

Seniors, Population Ageing, and the Future of Canada

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Over the last fifty years the number of workers in Canada grew more, proportionally speaking, than any other major industrialized country. From 1956 to 2006, our workforce grew by 200 per cent. Even America, our nearest rival, was well behind us, growing by a relatively restrained 120 per cent or so.

By contrast, in the next fifty years, it is our workforce that will grow by a paltry 11 per cent—better than many of our European counterparts, who will see shrinkage in absolute terms—but well behind America, where the number of workers will grow by nearly a third.

Starting in 2011, that is to say next year, population will grow faster in Canada than the labour force, and that trend will continue for forty years. By 2016, a few short years away, the number of net new workers entering the workforce will be zero and will be slightly negative for a decade after that. We are teetering on the edge of a demographic cliff, and we have one foot out in the air.

HELP WANTED

Labour shortages on a massive scale are so foreign to the recent Canadian experience that it may be hard for people to grasp what it may mean. As Andrew Coyne points out in the introduction to my book, *Fearful Symmetry*, if you want to know which is worse, unemployment or labour shortages, just ask yourself which problem you would rather face: too many doctors or too few?

The problem of public incomprehension of the nature of the problem is made even more difficult by the fact that we have just left an economic downturn that squeezed employment in many parts of the country.

Yet the late slowdown, as painful as it may have been, is nothing more than one of the ups and downs that all economies experience from time to time. That's why it is referred to as a cyclical downturn. Imbalances (in this case too much debt) build up and have to be fixed. But once fixed, we

return to growth and almost invariably end up surpassing previous high-water marks of income, employment, and growth. There is little reason to think this downturn will turn out to have been different. In fact we are already growing again.

The point here, however, is that a cyclical downturn such as we experienced so recently can temporarily mask much deeper and more profound changes. The coming labour shortages are a good example. The demographic changes that I have described are not cyclical; they are not the result of short-term ups and downs. They are deep changes in the very structure of our population, changes that will outlast downturns and upticks. In fact, population aging is likely responsible for the fact that unemployment in this downturn is actually quite mild compared to earlier recessions at the height of the boomer wave.

The unemployment rate in the recent recession peaked at 8.7 per cent or so. To put that in perspective, the unemployment rate for the quarter century from 1974 to 1999 was almost always as high or higher (8.1 per cent in 1990 was the lowest during the period). Moreover, during a similar worldwide recession in the early 1980s, the Canadian unemployment rate was in double digits for four years (1982, 1983, 1984, and 1985), peaking in 1983 at 12.7 per cent. We haven't seen double-digit unemployment since 1994 (10.4 per cent).¹

Prime Minister Stephen Harper has been quite forthright about the fact that the downturn was merely masking a much more profound social transformation. In a speech in London, Ontario in March 2009 he said, "As the world struggles with the effects of global recession, we as Canadians are looking ahead. Despite the rising unemployment we see today, the demographic reality is this: as

soon as this global recession ends, our country will face a long-run challenge of labour shortage." Many others have made the same point, including those responsible for the Atlantic fishery, traditionally the employer of last resort in the highest unemployment region of the country.

If we really want to see what the future has in store for us, we have to look back to conditions just before the downturn. We do not have to wait until 2016 to see how Canada will be changed by our new population circumstances, because those circumstances have already begun to make themselves felt, even if the change is being masked for a brief moment by the downturn.

Perhaps the newspaper reports a couple of years ago of a proposal to build a new pipeline in Alberta did not catch your eye. After all, what is there new about another pipeline in Alberta? Nothing. Or at least so it appears until you realize that this pipeline is not to take oil or gas out, but to pipe a very light oil ("diluent") in. The purpose? To dilute the heavy oil extracted from the oil sands to allow it to be piped out to places where the labour force is available to build and operate the plants needed to process it. Even in this lull in Alberta's super-powered growth, oil sands giant Syncrude is having difficulties recruiting the workers that it needs and was on a major recruiting drive in Atlantic Canada in February 2009. And even though unemployment has undeniably risen in Alberta, that province, along with its two prairie neighbours, Saskatchewan and Manitoba, continue to have the lowest unemployment rates in the country.

In Brandon, Manitoba, in order to get the workers needed to operate its meat-packing plant for several shifts a day, Maple Leaf Foods imported workers from Mexico and Colombia, to whom the winters must have seemed a rude shock. In PEI, there were dozens of Russian guest workers at a fish processing plant, and there were requests for more. There is now discussion about closing down fish plants for want of workers, a trend that is set

¹ Statistics Canada, *Labour Force Historical Review 2007* (Table Cd1T46an), (Ottawa: Statistics Canada, 2008), (Cat. No. 71F0004XCB); and Glen Norcliffe, "Regional Unemployment in Canada in the 1981–1984 Recession," *Canadian Geographer*, Vol. 31, No. 2 (1987): 150–59.

to accelerate. On current demographic trends, unemployment in Nova Scotia will, in a few short years, have fallen to 3 per cent, regardless of the recession of 2009–10.

Until 2008 I was a partner in a restaurant in Halifax, and our biggest single challenge, by far, bar none, was to find the workers we needed, an experience common to every other restaurant owner we knew. The Canadian Restaurant and Food Association projects huge labour shortages throughout the industry in the years ahead, again despite the gloom of 2009. It is an industry, like many other services, that cannot be outsourced or offshored to China or India, but must be done by people right here in Canada.

The average truck driver in Canada falls into the 50- to 55-year-old range (and is as old as 70 in some regions) and everyone is increasingly concerned that we will not be able to bring needed goods to consumers because we won't have the people to drive the trucks to get them where they need to go. Now try to imagine an economy in which it has become impossible to move goods from factories and ports to stores and homes.

As you can see, there is no need to wait until 2016 (when the growth in the number of new workers goes to zero) to feel the effects of a tightening supply of workers. Those effects are already here, and they are already affecting growth, mobility, wages, and investment. A year or two's increase in cyclical unemployment will not change anything about this portrait of profound long-term change

We don't have much time to prepare.

The labour shortages that were so evident in 2006 to 2008 will return because they are driven by deep forces that transcend economic cycles. Unemployment before 2009 was rapidly becoming yesterday's issue, and the pace of that change will accelerate when today's downturn is only a fading memory. When that happens, plant closures and mortgage defaults will disappear from the

headlines, and we will again find that newspaper accounts of labour shortages jostle for space with stories about declining student numbers in the public schools. As a legacy of the last half century's political battles, however, we will still find ourselves lumbered with a series of policies designed to mop up surplus labour at a time when we need to ferret out every worker we can find.

For example, the EI system still pays people not to work for long periods of the year, especially in seasonal industries. The part of the economy where employment is growing the fastest by some measures is still the public sector, and the pace is picking up, driven in part by stimulus packages. Pressure is rising for governments to make it easier to get welfare and EI again.

Yet a period of sustained and indeed growing labour shortages is not a possibility, nor a probability, but a certainty. We will find our growth constrained by our inability to find workers. Inflation will be an ever-present danger in these tightening labour markets, and that means a vigilant Bank of Canada will keep its finger tight on the interest rate trigger. The standard of living of Canadians will be lower than it needs to be at just the time we will need to find ways to pay for the retirement of all those Boomers. Nothing about this is set in stone, however; we have the choice to do things differently.

WHAT WOULD DOING THINGS DIFFERENTLY LOOK LIKE?

Voters will relax their instinctive assumption that there are no jobs and replace it with the new reality that there are not enough workers and jobs are going begging. Because work will *be* widely available and will *be seen to be* widely available, further social program reform and cutting the size of the low-productivity public sector will not be seen as an "attack on the poor" or "blaming the victim" but as a way to confer on them the individual and social benefits of working. Welfare

in its various guises will not be eliminated but will shift from an *alternative* to working to an incentive to work. This can already be seen in the provincial welfare reforms that began in the 1990s. The introduction, in the 2007 federal budget, of the Working Income Tax Benefit, or WITB, is a more recent example.

Similarly, “social inclusion” will be on everyone’s lips, because there are important parts of the population who have been previously unable to participate fully in the workforce. Aboriginals, some racial minorities, and some women are still not able to work as much as they may want to or up to their level of skill and ability. A labour shortage combined with a government’s determination to open the benefits of work to all who are capable of it will make inclusion a reality rather than a pious wish.

Immigrants too will be high on the priority list, as it will be imperative to make it easier to enter Canada, but the immigrants who will come will need more support to integrate successfully into the Canadian economy than has been the case in the past, and immigration cannot be more than a modest contributor to solving our demographic challenges, for reasons I cannot go into here, but perhaps we can discuss if you wish during the Q&A.

A country with too few workers is also a country compelled to be open to trade, for offshoring is merely Canadians using the labour force in other countries to produce the products, services, and profits (to fund their retirement) they need. Ottawa will use its Trade and Commerce power under the Constitution to tear down the barriers to trade within Canada that have now become a constraint on our growth rather than a welcome protection for beleaguered workers threatened by a sea of unemployed.²

² See my Institute’s recent (June 2010) paper on this topic: [Citizen of One, Citizen of the Whole](#).

Also falling out from the coming changes will be a re-examination of the old one-size-fits-all approach to labour legislation, workplace rules, and a host of other programs that will increasingly be shaped by labour shortages rather than the labour bubble of the post-war years. Working will be a more Protean idea, and workers will have more choices and more power in the workplace than perhaps they have ever known. Parenthetically, that will make antediluvian trade unions even more irrelevant than they are today.

However, the single most important thing we need to do differently, and the one that will surely be of greatest interest to this audience, is the way Canadians retire.

The reason is that the economic pain of population aging is muted if workers stay in the workforce longer rather than retiring, because this means more workers per retiree in the population. Compared to the top five countries in the OECD on this measure, however, we have significantly fewer men over age 55 still in the workforce.³ The difference for women is less marked but still significant.

If this year we had been able to match the labour force participation rates of *all* age groups with those projected for the top five OECD countries (representing best practices in the field) we would have improved the ratio of workers to retirees from about 3.25 workers to each retiree to roughly 4.6 workers per retiree. That would represent a significant reduction in the cost of population aging because that means both more people working and fewer people depending on programs financed by those workers through their taxes.

By 2030, on current form the ratio in Canada is expected to be two workers per retiree. If we met

³ This discussion is based on Watson Wyatt Worldwide, *A Report on the World Economic Forum Pension Readiness Initiative* (Davos, Switzerland: World Economic Forum, January 2004).

the participation rates of the top five OECD countries, the ratio would be just over three to one. Still painful, but a big improvement over what it would be otherwise. Moreover, it is not as if Canadians are unwilling to change their traditional retirement behaviour—according to the OECD, in this country, “between 1994 and 2004, the participation rate of older men and women aged 50–64 has increased by around 5 and 13 percentage points respectively—well above the average increase across OECD countries.”⁴ That means that while the proportion of over-55s working is lower than in many other industrialized countries, the rate of increase of Canadian over-55s at work is closing the gap already.

This increase has been driven by a number of factors, such as growing demand for workers, declines in asset values (i.e., the equity market’s decline following the tech bubble, which caused some workers near retirement to delay retiring), and so-called cohort effects, particularly for women. Just as importantly, however, the expectations of workers themselves are changing, as people realize that idyllic pictures of early and prolonged retirement without work are in fact not that attractive. According to one survey, for instance, nearly half of Canadians of working age already expect to work beyond the age of 65, and not just for economic reasons: “Nearly all of those who expect to work beyond age 65 cite one or more lifestyle reasons, including remaining mentally active, enjoyment of their jobs and the interaction with their co-workers.” In other words, future retirees are coming more and more to realize that work (although not necessarily any particular job, a distinction many people seem to have difficulty grasping), is closely related to happiness.

Labour shortages are going to make the transition to a more sensible retirement behaviour easier. This may seem a surprising thing to say given the

difficult politics of doing anything with the retirement regime in Canada. But that was all premised on two assumptions. The first was that our main problem was unemployment, and therefore that people retiring was a good thing, as they were no longer in the labour market and they had an income they could count on. The second was that the only way to change people’s retirement behaviour was to reduce their retirement income. This was a politically touchy issue because the policy could so easily be portrayed by the demagogically inclined as an attack on the poor and vulnerable.

But think about this: people respond to incentives, and retirees and potential retirees, it appears, are no different. They quite carefully calculate the balance between the costs of working (including lost leisure time) and the benefits (such as higher income). If the difference isn’t very great, they prefer not to work and to enjoy more leisure time. Therefore *the key is the disparity in income* between working and not working for those people able to work, which, given modern medical technology among other things, is a very large share of most people over 55.

If, then, labour shortages are indeed going to improve the rewards of working, as the evidence suggests they will, the key will be to keep retirement benefits relatively steady and allow the rewards to working to grow over time.

The benefits of such a policy are hard to overstate. For example, we know that people who work are happier and healthier than those who do not, including those over 55. With life expectancy rising for men and women, and the expectations that more of the years after 55 will be spent in good health, there is every reason to think that more people working later in life would not only produce good results for the economy, but result in better quality of life for older people themselves. And of course our public finances would benefit from older people spending more time contributing their work and taxes and less time

⁴ OECD, *Ageing and Employment Policies: Canada*, (Paris: OECD Publishing, 2005), p. 9.

drawing retirement benefits and paying much lower taxes.

In the context of labour shortages, the impact of encouraging people to work longer would be bigger than almost any other single policy one could imagine — far bigger, for example, than higher immigration levels. If our retirement behaviour were to remain as it is, by about 2030 there would be roughly 17 million people in the labour force in Canada. If we were able to match the workforce participation seen in the top five OECD countries, the number would be almost 20 million. That is a difference worth having, especially if it is achieved by making people feel that they prefer working to being retired.

Redefining retirement is hardly an original idea, but every time it has been mooted, the politicians have drawn back because it required them to reduce benefits to a politically powerful group.

Now consider, though, how very different circumstances are going to be compared to the past few decades. Employers facing retirements for which there are few younger replacements available are going to resist those retirements by existing workers by improving incentives for them to stay. Rather than buy-out packages, people will be offered “buy-in” packages. Water-cooler conversations will revolve around what various people have been offered to stay instead of what they have been offered to go.

Older people will be increasingly aware of the physical and mental health benefits of working, just as they will be aware that too early a retirement runs the risk of their running through their retirement savings before death, leaving them at the mercy of the public pension system just when those retirees are oldest and therefore most vulnerable. If, as seems likely, long-term returns to equities will decline relative to the unrepresentative post-war period, private and public pension plans are liable to be less rich. And everyone, including older people, will be aware of the economic

opportunities we are forgoing because of labour shortages, just as they will be looking increasingly enviously across the border as our standards of living continue to diverge in favour of America.

All these factors make it possible to think that we can successfully encourage people to adjust their retirement behaviour. Rather than approaching it as making people feel they are having something taken away, we will need to approach it as increasing the choices people have for handling their gradual withdrawal from the labour force.

Governments and employers are already taking measures. In 2007, for example, the federal government announced that, in order to encourage older workers to stay in the labour market, phased retirement will be permitted. Also, the age limit for converting a registered retirement savings plan (RRSP) has been increased. There remains more to be done, however, to make working compatible with income security for our aging population, and I trust that these issues are high on the agendas of you and your colleagues.

To summarize: Canada’s future well-being depends on you, and your colleagues, and Canadians more generally, succeeding in undoing the shift in retirement expectations that occurred over the past 35 years or so. If we do so, we will make the largest single contribution possible to reducing the economic impact of population ageing, we will reduce the cost of public retirement programmes and health care (because older people who work enjoy better health), we will increase tax revenues, increase incomes for older people when they do retire (because they will have to fund fewer years in retirement), we will lessen the very real possibility of intergenerational conflict and, perhaps most importantly for you and the people whose well-being you have most at heart, you will increase the happiness of older people who will feel themselves more useful, more involved, and more happy. Surely that’s an outcome all Canadians could get behind if it were explained clearly, properly, and compassionately, and if we made it clear that

provision for those unable to work would remain generous and accessible.

Thank you.



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