

Immigration Policy and the 'Labour Shortage' Doctrine

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The Labour Shortage Doctrine

- “There are not enough workers in Canada to meet needs of employers.”
- Reasons:
 - Ageing society
 - Overheated consumer demand
 - Lack of work ethic
- Impacts:
 - Constraints on output, business activity
 - Rising labour costs
 - Inflation

Policy Implications of the Labour Shortage Doctrine

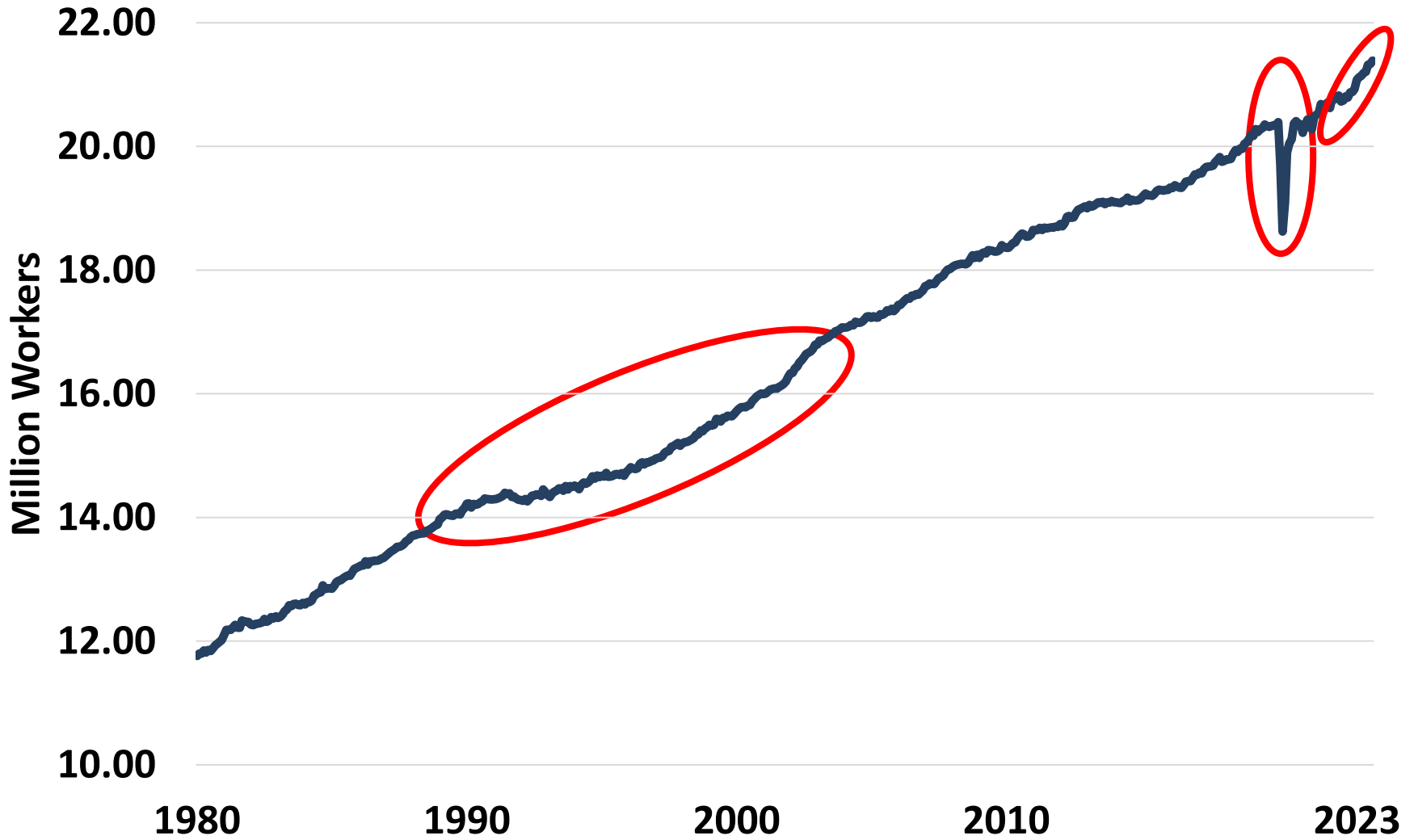
1. Restore incentive to work: reduce income support programs.
 - CERB brought these issues to the fore.
2. Defer the retirement age.
 - That was previous plan; reversed in 2016.
3. Strengthen skills pipelines to address “mismatch” & better meet employer needs.
4. Curtail labour demand and raise unemployment.
 - Bank of Canada’s explicit goal.
5. Increase immigration.
 - Especially temporary work permits & students.

Interrogating the Labour Shortage Doctrine

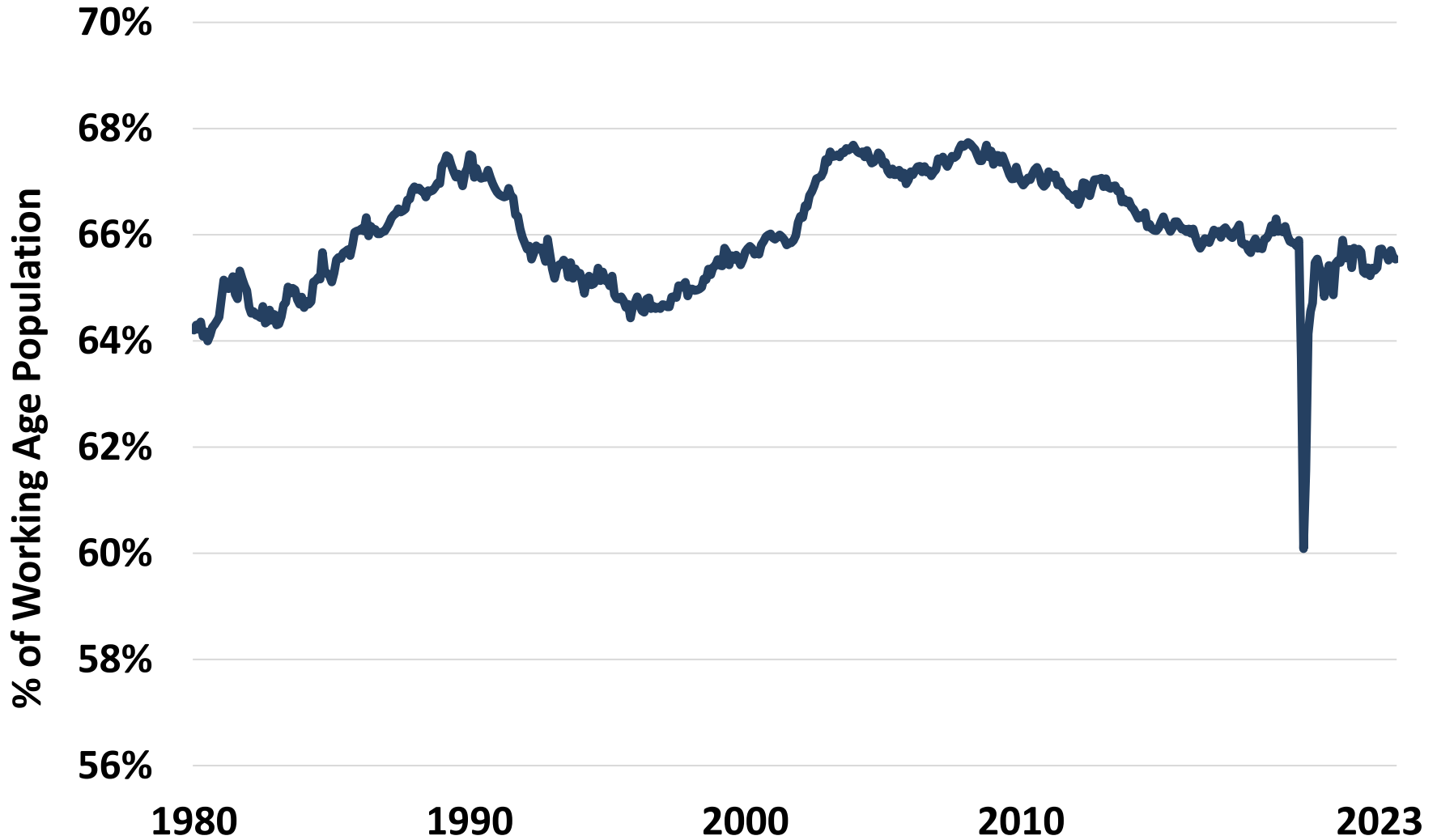
- Labour force participation has not declined.
- Labour force has continued to grow.
- Unemployment exists.
- True underutilization is much higher.
- Real wages have fallen, not increased.

...None of these would be true if there was a genuine “labour shortage.”

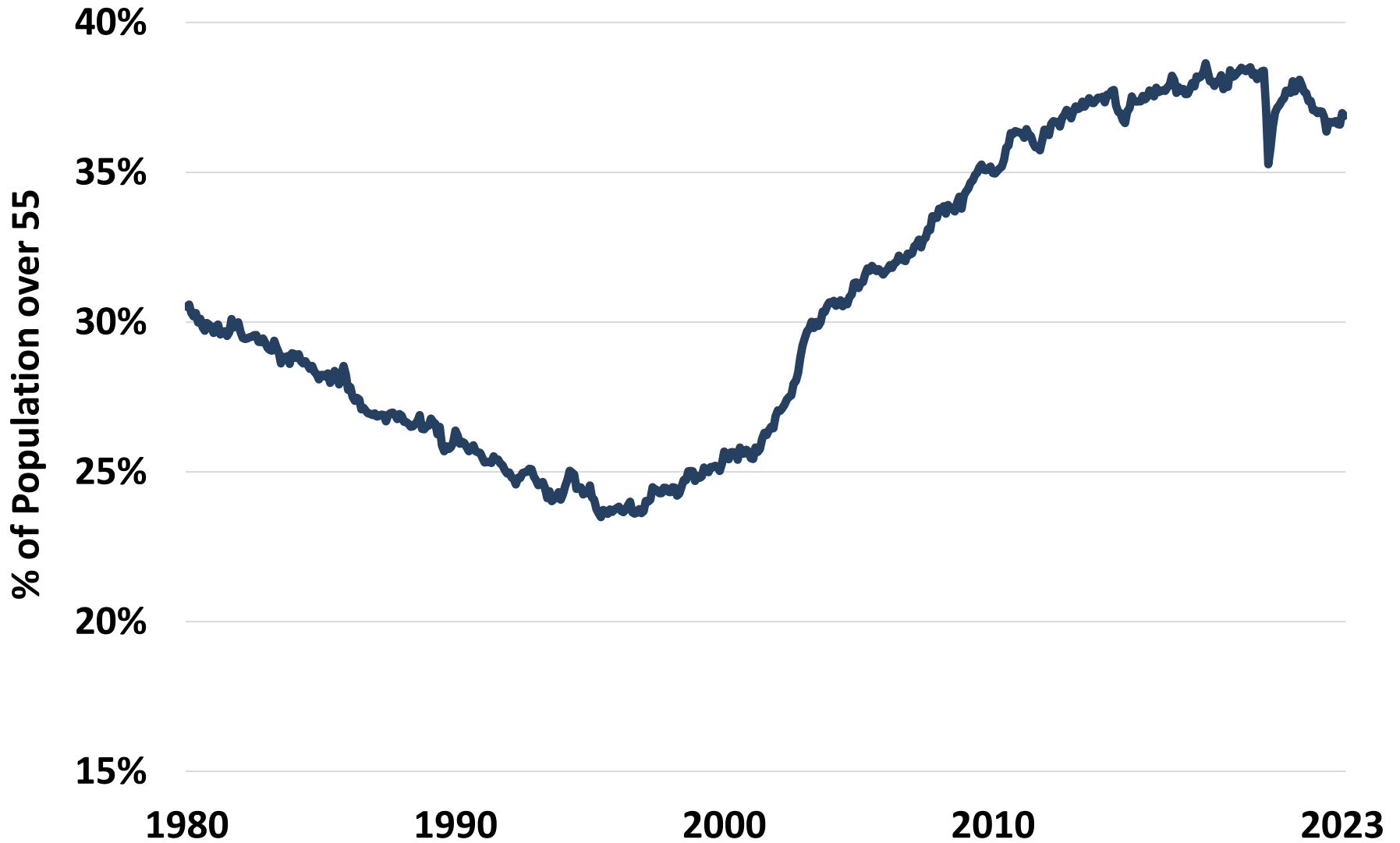
Labour Force Growth



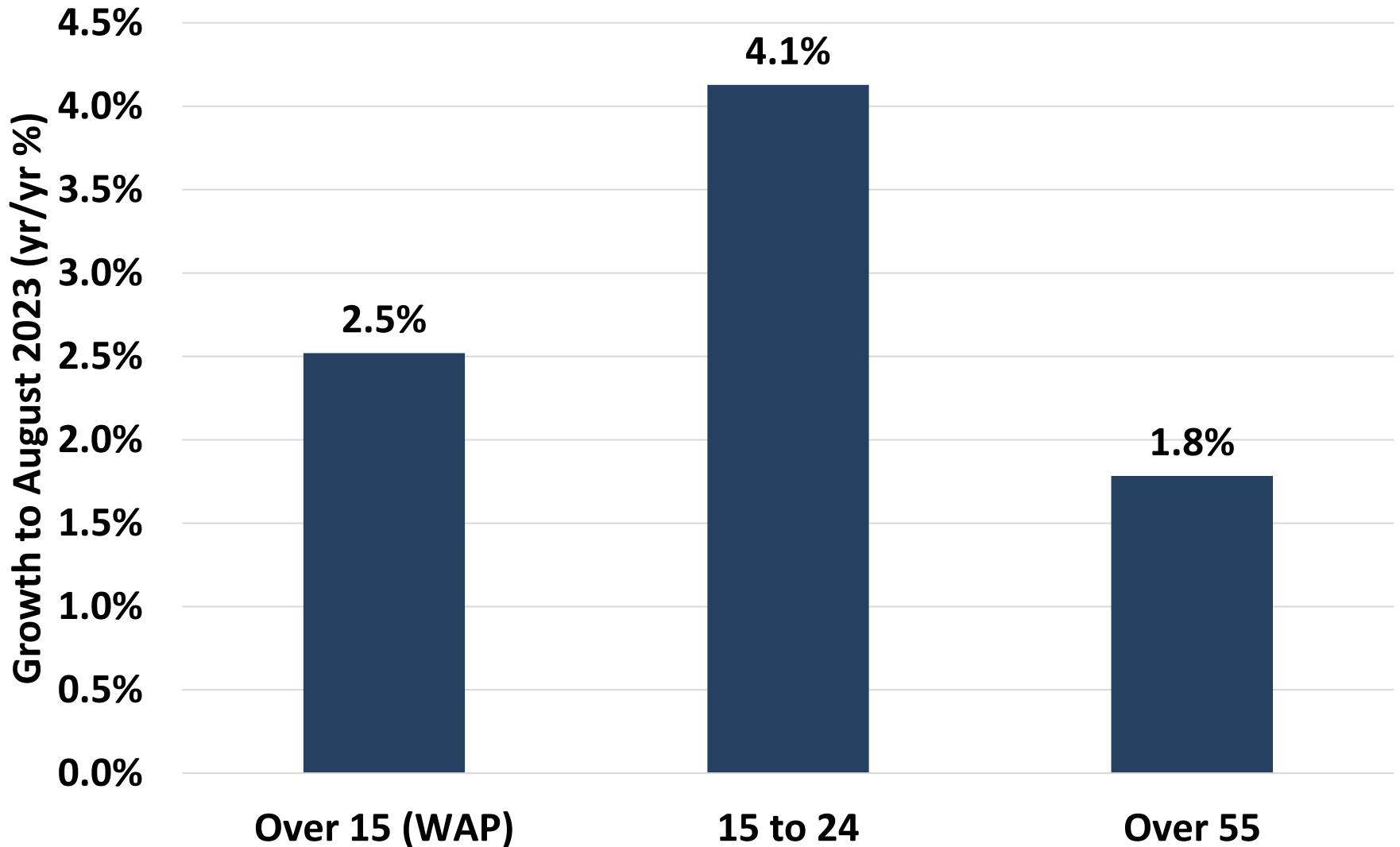
Labour Force Participation



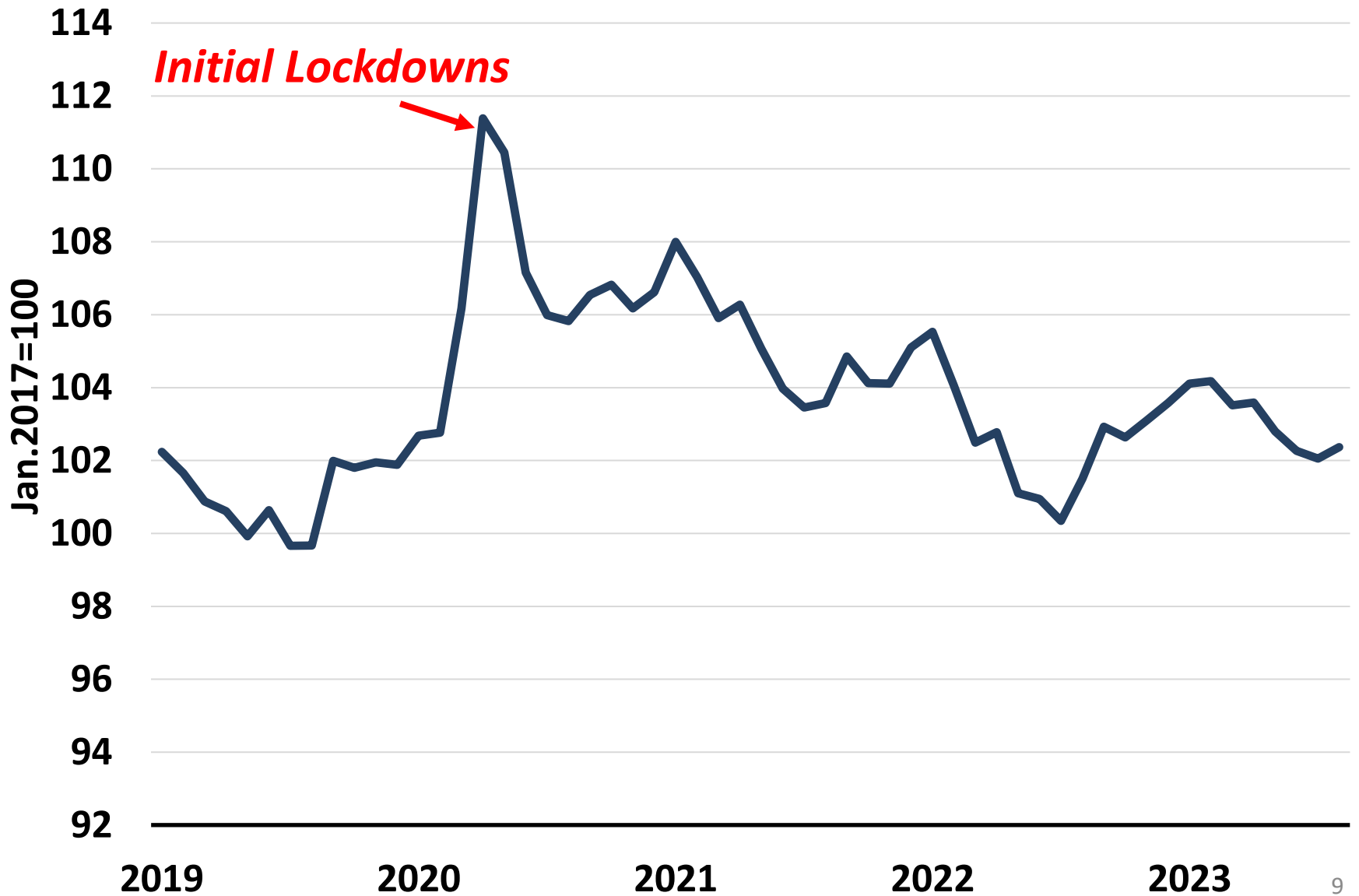
Older Worker Participation



Population Growth by Age



Real Wage Erosion



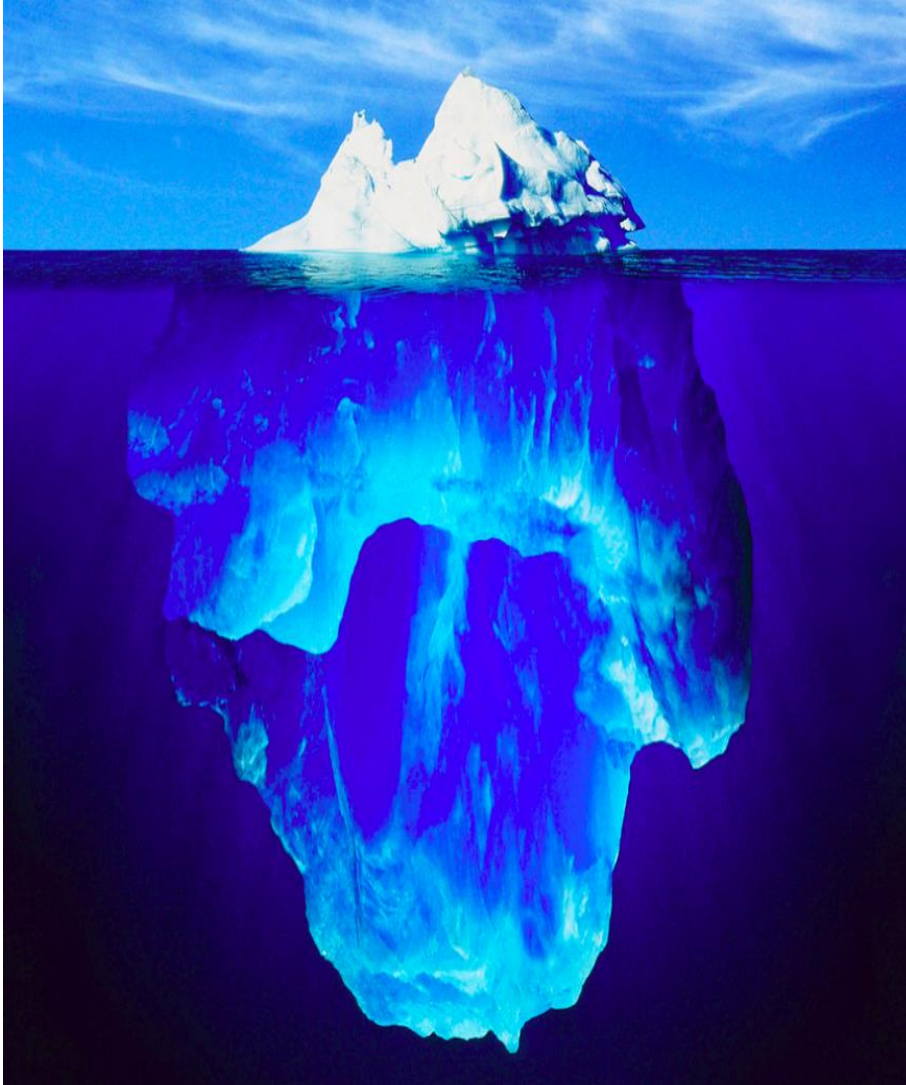
Labour Demand: Not a “Fixed Lump of Work”

- Perceived “labour shortage” always depends on how much demand there is for work.
- This is not constant: it reflects conscious policy.
- Unemployment can be high even when population is shrinking.
- Unemployment can be low even when population is growing.
- The key issue: is full employment the top goal of economic policy, or not?

“Official” Unemployment vs. True Underutilization

- Official unemployment = 5.5% = 1.2 million.
 - Up 170,000 from July 2022
 - A long way from “full employment.”
- Hurdles to qualify as “unemployed” are severe.
- Other pools of labour add to underutilization.
 - Underemployment (hours, capacities): another 1 million+.
 - On fringes of labour market (would work if it fit): another 1 million+.
- True underutilization: 3 million+ (13%)

Has Canada Run Out of Workers?



**Official unemployment:
5.5% in August 2023**

**'Employed', but didn't
work 1 hour**

Working less than desired

**Not working, not actively
Seeking**

- **Discouraged workers**
- **Marginally attached**

Full underutilization: 13%??

Turning the “Labour Shortage” Doctrine Upside Down

- “Labour shortage” is an inherently employer-centric term.
- Economic policy should prioritize full employment as the top macroeconomic goal.
- Genuine full employment implies perpetual labour “shortages”.
 - Full employment: Anyone who wants to work can quickly find a quality job.
 - Workers can exercise choice in job acceptance.
 - Harder-to-hire workers can gain employment.
 - Employers are pushed to use labour efficiently (a.k.a. productivity growth).
- But employers don’t want this (prefer a “NAIRU” cushion), and Bank of Canada listens to them.

Two Separate Questions

- Employment policy and immigration policy should be considered separately, on their own grounds.
- Immigration advocates should not invoke the “labour shortage” argument.
- Full employment advocates should be clear that immigration is not the problem.
 - Even with less immigration, labour demand is not “fixed”, and misguided policy can still recreate unemployment.
 - No doubt immigration (especially bad forms: temporary permits) can be used by employers to undermine workers’ bargaining power and wages.

Immigration: Do it Right

- Good immigration principles should be kept separate from labour market arguments.
 1. Limit / end temporary work permit systems.
 2. Full status / regularization for those here.
 3. More humanitarian / refugee immigration.
 4. Strong economic / social / training / settlement supports for all immigrants.
- Prioritize full employment regardless of how many newcomers there are.