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Canada needs to push forward with labour market reforms

Canada should increase the availability of a more specialized work force through education and targeted immigration

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The Organization for Economic Co-operation and Development published last week a report entitled "Economic Policy Reforms 2015: Going for Growth," which acts as an update on the implementation of what it deems are much-needed reforms across developed countries.

Among this year's conclusions in the report, we find that Nordic countries (including Canada), which were less hard hit by the financial crisis, are slow in their progress to reform some important aspects of their respective economies.

The OECD's conclusions and proposals for Canada are crystal clear: Canada's labour productivity lags the upper half of OECD countries, and that can be cured by reducing barriers to entry and foreign direct investment (FDI) and by increasing the quantity and quality of R&D as well as the supply of tertiary skills by, for example, giving priority to qualified immigrants with the right skill sets.

Regarding barriers to entry and FDI (a popular topic for a few years now, with prime examples being an uncompetitive telecommunications market and the blocked takeover bid of Potash Corp. by BHP Billiton), the OECD has singled out Canada Post, which it argues should be privatized in order to eliminate its legally protected monopoly. It also argues that work should be done to ease entry regulations in professional services, where the unemployment rate for foreign-born citizens tends to be higher.

Our opinion is that the OECD has hit the nail on the head and that Canada should push for a more specialized work force through education and targeted immigration, as well as for more innovation via targeted R&D and a more integrated relationship between the academic and private sectors.

The slack is in the labour market The most urgent factor to act upon is clearly Canada's work force. The Bank of Canada just published a new study showing that all of Canada's current economic slack comes from labour, as excess capacity in the labour market sits at around 1.5 per cent, or about 270,000 jobs. This means that a quarter of a million more Canadians need to be employed for the Canadian economy to reach its full potential, an impressive figure as only about 120,000 jobs were created in all of 2014.

The Bank of Canada finds that the capacity utilization rate of installed capital is actually above its historical average as Canadian firms choose to use their capital more intensively rather than to tap the pool of available labour. As a matter of fact, young and prime-age workers comprise the lion's share of the labour gap, and the totality of current labour market slack comes from provinces east of Manitoba, where the capital-intensive manufacturing sector plays an important role. Might it be that young workers' skills are not well matched to the needs of Canadian businesses? The evidence indeed suggests that this is the case.

What can we make of all this? First, reducing barriers to entry in key sectors (like, for example, in services sectors, where competition is low) could lead to a better allocation of labour and a more dynamic Canadian economy. The same can be said for reducing barriers to FDI, although this is a touchier subject as Canada is well known for being protective of the Canadian ownership of its crown jewels.

Second, connecting businesses to research through partnerships between academia and the private sector could go a long way toward realigning the supply of skills in the country’s work force and making sure that future needs are more adequately matched. This would ultimately mean more employability for Canada’s young workers and help in closing the employment gap.

Third, more initiatives like the 2013 Venture Capital Action Plan should help on the innovation front and allow Canada to improve in global competitiveness, where it has been losing ground since 2008, according to World Economic Forum global competitiveness reports.

As the world economy is turning the corner on a painful recession, Canada has to make sure that it doesn’t fall too far behind its main competitors. There is a saying that we should never let a good crisis go to waste, and as ironic as it might sound, the fact that Canada sailed quite smoothly through the Great Recession means that it now needs to make up for lost time and push through with a serious reform agenda.

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