

The Implications of Slowing Growth in Canada's Labour Force

by Philip Cross



Summary

- Most projections show that the growth of Canada's labour force will continue to slow for years, with growth dependent on immigration as our population ages.
- However, the pandemic has reinforced the fact that projections about the future are inherently uncertain. Already, immigration fell sharply in 2020. The pandemic's effect on the long-term course of labour force participation of all workers and the human capital formation of youths are unknown but likely to be negative.
- Slower labour force growth underscores the importance of adopting measures that boost investment and productivity to sustain eco-

nomical growth in the long run. Canada can no longer rely on labour force growth to offset its poor investment and productivity record of recent years. A slowdown in economic growth would aggravate the difficulty of lowering government deficits, which have soared during the pandemic.

- Even before the pandemic, young people faced increasing difficulties getting established in the labour market and in their adult lives. Employment rates have fallen, partly as a result of higher minimum wages and partly from declines in the labour force participation rate. This is the opposite of what Canada needs to offset the accelerating aging of our population.

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Introduction

Labour is a key input into economic growth. This is especially true for Canada which has relied on rising labour inputs to partly compensate for its abysmal productivity performance in the past decade. So it is a concern that Canada's labour force growth is projected to slow in coming decades as its population ages, although it will still increase in absolute terms. Moreover, these projections were made before the pandemic, which is already slowing immigration and raising mortality, possibly further reducing the size of the labour force.

It is certain that the labour force of the future will be quite different from the labour force of the past due to immigration and aging. Immigrants will account for all of Canada's future population increase, and immigrants have historically chosen to settle in only a few large cities. There are several implications from Canada's aging population. While many will retire, others will stay active, but only on their own terms, including flexible hours and more part-time work and self-employment. This will make finding and keeping workers challenging for large employers, especially in the union-dominated public sector. The greater problem for our society is therefore more likely to be chronic labour shortages than mass unemployment caused by automation and technology.

Slower labour force growth continues a decades-long trend. Canada's labour force reached a peak growth rate of 3.8 percent in the early 1970s when the Boomer generation was arriving in the labour market and women were entering the labour force in record numbers. Once the impact of the Boomers arrival passed, labour force growth slipped below 1 percent by the early 1980s. It rebounded to a peak rate of growth of 1.7 percent between 1996 and 2006, when a booming economy

and labour shortages drew people into the labour force, including an historic reversal of the long-term decline in the participation of people over 55 years old. However, this surge in the labour force was short-lived despite record immigration, as the Boomers began to retire in large numbers especially after economic growth slowed significantly in the wake of the great recession of 2008-2009. Specifically, annual labour force growth slowed to 1.3 percent between 2006 and 2016 as retirements began to increase markedly.

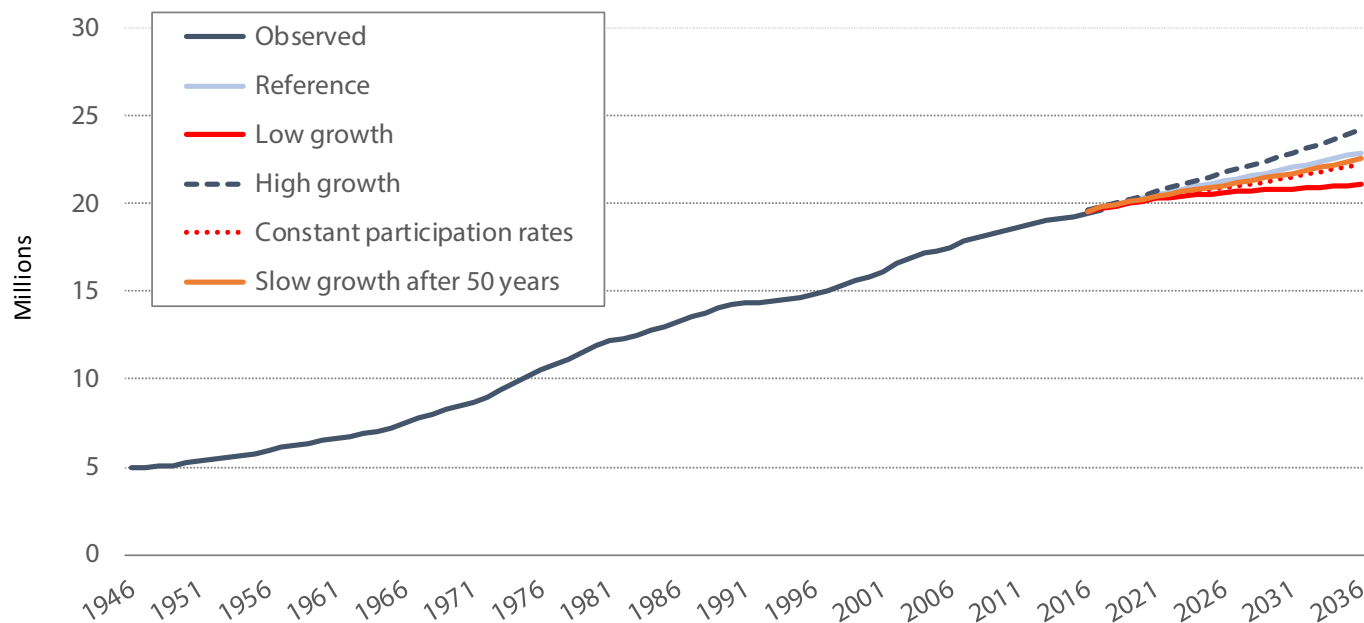
This paper begins with various Statistics Canada projections about labour force growth over the next 15 years, including a discussion of why all such forecasts should be viewed with some caution given their past errors and the added uncertainty that the pandemic has created. It then examines what a possible slowdown in labour force growth could mean for the economy.

Projected labour force growth

Statistics Canada has made projections of Canada's labour force based on five scenarios using its "Demosim model" (Martel, 2019). The reference (or base) case simply assumes labour force growth continues at a steady 0.7 percent as fertility is a constant 1.67 children per woman, immigration is steady at 8.3 per 1000 Canadians, and the participation rate of older workers continues to increase (figure 1). The high-growth scenario assumes the fertility rate rises to 1.88 and annual immigration gradually increases to about 1 percent of Canada's population in 2022, after which immigration stabilizes and labour force growth increases slightly from its current pace to about 0.8 percent a year. The low-growth projection incorporates a fertility rate falling to 1.53 and an immigration rate of 0.5 percent starting in 2022, which results in labour force growth dwindling to zero by 2026.

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Figure 1: Observed (1946 to 2017) and Projected (2018 to 2036) Number of Persons in the Labour Force According to Five Scenarios, Canada



Source: Statistics Canada, Labour Force Survey, 1946 to 2017; Demosim microsimulation model 2017 (2036).

Two other scenarios involve future labour force participation: in one, the participation rates are frozen at 2017 levels, while another allows the participation rate for older workers to continue to increase. Neither of these two scenarios involving participation rates produce results that differ significantly from the reference case (Martel, 2019: 4).

All the projections except the high growth scenario show some slowdown in labour force growth over the coming decades (see figure 2 below), although the labour force continues to grow in absolute numbers in all the scenarios. This slowdown continues in every scenario out to 2036. The high growth projection sustains labour force growth at about 1.0 percent a year on average, while the slowest growth scenario envisages growth slowing steadily to just 0.2 percent on average between 2026 and 2036.

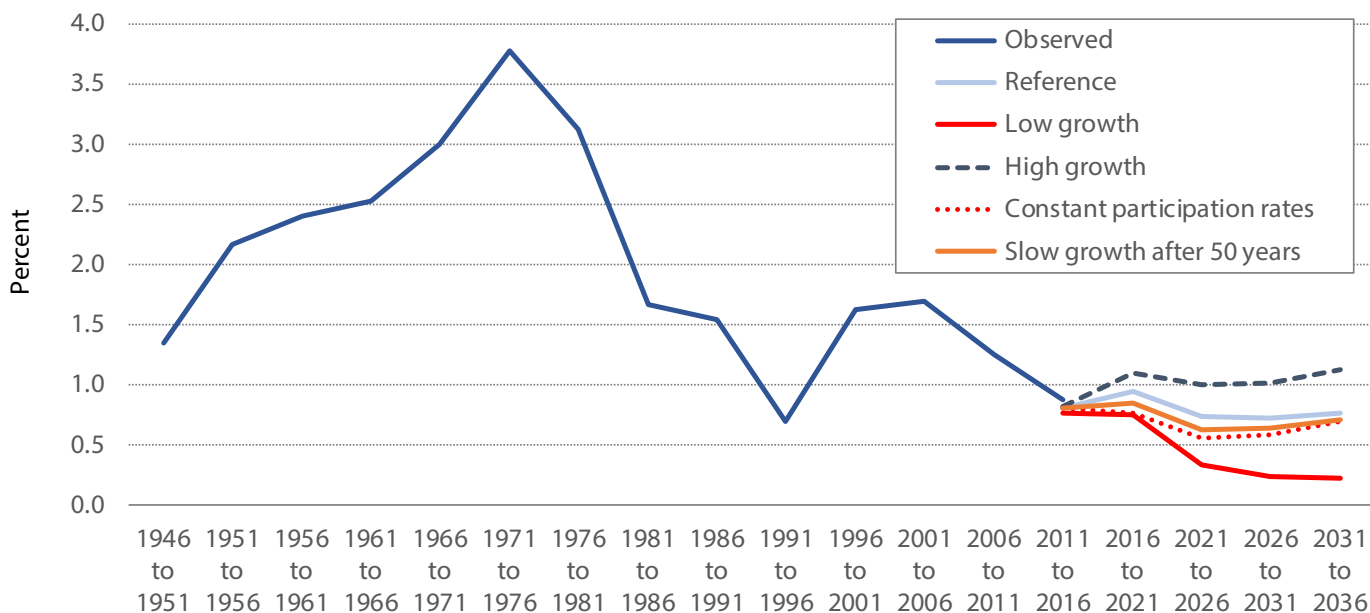
Immigrants are the dominant force behind the future growth of Canada's labour force. All the small gains in the low-growth scenario are driven by higher immigration; without it, the labour force would contract to below 19 million people by 2036 (Martel, 2019: 4). Immigrants made up 26 percent of Canada's labour force in 2016; in Statistics Canada's base case scenario, this rises to 34 percent in 2036, and 37 percent in the high growth scenario where immigration is higher (Martel, 2019: 5). Of course, immigrant flows are concentrated in Toronto and Montreal. If that continues to be the case, labour force shortages will become more severe in smaller cities and non-metropolitan areas.

Immigration rises, participation rates fall

Immigration dominates the future growth of the labour force because recent immigrants

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Figure 2: Observed (1946 to 2016) and Projected (2011 to 2036) Average Annual Changes in the Labour Force According to Five Scenarios, Canada



Source: Statistics Canada, Labour Force Survey, 1946 to 2016; Demosim microsimulation model 2017 (2036).

(those in Canada for 10 years or less) have a higher participation rate in the labour force than other Canadians, partly because they are younger.¹ The overall participation rate—defined as the share of the population 15 years and older that is employed or looking for a job—falls in every scenario thru 2036 as the population ages and older workers retire² from the labour force (figure 3). The aging of the population accelerates this decline in the participa-

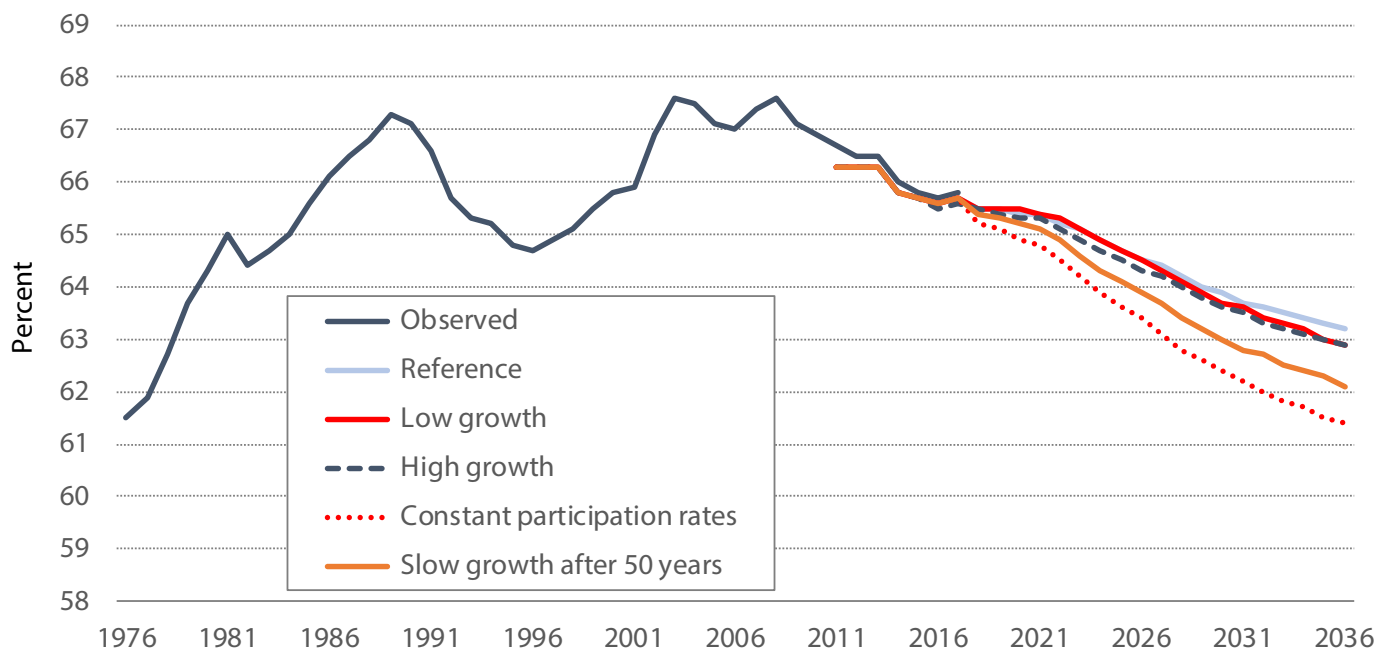
¹ The participation rate in 2020 for landed immigrants who were in this country for 5 or less years was 71.4 percent, and 73.5 percent for those arriving 5 to 10 years earlier, compared with 64.3 percent for people born in Canada (Statistics Canada, Table 14-10-0083-01).

² Retire comes from the French word for withdrawing, in the sense of heading into isolation (Farrell, 2014, 36).

tion rate in all the scenarios, as it outweighs the projected pick-up in immigration. Already, Canada's participation rate has fallen from 68 percent in 2008 to 65.7 percent in 2019 (and then to 64.1 percent in 2020). The overall participation rate has trended down despite steady increases in the labour force participation of older workers, which has continued since its beginning in 1995. However, while cohorts of older people are more likely to continue working than people of the same age in previous decades, a substantial number still retire and the labour force participation for older workers remains lower than for middle-aged people. Hence, a rising labour force participation rate for older Canadians will not prevent a decrease in the overall labour force unless the participation rate of older workers is the same or higher than for younger workers, a very unlikely development.

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Figure 3: Observed (1981 to 2017) and Projected (2018 to 2036) Overall Participation Rates According to Five Scenarios, Canada



Source: Statistics Canada, Labour Force Survey, 1946 to 2017; Demosim microsimulation model 2017 (2036).

Implications of an aging labour force

The projection of slower labour force growth does not capture the full extent of the impact of an aging population. Just before the pandemic struck, 21.6 percent of the labour force was 55 years or older; by 2036 Statistics Canada projects the share of older workers (55 years and older) could rise to 25 percent. The growing share of older workers is important for several reasons beyond the fact they are the most likely to retire from the labour force.

Older workers who stay in the labour force are more likely to remain only on their own terms: one summary report found that “Surveys demonstrate a willingness amongst older workers to continue working under certain conditions, namely if they can reduce their hours or work

more flexible hours” (Taylor, 2013: 13). Older workers show a preference for part-time positions, which account for 22.7 percent of their jobs (twice the rate of people 25 to 54 years) (Statistics Canada, Table 14-10-0287-01). They also show a higher propensity for working for themselves or in small firms rather than in the anonymity of large firms. A management book summarized how the attitude of older workers has changed in recent years: “Once-dependable workers over age 50 do not necessarily keep on toiling as full-time, 9-to-5 employees; many dive into the labour force as temporaries, part-timers, consultants on special assignment or knowledge workers” (Edersheim, 2007: 22).

The different work preferences of the current generation of older people implies that large

firms are likely to face a much greater drop in the pool of potential workers than smaller firms. As a result, large firms may have to become more flexible in offering part-time work, extended time off for travel or visits to family, and more autonomy to keep or attract older workers, something that may be difficult for larger firms. This will be especially difficult for governments, whose workplace is shackled by rigid rules and regulations negotiated with public sector trade unions. Unions have opposed retaining a large number of part-time older workers, who are not as interested in the pursuit of higher wages at their career stage (older workers are more oriented to non-wage benefits such as health care and job flexibility) that preoccupies core union members. What is beneficial for society and older workers may not be regarded as good for unions and their core, active members.³

There are many reasons why society should encourage older workers to stay active in the labour force. Pension expert Fred Vettese estimates that every additional year of work reduces the retirement income needed by 6 percent (Vettese and Morneau, 2013: 80). A more flexible approach to retirement includes some version of a “gradual” retirement, with a phased-in transition from work to retirement that facilitates the adjustment for older workers and allows the retention and transfer of their skills and knowledge. This is also called “bridge” employment that offers part-time or flexible hours to older workers and the opportunity to mentor or train others (Sterns and

Spokus, 2013: 203). People are still experimenting with the mix of sticking with full-time work, starting a new business, working part-time, joining a non-profit, and doing contract work (Farrell, 2014: 18).

The downsides of an aging population are well-documented, focusing on slower labour force growth. However, some analysts have pointed out that there is also an upside. The aging population presents an enormous opportunity for society and for older individuals to seize and exploit. In the words of Marc Freedman, “Never before have so many people had so much experience and the time and the capacity to do something significant with it. That’s the gift of longevity, the great potential payoff on all the progress we’ve made expanding lives” (Quoted in Farrell, 2014: 9). Like all seismic upheavals, the challenges of an aging population create opportunities for those able to take advantage of the new environment.

The pandemic increases the uncertainty surrounding labour force projections

It is quite possible that future labour force growth will be different from the various scenarios sketched out by Statistics Canada. This is clearly demonstrated by how Statistics Canada’s own projections of future labour force growth have changed over time. In 2007, for example, it projected that Canada’s labour force in 2031 would number between 19.4 million and 21.8 million, depending on the scenario (Martel, 2007). In 2011 Statistics Canada revised this projected range to between 20.5 million and 22.5 million, an upward revision of 1.1 million and 0.7 million from just four years earlier (Martel et. al., 2011). In 2019 Statistics Canada revised the projected labour force for 2031 to between 20.9 million and 22.0 million. This represents 1.5 million more people in the labour

³ A very small group can dominate a union because of low voting rates. For example, in its 1992 election only 5,473 of the 25,467 eligible members of the Professional Institute of the Public Service of Canada voted, meaning the outcome was controlled by 2,737 people (Russell, 2020: 91).

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force in the low growth scenario and 0.2 million more in the high growth scenario from its original projection in 2007 (and an increase of 0.4 million from its 2011 low growth scenario while revising down its high growth projection by 0.5 million).

Most of the revisions to the projections of the labour force have reflected different assumptions for the labour force participation rate, which is more difficult to forecast than population. Given the revealed range of uncertainty around these projections of future labour force growth, one cannot rule out that Canada's actual labour force in the 2030s could be substantially higher or lower than official forecasts.

An argument can be made that Statistics Canada should not be making projections of the labour force given the inevitable difficulty of accounting for unforeseen events. Statcan has always had a policy of not forecasting any other variables, so demography is a glaring exception. Demographers at times have had difficulty forecasting sudden shifts in population; in 1938, for example, President Roosevelt convened leading population experts, who unanimously predicted that the US population would peak at around 140 million in the 1940s and then slowly decline. No one saw the Baby Boom explosion after World War II nor the ensuing Baby Bust. Management guru Peter Drucker said that erroneous population forecasts are common because decisionmakers "cling to the assumption that demographics do not change—or don't change fast" (Drucker, 1985: 92-93). However, forecasts 15 years ahead are likely to be reasonably accurate barring a major shock.

Population is challenging enough to forecast, but labour force participation rates are even more uncertain since they reflect a wide range of social and economic variables. For example,

economists did not anticipate the post-war surge of women into the labour force and the increase in older workers staying in the labour force after 1995.

The 2020 pandemic demonstrated vividly how difficult it is to forecast into the future even one year, never mind decades. For example, population growth in Canada slowed sharply to 0.9 percent during 2020 from 1.5 percent in 2019,⁴ mostly because immigration slowed markedly as Canada and most countries closed their borders to stop the spread of the virus. Immigration to Canada fell from 341,175 in 2019 to 184,370 in 2020, especially after the first quarter. From a quarterly peak of 103,719 just before the pandemic, immigration at the worst of the pandemic slowed to just 34,271 in the second quarter of 2020 and barely recovered to 40,069 in the third quarter and 40,868 in the fourth (Statistics Canada, Table 17-10-0040-01).⁵ It is unknown how long borders will remain closed and whether immigration levels in the future will be boosted to make up for the shortfall in 2020.

The pandemic also injects considerable uncertainty into future projections of births and deaths. In particular, the pandemic and the curtailment of even routine health care for much of Canada's population already resulted in a 5 percent increase in the number of deaths in 2020 compared with what would have been expected (Statistics Canada, 2021, February 8). The morbidity rate could continue to rise for years as a result of the cancellation of surgeries and fewer emergency room visits for events

⁴ The population is for people 15 years and older from the labour force survey (Statistics Canada, Table 14-10-0287-01). Almost all (92 percent) of the increase was for people 55 years and older.

⁵ The annual total is from Younglai, 2021, Feb. 12).

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such as cardiac arrest.⁶ The birth rate also could be affected by the pandemic. Already the various measures to lock down the population and impose social distancing has resulted in fewer marriages. In the longer-term, the sharp increase in unemployment among young people could delay family formation, as happened in previous downturns.

Compounding the unknown impact of the pandemic on the three components of population growth—immigration, births, and deaths—is a possible change in labour force participation in the future due to our collective experience with the pandemic. It is not clear whether the pandemic and the severe recession and disruption will increase or decrease labour force participation. It is possible the growing potential for working from home will convince some people to remain in the labour force longer, especially older workers. On the other hand, some people may want to make up for time denied with their families and friends, boosting their desire to retire and visit family or travel. In the very short run, the pandemic and recession have accelerated the exit of older people from the labour force, as often occurs during downturns. The exit was particularly pronounced in service industries where there is contact with the public; there were 4.9 percent fewer older workers in services in January 2021 compared with a year earlier, while their employment in goods-pro-

ducing industries rose 4.2 percent (by comparison, employment of people between 15 and 54 years fell by 5.1 percent in services and 3.9 percent in goods) (Statistics Canada, Table 14-10-0022-01).

The long-term impact on the human capital of young people is especially unclear. In the very short term, the sharp drop in their employment has led many to withdraw from the labour force, often choosing to remain in school until job opportunities improve. The participation rate of youths 15 to 24 years fell from 64.7 percent before the pandemic began to 62.0 percent in January 2021, the largest decline of any major age group.⁷ While precise data on university enrollment are not yet available, labour force survey data show the student population in Canada grew by 2.9 percent between the last four months of 2019 and the same period in 2020 (Statistics Canada, Table 14-10-0021-01). More schooling could lead to higher levels of human capital among this cohort of young people, although the quality of education fell during the pandemic, an erosion that was quite predictable from prior experience with on-line courses that found user “engagement” falls dramatically and few students persist to the end of courses, especially among less motivated and undereducated students (Ford, 2015: 134). The pandemic complicated the always difficult transition from school to the workplace and indeed became harder than it usually does during recessions: for example, it inhibited recruiting trips to university campuses, personal interviews, mentoring, and immersing new employees in the culture of an office network. At the same time, the inflow of students from abroad

⁶ For example, cancer diagnoses have fallen 16 percent during the pandemic, and there is an increase in late-stage cancers in newly diagnosed patients (see Payne, 2021, February 4). Former Quebec Premier Philippe Couillard and two fellow doctors expressed similar concerns about the backlog caused by a 20 percent decline in cancer surgeries, while 47 percent of patients reported having a cancer-care appointment postponed or disrupted by the pandemic (Bell, Couillard, and Lawrie, 2021, February 4).

⁷ The participation rates of people aged 25 to 54 years old and those between 55 and 64 years actually rose over the course of 2020 (Statistics Canada, Table 14-10-0287-01).

has slowed (most spectacularly, the drop in foreign students who pay substantially higher fees than Canadians led Laurentian University to file for bankruptcy) (Jeffords and McKenzie-Sutter, 2021, February 1). This also could dampen future labour force growth, since many foreign students eventually stay in Canada to pursue their careers.

Implications if slower labour force growth materializes

A slowdown in labour force growth has profound implications for Canada's long-term economic growth. Labour and capital, and the efficiency and ingenuity with which they are combined, are the drivers of economic growth. It is well known that Canada's labour force has been a prime source of the country's economic growth in recent years. Canada has the highest labour force participation in the G7 at 65.7 percent in 2019, compared with 63.5 percent in the UK, 63.1 percent in the US, 62.0 percent in Japan, 61.9 percent in Germany, 55.3 percent in France and 49.9 percent in Italy (OECD, 2020).

Slower labour input growth means that avoiding a further deceleration of economic growth—on top of the one we already have experienced over the past decade—necessitates that we increase capital inputs or combine labour and capital more productively. The recent trend is not encouraging. Business investment in Canada has declined by 31.3 percent since 2014, the worst performance in the major industrial nations.⁸ Nor is this weakness due solely to a slump in the oil and gas industry, as a majority of industries have cut back on their investment in Canada. Meanwhile, total factor productivity

in Canada has been flat over the past two decades (Tang and Wang, 2020: 8).⁹

However, a slowdown in labour force growth is not inevitable. It is worth recalling the pick-up in labour force growth Canada-wide between 1996 and 2006. At that time, severe labour shortages in some parts of the country led employers—without government intervention—to offer higher wages and recruit some groups previously overlooked (such as the disabled and older workers), resulting in higher labour force growth and a more inclusive, diverse workplace. A similar pattern emerged in western Canada at the peak of the oil boom in 2008, when employers adopted a number of creative means to entice workers to join the labour force, delay retirement, and work longer hours to supply the required labour (Cross, 2014: 5). If future labour force growth does not meet requirements, there are reasons to believe employers will be just as creative in finding the labour input they need.

Nor does a slowdown in population or labour force growth automatically result in labour shortages. Many European countries, notably France and Italy, have seen a rapid aging of their population in recent years, yet unemployment remains high and there are few symptoms of a shortage of labour (Cross, 2014: 1). Some countries such as Japan, Russia, and Poland have seen their population shrink outright without creating labour shortages. The same holds true in Canada for Quebec and the Maritime provinces, where the aging of the population is more advanced than in Ontario and western Canada. However, it is worrisome that all these countries and regions with rapidly aging populations also have seen a slowdown in

⁸ Investment declined by 20.6 percent before the pandemic (Statistics Canada Table 36-10-0104-01).

⁹ The authors note “no strong empirical evidence of what caused the slowdown.”

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economic growth and trouble restraining government budget deficits.

Irrespective of slower labour force growth, an aging population puts significant upward pressure on government deficits, already swollen by the pandemic. Older people pay lower taxes both because their productivity and income usually is lower and because of various tax breaks offered to them, notably the \$2,000 deduction for people receiving payments from a pension plan. Further upward pressure on government finances comes from higher spending to support the pensions and health care needs of older Canadians.

Slower growth is not inevitable

Just as slower labour force growth is not inevitable, so too can Canada influence the other determinants of growth, which are the stock of capital, and productivity, including technological change. A number of policies could help raise investment, including lower effective tax rates, easing regulatory restrictions, promoting internal trade, encouraging more competition and business formation, and allowing resource developments (including pipelines) to proceed.

It is even easier to envisage how productivity growth could improve. A wide range of existing technologies have the potential to become the General Purpose Technologies (GPTs) that drove past productivity booms, such as electricity and automobiles in the early twentieth century. These potential GPTs “blur the lines between the physical, digital, and biological spheres, collectively referred to as cyber-physical systems. Its progeny has included entirely new areas of human enterprise, such as robotics, artificial intelligence, nanotechnology, quantum computing, biotechnology, the Internet of Things, advanced wireless technologies,

3D printing, and driverless vehicles. These new technologies are disrupting almost every industry around the world. And the breadth and depth of these changes herald the transformation of entire systems of production, management, and governance” (Meredith, 2020: 124). The pandemic clearly accelerated the adoption of some technologies, especially those related to communications and on-line banking.

Some may argue that technology is a two-edged sword, and that automation and artificial intelligence will be substituted for labour and create mass unemployment. Media accounts make mass unemployment seem inevitable, but experts are evenly divided on whether AI and robotics will create or displace more jobs.¹⁰ This is a possibility for some occupations but past predictions of how humans could be replaced by technology have been overly confident. For example, early in the 2020s it was widely believed that truck driving jobs, the largest employer of men, would be replaced by driverless vehicles, but both technological difficulties and legal issues have blocked their diffusion (Ford, 2015: xiii). Similarly, teaching was thought to be imperiled by massive open on-line courses (MOOCs), but on-line teaching has proved to be a poor substitute for in-class instruction (Ford, 2015: 132).

While routine jobs are being automated, people are shifting to other areas which are harder if not impossible to replace with machines. These occupations emphasize skills that only humans can provide, which include relationship building, communications, creativity, and cultural sensitivity. These so-called soft skills are replacing the cognitive skills traditionally

¹⁰ Optimists slightly outnumbered pessimists by 52 to 48 percent, according to a Pew survey of 1,986 experts (reported in Davenport and Kirby, 2016: 226).

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emphasized by our education systems. Studies have found that since 2000 both jobs and wages have fallen for occupations that require high levels of cognitive ability but low social skill requirements, while they have risen for social-skill-intensive jobs (Deming, 2017: 8).

The potential of new technologies reinforces the importance of mentoring and grooming young people to take the place of older workers. The outlook for today's youth is as challenging as at any time in the past. It is positive that they have higher levels of education. However, there is a near consensus that the quality of education has declined during the pandemic as virtual classrooms have proven to be a poor substitute for the in-person mentoring only the physical attendance by teachers and students can provide. Social distancing, virtual learning, curfews on nightlife, and prolonged isolation reduce the acquisition of social skills and emotional capital which is increasingly important in the workplace.

Other barriers exist for today's youth. Even before the pandemic young people were finding it increasingly difficult to make the transition into the labour force, the exact opposite of what our aging society needs. Even as the unemployment rate for older workers hit record lows, unemployment among youth remained stubbornly above 10 percent after 2014, and increasing numbers of young people left the labour force. In fact, for all the discussion of an aging population and a shrinking labour force, young people were the only age group whose participation rate fell over the past decade, notably for teenagers.¹¹ At least some of the bleak job oppor-

tunities for youth can be attributed to the recent sharp minimum wage hikes in some provinces, notably Ontario and Alberta. For example, youth employment in Alberta and Ontario was unchanged between December 2017 and December 2019, compared with an increase of 9.7 percent in the rest of Canada. More broadly, employment in the private sector slowed as investment declined and new start-ups lagged.

Other trends are restraining the growth of labour productivity. The geographic mobility of Canada's population has been slowly declining for decades, further dampened after 2015 by the slowdown in the oil sands, which had served as a beacon for many blue-collar workers and immigrants struggling for a toe-hold in Canada's labour market. There has also been a decline in the willingness of Canadian workers to leave their current jobs for other jobs even without moving from their current location. The share of workers who left one job for another fell from an average of 4.2 percent from 2000-2009 to 3.7 percent from 2010 to 2015 (Cross, 2019: 8). As a result, job tenure in Canada is at a record high. The drop in job leavers also helped depress wages, as people who change jobs earn substantially more than people who stay in the same job.

Conclusion

A slowdown in the growth of Canada's labour force as its population ages risks being aggravated by the ongoing global pandemic. While the impact of technology on future labour demand may not be as negative as many fear, it is

¹¹ The participation rate for youths fell from 64.9 percent in December 2010 to 64.8 percent just before the pandemic, with teenagers down from 52.3

percent to 49.7 percent. Participation for people over 55 years rose from 35.8 percent to 37.3 percent over the same period (Statistics Canada, Table 14-10-0287-01).

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more predictable that labour supply growth will continue its recent slowdown. The experience of other countries and of provinces within Canada with an aging population show that slower population growth increases the difficulty of sustaining economic growth and containing government deficits. This makes it all the more important for Canada to adopt policies as soon as possible that stimulate business investment and boost productivity. Canada's large firms and governments will have to be more creative and flexible in retaining older workers as long as possible while raising the mobility that places younger workers in the best position to succeed in the future.

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Acknowledgments

The author thanks the external reviewers for their helpful comments and suggestions. Any remaining errors or omissions are the sole responsibility of the author. As the researcher has worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

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ISSN 2291-8620

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