

Wanted: Workers with the right skills

By Craig Alexander

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Almost every conversation I have with Canadian business leaders ends up in a discussion about the difficulty of finding available workers, and particularly those with the right skills.

This is consistent with the latest Labour Force Survey that reported the unemployment rate in Canada at 5.6 per cent in November, the lowest since Statistics Canada started collecting comparable data in 1976, and the latest Bank of Canada Business Outlook Survey that revealed 40 per cent of firms reporting labour shortages, with the intensity of the shortages increasing. This challenge poses a significant headwind on economic growth.

A key issue is whether there is an inadequate pool of labour or whether the available workers lack the skills employers need. The national unemployment rate is hovering around a four-decade low, so perhaps there are too few workers. But, low unemployment is not bidding up wages. According to the Labour Force Survey, wage growth has slowed in recent months. So, it could be that there is still slack in the labour market and the problem is inadequate skills. The issue is probably not black and white. We need more workers and we need workers to have the skills in demand in the marketplace. How can this be achieved?

There are workers who are currently not gainfully employed or are underemployed. For example, the unemployment rates for youths, immigrants, and Indigenous people are higher than the national average. Meanwhile, the labour force participation rate for women is lower than for men and many more individuals with disabilities could be part of the labour pool.

To remedy this, we need to break down barriers to labour engagement. For example, expanded

access to affordable, high-quality early-childhood education has been shown to increase female labour market participation. Increasing workplace access and accommodation is important for those with disabilities. Greater use of co-op and apprenticeship education can create more work-ready youths. These sort of recommendations, and others to raise labour participation, have been impactful in other countries and in parts of Canada when pursued. It takes time, however, for such policies to be implemented and their impact to occur.

If domestic labour is inadequate or doesn't have the right skills, the quickest policy response is to increase immigration. Canada's immigration target has been rising in recent years and it is welcome news that it will climb to 350,000 by 2021. Empirical studies show that greater immigration does not depress wages for domestic workers and that economic-class entrants, particularly those coming in via the provincial nominee program, can fill skill shortages, making these new workers complements to domestic workers since they allow domestic firms to expand. The focus should be on bringing in high-skilled immigrants, but it should also be noted that there is a need for lower-skilled immigrants as there is work Canadians simply will not do, but still needs to get done, such as crop picking and janitorial work.

Immigration can help address lack of workers and skill shortages, but the latter also calls for efforts to upskill the Canadian labour force. A starting point is for businesses to do more training. The Conference Board of Canada Learning and Development report shows that spending on training has increased in inflation-adjusted terms since 2012, but training

expenditure is well below the levels of the late 1990s and early 2000s.

Some firms complain that training is expensive, but they may not fully appreciate the benefits. Not only does training improve worker skills, but it also motivates employees, making them more productive and improving retention because individuals feel that their employer values them. One key challenge is that businesses tend to invest in specific skills training, but are reluctant to invest in general skills training because they cannot see the immediate value. Moreover, small and medium-sized firms lack the resources of larger firms to do training. If there is a market failure in terms of underinvestment in skills development, there is a role for governments to play in terms of subsidizing general skills training by all firms and specific skills training by smaller firms.

Canada should also step up its adult skill training programs. This includes specific training, but also involves getting the basics right in terms of literacy, numeracy and

essential skills. Digital literacy programs could be particularly important. However, we need a better tracking of outcomes and effectiveness of adult skills programs to ensure they are providing maximum value with available tax dollars. Canadian businesses should also be engaged in helping design adult skills curriculums to meet labour market needs.

To be clear, Canada's greatest strength is its people. Human talent is a key comparative advantage for the nation. However, tight labour markets may be constraining economic growth, which makes removing barriers to labour market participation a priority. Canada is also evolving into a knowledge-based, high-skill economy. This can create skills shortfalls, which some sectors are acutely feeling today.

Labour shortages are an increasing problem that needs to be addressed. The best news is that efforts by firms and governments to remedy the situation are also measures that would promote inclusive economic growth.

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