small dent in the expected national workforce shortage). Faster increases in productivity would lead to stronger economic growth, and the conditions are ripe for an improvement in Canadian productivity growth. But our uninspired track record to date suggests that achieving significant gains in innovation and productivity will be an immense national challenge.

While other options are available and should be pursued, immigration remains one of the most effective instruments available for underpinning Canadian economic growth over the medium term.

4 The Conference Board of Canada, *Re-Energizing Canada’s International Trade: Strategies for Post-Recession Success* (Ottawa: CBOC, 2010).

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by *Glen Hodgson*

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