



Trends that count

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Fewer workers in Canada will result in labour turmoil

The demographic roots of Canada's coming labour shortage are irrefutable. There are 12.1 million people under the age of 30 in Canada today: this will be the core workforce of the next 30 years.

This is not enough to replace the 13.4 million people currently aged 30 to 59 who will leave the labour force over the next 30 years. Nor will the number provide for the labour force growth that will be necessary to support this older population in terms of health care and pension plan contributions.

Increased immigration and reduced emigration will be necessary, but not sufficient to ensure the required labour force growth. Many other changes to both the labour force and employment will occur as our economy shifts from significant un- and under-employment to shortages of human resources.

Paramount among these nondemographic factors will be increases in the productivity of labour (meaning everyone who works), something B.C. did not experience during the past decade.

It is sometimes erroneously assumed that labour shortages will invariably lead to increases in wages and salaries. In itself, a shortage of labour does not lead to increases in wages and salaries; these can be justified only if matched with increases in productivity. So long as firms can vary the combination of labour and capital used in production in response to changing costs and technology, increased labour costs will come only as a result of increased labour productivity.

In some cases, increased labour productivity will stem from increasing the amount of

capital that a fixed supply of labour works with: better mechanical and digital equipment, and more of it, means that each worker can produce more, thereby justifying higher pay. In other cases, the increases in labour productivity will come from replacing labour with capital.

Air Canada's airport Express Check machines are convenient, labour saving and productivity-increasing. They have meant, at least for travellers without luggage, that the airline does not need staff to get passengers from cab seat to plane seat. Now if someone could only explain why the machine-dispensed Airport Improvement Fee ticket has to be torn in half by a person.

In yet other cases, increased labour productivity will come from shifting the work onto the consumer. The people's airline recently sent its frequent flyers their very own CD-ROM Personal Ticket Offices. These flyers now have the opportunity to spend their own time making travel arrangements, rather than getting a travel agent or airline to do it.

This represents a disturbing step away from the historical path of increasing specialization of labour. Human resources are most efficiently used if people do the jobs in which they have a comparative advantage as a result of specialization. Yet technology now provides us with the opportunity to not only do our own jobs, but also to be our own bankers, brokers and travel agents. As firms increasingly use technology to shift the work from in-house to our house, consumers will have to decide if they want to give up their time to do work that others once did or to pay third parties to do it for them.

Within firms, the principle of comparative advantage will continue to be applied to ever-refining job descriptions in order to ensure that people do only the work that they do best, leaving other tasks to other specialists. The increase in productivity that

increased specialization brings will in turn justify increased wages and salaries.

Changing job descriptions will be accompanied by a shift towards skill-based, rather than certificate-based, qualification for employment. Competency-based testing will replace credentials and seniority as the basis for both employment and compensation. This is the norm of the "new" economy; labour shortages will make it the norm overall. Qualification on the basis of ability will also help ease the impact of labour shortages by removing paper-certificate barriers that currently preclude many under-employed people, particularly recent immigrants, from working in the vocation where they have the greatest comparative advantage.

The need for increased productivity will be only one of the many dimensions of change that demographically rooted labour shortages will bring to the economy. As many institutions are deeply resistant to change, we must be prepared for a prolonged period of turmoil in labour markets while these changes occur. In terms of wages and salaries, the bottom line is that increases can only be justified by productivity increases. In terms of consumers, we better get ready to do a lot more for ourselves or to pay someone to do it for us. ♦

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