

**CSLS Roundtable on Creating a More Efficient Labour Market in Canada
Feb. 26-27, 2001, Chateau Laurier, Ottawa, Ontario**

Participants' Discussion

Lunch Speaker: **Lars Osberg, "A Framework for a more Efficient Labour Market in Canada"**

Moderator: Thanks Lars. We actually have a few minutes left if there's any questions although maybe everyone agrees with everything you said. But that probably is unlikely. We have about 10 minutes. Would anyone like to put forward a question on any aspect of Lars' address? Yes, Alice.

Alice Nakamura:

Well I agree with what Lars said about dream merchants. I do agree that 19-year-olds on the whole don't have a lot of accurate information about the outcomes of the training of programs that they're considering investing not just their dollars in but also their time, their young lives. I don't think, though, that the dream merchants are limited to the private sector providers of education. I think our own campuses, our publicly-funded campuses are full of dream merchants, in many cases people didn't mean to be misleading, they simply don't know. And I think the thing that could be done which would be most helpful for that would be to make it so that any person who takes publicly-funded education signs a waiver at the start of that saying that their information can be used and they would like it to be used for labour market analysis, not to pull up their individual record in any sort of a way that would identify them but for statistical analysis purposes. I have sat in a number of forums involving the universities where some of the universities were in favour of allowing Statistics Canada to release the data that is collected on outcomes for our students and others were sitting there saying no way. And my understanding is that Statistics Canada is powerless to release said information so long as our institutions bar the way. I think that that could be gotten around by making it so that the individual themselves said that they wanted that information released when they took their training.

Moderator: Let's just go for a couple, okay, André.

André Piché:

Yes, I would like to speak in defense of a former colleague, David Dodge. Now I just - your comments were partly fair in taking this case but if you take yourself back to 1981 and you have very high oil prices, what do you do? How do you prepare for the future? You don't know what's ahead and I think that's the dilemma that they faced at that time and they had to do the best forecast they could under the conditions. I think it means that you have to be very prudent in your forecasting but at the present time if we look at the future, we know that the

population is aging. We can't change that. But we also know that we can't accurately predict what it will mean but we have to take a stab at that. That's the only comment that I want to make on this one.

The other one is about the individual learning accounts. I don't think it's a gimmick personally. I think it's badly overdue to have responsibility going back to the individual. I think everyone in society now, given the way the economy is changing, has to take more responsibility for themselves and this may be a very useful tool for them to do so. And I think for us to say that it's a gimmick and it's trendy to devolve to the individual I think it sounds to me a bit patronizing to say that, so I wouldn't want to go that way.

Lars Osberg:

I'll respond to that one. The point I was - to elaborate on the point a bit further, I mean we have a social interest and a public interest in having labour market initiatives that diversify portfolio skills. I mean in some sense in which the institutions in society produce specialists in a whole variety of areas for which we have very imperfect ways of forecasting exactly what the payoff to that specific type of skill will be or in fact what that specific skill will lead on to in future skills. So there's an optimal degree of risk sharing involved in this process. I mean one way of enabling people to produce a variety of specialized skills is to have a system where, as we do now actually subsidize, through primary and secondary education, their acquisition of basic skills and then we tax it back from them later on in life and in that sense it's kind of a co-insurance type process. Society as a whole bears part of the cost of investment and society as a whole receives part of the return, and in particular in a progressive income tax system, the particularly large returns are taxed back at a somewhat higher rate.

And so if you have individuals who are risk averse about the future, and they are completely paying out of their own pocket all the upfront costs of their education and then recouping that out of their hopeful but entirely uncertain income stream, they have an incentive to minimize the uncertainty that they're going to face in a future life and to pick occupations, to be a jack of all trades but a master of none, to be able to cope with a whole variety of changes in their own life, but that creates a society of generalists rather than a society with a diversified portfolio of skills. So we do have a public interest in having a set of labour markets and institutions which actually in an uncertain world where some of these specialized skills will be like oil wells that don't pay off and some of them will be oil wells that do pay off, where we are in fact diversifying our portfolio.

And on the issue of forecasting at the time I mean I thought it was an excellent report and it was forecasting off into the future but it is a kind of a risky thing to just have one agency out there that's doing all this labour market forecasting. And that's why I think there's a lot of point - it's also - for all the resources of the federal government and all the educational, all the manpower forecasters out

there we could produce this one forecast that was so wrong, 19-year-olds have even less chance and so we're sure that individuals are going to, as they try and reinvent the wheel about labour market forecasting are going to do an even poorer job. So that's why I'm arguing for the idea of a mid-level institution and a multiplicity of mid-level institutions. Institutions in fact acquire an expertise in their narrow sectoral interest which can be deep enough to be profound about that sector and which society as a whole has a diversified portfolio of forecasters and a diversified portfolio of investments in a number of different industries. Because the risks of going to the single central planning model are fairly great and the under-investment in specialization of going to a completely individualized problem I think is extremely costly in the longer term.

Moderator: Elizabeth.

Elizabeth Beale:

I thought that was very thought provoking Lars and very useful. I did think you were a little unfair to the private trainers also and I often think it's the educational institutions who are the worst offenders here as Alice raised and I'll raise the topic of the training with respect to management and business. We've had an explosion of training programs and B Comm grads and young people entering into that and yet there's more and more discussion on our lack of adequate management skills throughout the economy so in some senses I think there is equally bad, if not worse, than some of the private training.

But the question I had for you is slightly different and that's to ask you to extend your qualifications for an efficient labour market back to an example here in Canada of Newfoundland and Labrador where we have had very strong aggregate demand in that economy. They've seen enormous adjustments within the internal labour market in terms of the firms and they're moving towards much greater productivity and efficiency within that province. We've seen enormous external changes in the labour market and yet we still have 16.7% I think the last month's unemployment rate within the province so I guess my question is what room is there for labour market policies within the context? Is it only nobility that resolves that or are there other types of strategies that we can back in on the table?

Lars Osberg:

On the first issue, the rate of return to college and university education is one of the most studied topics in labour economics, although it's usually studied as a black box in the sense of not distinguishing particular disciplines and particular - certainly not particular disciplines at particular schools. So the rate of return has held up extremely well both in dollars terms and in access to employment.

As to the particular issues of Newfoundland and Labrador, I do think you have to be a little careful about looking at GDP growth in a province where you have a lot of oil and gas coming on stream very quickly and thinking about the employment creation that comes out of that type of GDP growth in one of the most capital intensive industries known to humanity. So I'm not particularly surprised - I mean the number of jobs that you actually get out of that sector compared to the dollars in GDP growth generally it's relatively small, right? So now if you're talking about what's the actual solution to the problems of Outport, Newfoundland, it will take a little bit longer than this. But it is actually going to, in my view, if you want to - if you cut to the bottom line, it is going to involve mobility at some point if only to urban areas within the province but certainly mobility.

Moderator: Bruce.

Bruce Baldwin:

I just want to jump on the bandwagon of supporting HRDC gimmicks. I guess the question about this is I'm not sure that registered learning accounts are necessarily designed for 19-year-olds entering the labour force and making crucial decisions with imperfect information. I think you did point to the fact that a lot of the real action is going to take place inside firms and it's going to take place with individuals who may not be leaving their current jobs over the coming year and part of the challenge is how to reduce or spread the risk that will encourage firms and individuals to invest and invest perhaps more aggressively to avoid the generalization of training. I don't know if this initiative is really going to get at that. I do wonder about how people will combine savings for their own retirements, for their kids' education and will have anything left to put aside for their own education and training and I think that's a different issue. But if it is an attempt to try to reduce some of that risk inside firms, it may not be that bad an idea.

Lars Osberg: I can also understand there's kind of tax advantage. When I take sculpture classes at the Nova Scotia College of Art and Design, if I get to write it off against my individual learning account it'll be cheaper for me but we'll have this great huge - I mean it's an impossibility of policing through the tax system any sort of distinction between pure consumption and potential investment.

Moderator: David.

David Stewart Patterson:

I just want to follow up on your comment about the fact that people may tend to under-invest in specialization and that the interest in public funding would not be well served by creating a society of generalists rather than a diversified portfolio. I was talking earlier this morning about the difficulty of predicting demand for

particular occupations, you know, the level of government policy and obviously the same uncertainty affects individuals. I am not sure that a society of generalists might in fact be what we should be aiming for at the policy level. As you pointed out, change within firm is what dominates productivity growth and from the point of view of an employer these days, I think the primary consideration is when you're looking at an individual and saying is the right kind of person, does this person kind of have the right attitudes that fit the corporate culture? Is he or she kind of seated to our mission and our - the way we work at this institution? The specific technical skills that that individual has are simply a market of, all right, what's the gap between what that individual possesses in terms of technical skills and what's needed for the job that we have in mind for that person today and six months from now and two years down the road. And it's investment in training at the firm level which is able to respond to the changing needs of that employer. You know, again, you're pointing out there is in fact still long term attachment between the individual and a given employer and it seems to me if we focus public investment at the level of generalized education and look to the firms to make market, you know, the faster decisions in terms of where the skills of a particular individual have to be increased or updated or renewed to do today's job and tomorrow's job and next year's job, maybe that's in fact a pretty efficient outcome.

Lars Osberg:

Well we're all talking about a labour market of about 15 million plus people and an incredible variety of skills. I mean we're really talking about some sort of continuum of generalists to specialists out there and you know sure, you're not going to be saying that there shouldn't be any specialists. Like if you go for a heart operation you're going to kind of like specialists at that point. And so my point is that there's a diversified portfolio of skills that we need and because it's so uncertain we'd better make sure that we - we have to realize that people have only their one life to live, only their one occupation they get to choose and if we send the same signal to everybody. . .

David Stewart Patterson:

I'm not sure I agree with that. People change their minds all the time.

Lars Osberg: Well at any point in time. If we say to everybody you're best off if you're a jack of all trades, master of none, then it's not going to be too efficient.

Moderator: Okay, there's one question over there. Bert.

Bert Pereboom:

Lars, I liked your slide on labour surplus creates inefficiencies. When we were doing work with the skills panel one of the questions came up is a disequilibrium in the labour market all that bad a thing? If there is a shortage of workers is that a really bad thing? And one of the things it seems to me is, you know, on the product side if a firm doesn't innovate, it doesn't, you know, meet its market and so on, it dies. The labour market analogy is if a firm doesn't sort of pay attention to its workers, create, you know, good jobs in some sense, that firm also will have trouble recruiting the workers it needs and so you, you know, on the product side you'll get a creative destruction but if there's a shortage of workers we'll also get a creative destruction on the part of, you know, the quality of jobs. And if you think about, you know, if there is a big vacancy rate, what kinds of firms have experienced vacancies? Are they the best firms, the strongest firms and the highest paying firms? Probably not. It's the firms sort of on the bottom of the edge of the labour market that may experience the worst vacancies. Maybe it does, maybe it doesn't, but it seems to me that's how it would work. So if there is a big shortage, maybe those are the firms that aren't innovating enough on the labour market side and we don't necessarily cry too much if they disappear.

Lars Osberg:

Your comment reminds me when I was in Scandinavia in the mid-'80s when I started talking to some public servants and they were saying you know we just can't get rid of those textile firms. They're hoarding labour. They're preventing labour from moving to a better usage. Of course they were talking about a context of a 2% unemployment rate. The whole public policy discussion just goes 180 degrees when it's workers that are scarce and not jobs that are scarce. You're not trying to prop up any old lousy job just because it's a job. You're trying to find the labour to fill the needs for those firms that are crying for workers and you can't afford to waste resources in inefficient training programs and you know there's a specific need for a specific type of labour because those firms are complaining all the time. And so the whole political economy of job creation, of job retention just changes 180 degrees, I mean going from Nova Scotia to Norway in the mid-'80s it was clear that it was a totally different dialogue about jobs and skills but you're were going to a labour deficit from a labour surplus economy.

Moderator: Is there any other final quick questions? We have to stop sometime but - Sherri, a quick question.

Sherri Torjman:

It just follows up on what you were saying Lars. But you made the point on several occasions that the macro economic context is very important, you need to have a healthy demand. And it seems to me we're moving into an area right now where we've had a slowdown in many areas of the economy and I guess my question has to do with what signals should we be looking for in terms of when

do you know from a policy context, when do you know to start, sort of encouraging training people in other sectors because it's actually a structural kind of change or when do you know that it's sort of a - you know, it's a demand kind of change, a cyclical slowdown, you can keep people in those sectors and just upgrade the skills in those sectors. I'm not sure that the signals are clear anymore in this rapidly changing economy.

Lars Osberg:

I actually don't think there's a general answer to that because it'll vary with every business cycle and the old saying goes that every business cycle is slightly different and so I don't think there's a general answer to that general question. It has to be solved each and every specific time.

Unidentified Male Speaker:

If you're an adult worker who's lost their job, the government will pay for your training or if you've reached the point of destitution that you're on social assistance, the government will pay for your training. But if you're an adult worker who is not in great distress and you want to improve your skills, there's no one to share the risks except your employer. And so if you're not interested in just the training your employer will give you, you have to do all the investment yourself and take all that risk on your own back. And so it would seem that the RILAs, far from putting the risk on the individual, is the only thing that we have in sight in which the government would actually share the risk through the 20% grants that the government would be giving into those learning accounts.

Lars Osberg:

Well I mean there still remains a substantial public investment in post-secondary education. People aren't actually paying the full market rate for a university course for an example. So in that sense people are, in terms of out-of-pocket costs being cost shared. In terms of their foregone earning costs if they have to take time off work of course that's not the case.

Moderator: Okay, well I'm going to - I know there's some more questions but I really think we have to get on to the next session. So I think you can see from the number of questions that came up, Lars certainly stimulated debate and that was the purpose of his presentation so I'd like to have a round of applause for Lars' presentation.