TAPPING ECONOMIC POTENTIAL THROUGH BROADER WORKFORCE PARTICIPATION

ADVISORY COUNCIL ON ECONOMIC GROWTH

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Introduction

Canada's economic growth over the past 50 years was fuelled largely by growth in labour force participation rates. In 2015, Canada had one of the highest labour force participation rates among OECD countries. While it is true that our population is now aging and that the workforce will no longer grow at the pace we have become accustomed to, Canada still has significant untapped labour force potential given the under-representation of a number of demographic groups. Finding ways to include more of these Canadians in the labour force would improve their quality of life and their chances of success in the economy. This would deliver on the promise of inclusive growth in a way that also improves the wider economy's prospects, and makes it less likely that Canada's social safety net becomes overstretched.

The Council has identified four demographic groups where an increase in participation to "best-in-class" levels could have a significant impact on the economy: Indigenous Peoples, lower-income Canadians, women with young children, and Canadians over the age of 55. We are keen to see action from the federal government to spur inclusive growth by increasing participation rates among these four over the coming years. The four groups addressed here are not meant to be an exhaustive list. Several other groups face barriers to participation, such as people with disabilities, recent immigrants, and youth who are not in education, employment, or training (NEET). Bringing more members of these groups into jobs is also very important, but we have focused attention on the groups for which increased participation in the workforce will have the greatest economic impact, since we believe that the better the economy performs, the greater the opportunity for all Canadians.

This memorandum is not a specific recommendation of one policy approach over another; it is rather a collection of broad recommendations to aid policy makers to explore the existing policy landscape in depth, and to determine ways of removing barriers to employment. In some cases, the appropriate response might be new policy, while in others the government might simply need to "get out of the way", for example by eliminating distortions created by existing policies that discourage employment. The potential approaches we outline here are only examples and do not constitute an exhaustive list of policy options. Further, it is important to note that policy makers are not the only actors in this space—employers, both private and public, have a role to play in establishing the conditions for more inclusive participation in the workforce.

The workforce participation imperative

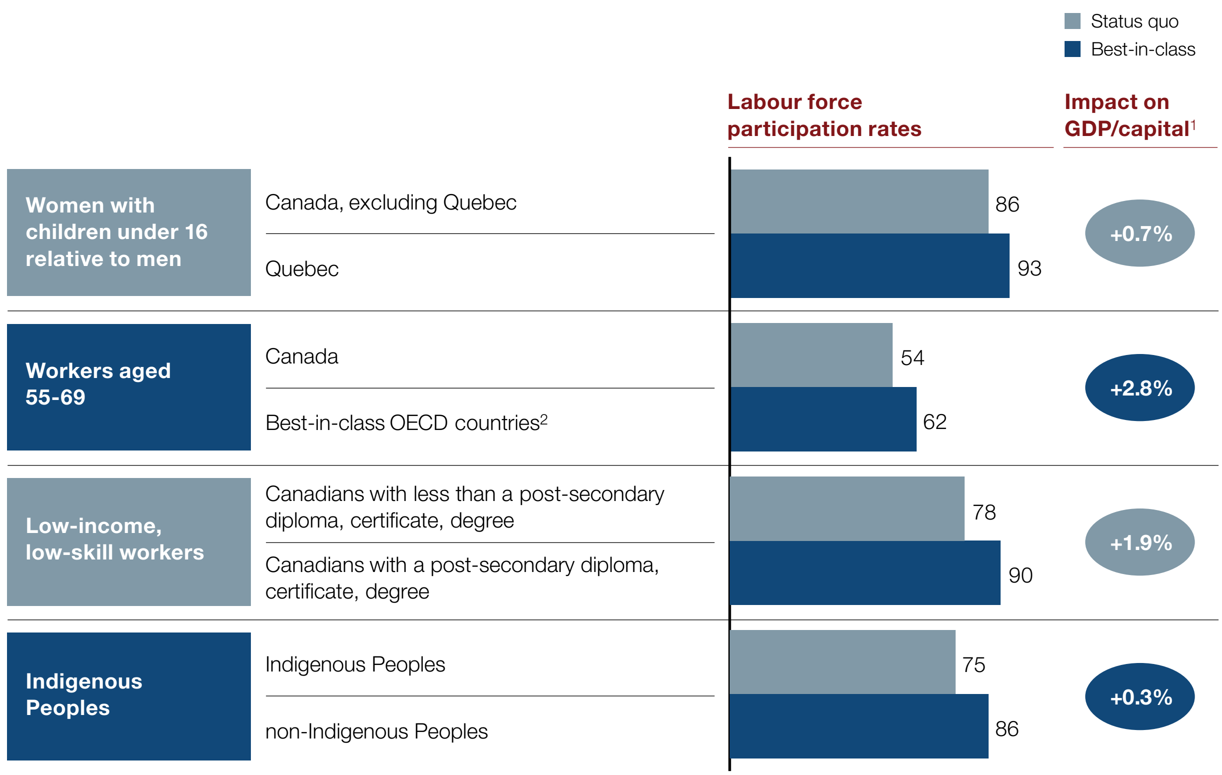
The economic growth potential of closing the gap between current participation rates and a best-in-class alternative for the four demographic groups addressed here is significant (see Exhibit 1 on page 3). Further, the impact of growth would disproportionately benefit Canadians in lower income quintiles.

Indigenous Peoples. Engaging more Indigenous People in the workforce is a fundamental imperative for inclusive growth, and would not only boost economic outcomes for the nearly 1.5 million Canadians with Indigenous identities but also spur economic opportunities and raise living standards for all Canadians.[1] Bringing the participation rates of Indigenous Peoples up to those of other Canadians could add $7 billion to

GDP, or 0.3 percent to GDP per capita.[i] The impact may be larger in jurisdictions where Indigenous Peoples make up a larger share of the population, such as Manitoba, Saskatchewan, and the Territories.

Lower-income Canadians. Nearly a third of Canadians aged 25 to 54 lack education beyond upper-secondary levels. The workforce participation rate for these low-income Canadians was 78 percent in 2015, but among Canadians with post-secondary diplomas, certificates, or degrees, it was 90 percent. Raising the participation rate of this group of Canadians to 90 percent could add $38 billion to GDP, or 1.9 percent to GDP per capita.

Exhibit 1 **Lower participation rates present a huge opportunity for growth in Canada**



[1] Persons may be members of more than one demographic group. To ensure impacts on GDP per capita are additive, the impact for Indigenous Canadians and Lower-income Canadians are computed after excluding persons in other demographic groups. Impact figures point to the scale of the opportunity in each group, and do not imply that polcy options referenced here will achieve the magnitude of these impacts.
[2] Best-in-class OECD countries include Sweden, Norway, the United States, Japan, and New Zealand.

[i] The National Indigenous Economic Development Board recently published *Reconciliation: Growing Canada's Economy by $27.7 Billion*, which found that closing the gap in economic outcomes between Indigenous Peoples and the non-Indigenous population could contribute $27.7 billion to the economy—about a 1.5 percent boost in GDP. This differs from our own impact estimates (which are lower) as it measures the gap in economic outcomes between Indigenous and non-Indigenous workers, as opposed to the impact of raising participation rates of Indigenous workers up to those observed among non-Indigenous workers.

Women with young children. In Quebec, women aged 25 to 54 who have children under the age of 16 participate in the workforce at a rate of 93 percent of that of similarly aged men. But in the rest of Canada, the rate is considerably lower, at 86 percent. Raising the national level to match that of Quebec could add $13 billion to GDP, or 0.7 percent to GDP per capita.

Canadians over the age of 55. The workforce-participation rate of older workers is 62 percent in the top-performing OECD countries—Sweden, Norway, the United States, Japan, and New Zealand. But in Canada, it is only 54 percent. Closing the gap could add $56 billion to GDP, or 2.8 percent to GDP per capita.

Principles for policy design

Across all four of these demographic groups, four common principles emerged as consistently important for higher workforce engagement: access to training and reskilling programs; a reasonable process for requesting flexible work arrangements; benefit and tax systems that do not create disincentives to work; and best-in-class delivery of services and regular "stop-do" program reviews.

Access to training and reskilling programs. Timely, forward-looking training and reskilling programs are important to support re-entry into the workforce, the retention of older workers, the vertical mobility of low-skilled workers, and skills development among Indigenous Peoples. In particular, access to digital and computer training will be increasingly important as digitization and automation comes to affect a significant share of Canadian jobs over the coming decades.[2] Indeed, to achieve inclusive growth and build resilience, digital literacy is critical for workers at all income levels. Approaches to training will differ by demographic group. Nearly $3 billion in federal funding already flows annually through the Labour Market Development Agreements, the Canada Job Fund Agreements, and the Labour Market Agreements for Persons with Disabilities. Further, our country could leverage the FutureSkills Lab to explore innovative approaches to developing the skills of specific parts of the population.[ii]

Reasonable process for requesting flexibility in work arrangements. A risk-free process to let workers seek flexible work schedules can keep them in the workforce despite life priorities that may conflict with the traditional nine-to-five work commitment. The availability of flexible work schedules will depend largely on the nature of the job and industry and on the labour needs and attitudes of the employer. New Zealand offers an interesting example of a more legislative approach—the 2015 Employment Relations Act amendment offers all workers the right to request changes in working arrangements, gives employers a month to respond, and provides a review mechanism to ensure that employers act in good faith when they deny such requests.[3] Canada may find such an approach unnecessarily intrusive, but the model is nevertheless one to study.

Further, it would help to establish a legal framework to support the growth of the "gig economy," in which workers are independent contractors. That would increase the number of flexible work options available to people with scheduling constraints.

[ii] See this Advisory Council's recommendation for a FutureSkills Lab to act as a pan-Canadian center of excellence in developing skills.

Finally, employers could consider offering more widespread flex-time, job-sharing, compressed work weeks, phased-retirement plans, part-time options for older workers looking to take on lighter commitments, or other alternatives to the standard work week. In this way, people who want to work could do so, and employers could retain the talent they need.

Benefit and tax systems that do not create disincentives to work. Tax and benefit systems should not create distortions that make workers less likely to participate in the labour force—in other words, new entrants should not face financial penalties for working. The financial barriers that tax and benefit systems can rectify differ by demographic group. We address these barriers in the sections below.

Best-in-class service delivery and regular "stop-do" program reviews. Existing policies should be reviewed and their impact evaluated regularly. The government ought to compile a list of policies to terminate or amend so that they can better address current market challenges and opportunities and do not divert limited resources from higher-impact programs.

Specific policy principles

This memo focuses on four demographic groups. The groups outlined here are not mutually exclusive, and some Canadians will find themselves identifying with all four groups. However, some barriers to working are specific to one group, and potential solutions to these barriers are addressed here.

Indigenous Peoples

Indigenous Peoples face deeply rooted systemic barriers to inclusion in the workforce. These barriers are unlikely to be eliminated by focusing on a single dimension of policy. The Advisory Council on Economic Growth is currently pursuing further study on economic growth and the Indigenous economy. Here, we point to a few areas for exploration that could increase inclusion in the workforce for Indigenous peoples, to be considered not only by the agencies and programs of the federal government but also by the Indigenous community's many economic-development, business, and political organizations focused on building a healthy labour market.

All communities should have access to high-quality primary and secondary education. Twenty-four and 35 percent of Indigenous People aged 15 to 65 have low literacy and low numeracy skills, respectively—a proportion significantly larger than that of the non-Indigenous population.[4] Exacerbating the challenge, per capita federal funding for primary and secondary education on reserves does not cover the standard cost of delivery in many rural and northern communities, and educational resources and services are frequently more costly due to the geographical dispersion of schools. Further, independent management of most on-reserve schools means that they generally lose out on the network benefits and economies of scale of being part of a school board. High-quality primary and secondary education is critical for building the skills required for inclusion and success in the workforce, and every part of Canada should have reasonable access. The federal government could commit itself to that goal and work with Indigenous communities to identify viable paths forward.

Long-term financing should be more accessible to Indigenous communities and businesses. Federal transfer agreements are now the sole or primary source of financing for many Indigenous communities on reserves. Funding arrangements between individual communities and Indigenous and Northern Affairs Canada (INAC) often last five years and are renewed after every term.[5] A lack of visibility beyond the five-year period makes it harder to seek out beneficial private-sector loans, and can prevent Indigenous contractors from bidding on large contracts due to an inability to secure bonding for businesses based on-reserve. Further, the majority of transfer funding is provided for the support of social programs and services and is therefore not available for business investment or for leveraging private financing. These barriers make long-term economic planning difficult, and hinder job creation and business growth on reserve. Greater access to capital outside of federal transfers could help, either through conventional commercial banks or alternative means. The First Nations Financial Management Board (FNFMB), for example, not only provides certification and monitoring services to help communities access financing from financial institutions but also offers a direct borrowing pool for long-term ventures. These efforts could be scaled to reach more Indigenous businesses.

Rural communities ought to have reliable digital connections. Four in ten Indigenous businesses have no Internet connection or an unreliable one.[6] Digital access is important for creating businesses and jobs, especially in the age of the "gig economy" and of Internet-based businesses. The broader reach of Internet and mobile networks into rural communities would build digital literacy, develop critical tools for creating and enlarging small businesses, and increase connectivity between the rural and urban parts of Canada. The federal government could work with indigenous communities and the private sector to identify options for the development of Northern and rural networks.

Mechanisms for brokering public-private partnerships should be supported. Canada could benefit from more partnerships between businesses and Indigenous communities to promote employment, skills development, and economic development. These public-private partnerships could not only build the financial and management capacity of Indigenous communities but also be of economic benefit to the partnering business. Education and advocacy will be needed to help the parties kick off relationships, establish a mutual commitment, and develop policies and practices. The work of leading Indigenous business and economic development organizations—for instance, Canadian Council for Aboriginal Business's Progressive Aboriginal Relations (PAR) program, or Indigenous Works—could be scaled to facilitate more of such productive relationships.

Partnerships can also help employers to evaluate their current indigenous hiring practices, set up reasonable targets for improvement, and measure their own performance against these targets. Many Canadian employers already use employment equity and reporting practices, either through internal initiatives or with the help of organizations such as the PAR program or Indigenous Works. Existing platforms like these are well poised to assume an expanded role as partners for employers looking to engage with indigenous communities.

Manitoba Hydro, an excellent example, is among the province's largest employers, drawing over 18 percent of its total workforce and 50 percent of its Northern workforce from the Indigenous community. For new Indigenous employees, Manitoba Hydro offers three 7- to 10-month pre-placement programs, including technical-trade orientation and on-the-job training.[7] The program has been lauded as a critical reason for the company's successful effort to increase Indigenous employment.

Lower-income Canadians

The tax and benefit system should not inadvertently discourage workforce participation or efforts to seek higher-paying work. One policy opportunity would be to augment the Working Income Tax Benefit (WITB)—the federal government has already announced an enhancement in 2019 as a means of offsetting the impact of higher pension contributions on eligible low-income workers as a result of the Canada Pension Plan (CPP) enhancement. The WITB is widely regarded as an effective way to reduce the financial penalty for entering the workforce—for example, from income tax payments and the loss of social assistance benefits. But even with the forthcoming enhancement, WITB phases out completely at an annual net income of less than $21,000, which is below the average Canadian full-time minimum-wage income, and well below the estimated living wage, as measured for Toronto in 2015.[8] WITB could be further extended to help make work pay for low-income Canadians working full time.

An alternative approach might involve targeted support to lower-income Canadians for specific financial barriers to working, including high costs of transportation, the loss of medical and pharmaceutical benefits that come from transitioning out of social assistance, child care costs, or the costs of work equipment or clothing. Targeted support is desirable if it reaches the segments of the population for which work-related costs are a significant barrier to working, but it is critical that the delivery of the support, whether through tax credits or other expenditures, minimizes complications and inefficiencies in the current tax system.

Further, the Employment Insurance (EI) system could better encourage people to accept work where it is available. This program is necessary to support Canadians who have gone through job loss. However, some components of the EI program can create barriers to working, making the labour market less efficient and leading to suboptimal outcomes for workers and employers alike. For example, variable entrance requirements provide different access to benefits and related training supports by region, and there is a lack of variation in benefits to recognize different circumstances between long-tenured workers, seasonal workers, contract workers, and the self-employed. The entire EI system could be reviewed and recalibrated to eliminate labour market distortions.

Women with young children

Families with young children, and in particular low-income families, should have reasonable access to a sufficient supply of affordable, high-quality, and convenient childcare. The expansion of the Canada Child Benefit (CCB) is one available policy option. If the maximum benefit were extended to families further up the income scale—beyond the current $30,000 threshold in net family income—the CCB would have a stronger impact among families that now find the cost of childcare a significant barrier to participation in the workforce. Alternatively, increasing the maximum benefit amount per child could have a similar impact.[iii]

A different approach could be the creation of a universal subsidized childcare program, which not only ensures that quality of service is measured but also makes it possible to distribute benefits on a progressive scale. If such a model were to be considered on a national level, the Quebec system is an obvious case study. While the system has been lauded for its apparent ability to increase female workforce participation

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[iii] Increased generosity of the Canada Child Benefit could reduce the labour force participation of second earners as household disposable income rises with higher benefits. This is less likely to be a problem among the lowest-income households.

rates,[9] it has been criticized for being insufficiently progressive in delivery. If the aim is to remove the financial barriers faced by low-income parents in particular, the progressiveness of a national childcare program will be a crucial element.

While not an area for federal action, local governments could explore creative ways to moderate high childcare costs, such as reforming zoning laws to encourage childcare facilities in convenient locations. Under the Jobs New South Wales initiative, for example, an Australian state government is changing its regulations so that more childcare services can be provided both in residential neighbourhoods and city centres. That would make drop-offs and pick-ups less time consuming for parents going to work.

Another creative option comes from Norway, where parents are entitled to work part time until the youngest child turns 12, and to flexible work arrangements allowing ten days of paid leave per year so they can care for sick children.[10] The available evidence suggests that parents—predominantly women—are more comfortable accepting full-time work if they know that they can care for their children when necessary.[iv]

Canadians over the age of 55

Pension systems should not discourage working. Older Canadians willing to remain in the workforce beyond the traditional retirement age should not face disincentives. The federal government could explore different incentive structures in OAS and GIS, as well as in the CPP. Under the current system, seniors may take up the OAS pension between the ages of 65 to 70, with payments increasing in line with deferral. Workers may take up CPP between the ages of 60 and 70. Allowing OAS and CPP deferrals beyond age 70 could encourage willing older workers to remain in the labour force longer. The government could also explore ways to make deferrals beyond age 65 more attractive.

The Council understands that the age of working eligibility is one element of a complex system. The government should of course consider the entire system, and all relevant factors, including a) the ability to work for some older workers, particularly those engaged in more physically demanding professions, b) the health transfer system, and c) the overall system of taxation and transfers, which may create disincentives to employment (e.g., in terms of lost GIS for example). Within this system, we believe that the ages of eligibility for the Old Age Security (OAS) program and Canada Pension Plan (CPP) should be recalibrated and increased to meet the Canadian reality of an ageing society and a considerably longer life expectancy than we had just a few decades ago. Increasing the age of eligibility for the OAS—and by association the Guaranteed Income Supplement (GIS), which has the same eligibility age—and the CPP would follow a trend in many other OECD countries, which have extended the age of eligibility in recent years to make their public pension systems more fiscally sustainable.[11]

Older workers face barriers to re-entering the workforce after job dislocation or time away. Employers have an important role to play in identifying and addressing cases of age discrimination when they occur. Governments could provide training to navigate the contemporary job-application process—one of the

[iv] Quebec also grants ten paid days leave to care for sick children, but most other Canadian provinces do not.

primary barriers for older workers who want to re-enter the workforce—perhaps by leveraging the FutureSkills Lab. Finally, the government can promote the broad economic benefits of retaining older workers—in particular, by helping the public to understand that retaining late-career workers does not diminish the number of jobs available for younger Canadians.

Conclusion

The significant underrepresentation of some demographic groups (especially Indigenous Peoples, lower-income Canadians, women with young children, and Canadians aged 55–69) gives our country substantial untapped potential from the workforce. Addressing the barriers to participation is an inclusive economic-growth opportunity that should not be overlooked. This Advisory Council urges the government to take action to improve labour force participation rates in each of these four groups through new policy or simply "getting out of the way" as circumstances require.

Appendix

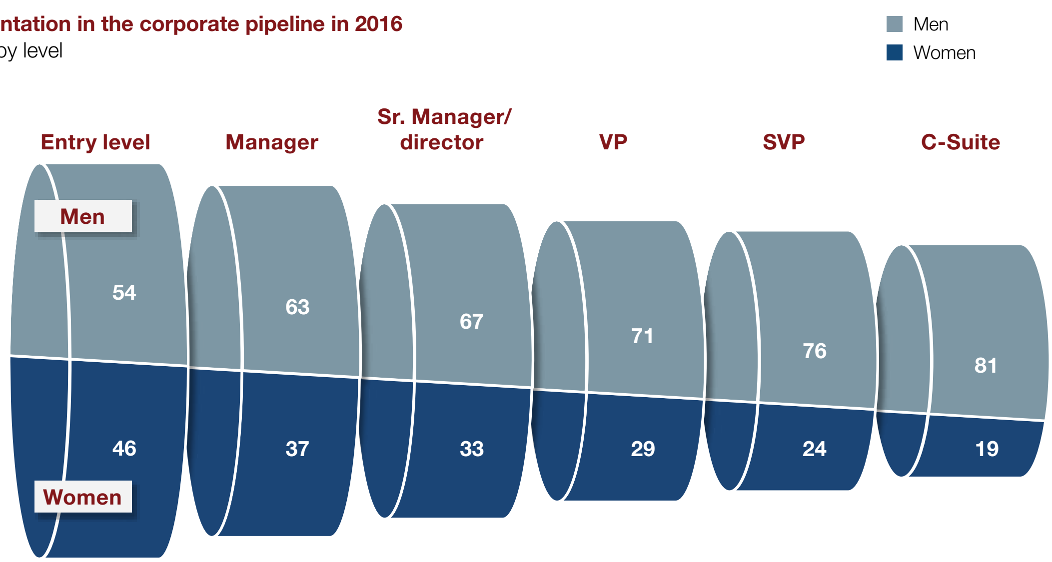
Increasing the number of women in leadership positions

This memorandum has focused on strategies to remove the workforce participation barriers that face specific sectors of our population, including women with young children. An added challenge is to ensure that women already in the workforce and their male counterparts have the same opportunity to progress to senior management positions. The dearth of women in leadership positions limits the talent pool from which Canadians firms can draw. A lack of gender diversity on executive teams limits the vision set by leadership and is correlated with weaker financial performance—according to some research, the most gender-diverse companies are 15 percent more likely to outperform their national industry medians in financial results.[12]

The statistics show that Canadian companies are good at hiring women but less effective at advancing them: women make up 46 percent of the country's labour force but hold less than one-third of all senior management positions. Strikingly, the companies in the Canadian TSX 60 have only one woman CEO among them.[13] The share of seats that women hold on the boards of Canadian stock-index companies has received much attention. In 2014, it was just under 21 percent, a smaller proportion than in many other OECD countries.[14]

Exhibit 2 **Female representation declines throughout the talent pipeline**

Gender representation in the corporate pipeline in 2016
% of employees by level



	Entry level	Manager	Sr. Manager/ director	VP	SVP	C-Suite
% of women in pipeline in 2015	45	37	32	27	23	17

Having women represented on boards is important, but not sufficient to increase gender diversity in executive teams. For that, a focus on retaining women throughout the "pipeline" will be critical. One problem, research shows, is that women are 46 percent less likely than their male counterparts to have sponsors who champion their careers.[15]

A potential initiative—a gender diversity challenge

As a first step to closing the gender diversity gap in senior-management positions, the federal government could spearhead a Canadian gender diversity challenge to make businesses more aware of the problem and spur a real commitment to advancing talented women. By signing on to the challenge, participating public and private organizations would commit themselves to the following:

- setting the "tone from the top" by publicly promising to make gender diversity in leadership a top priority

- setting and publicizing self-imposed targets for retaining and promoting women throughout the pipeline, with goals determined by the specific industry and sectoral context

- tracking performance against targets and making high-level results public—perhaps in collaboration with impartial third-party organizations; Catalyst Canada, for example, already tracks gender diversity on boards and could be leveraged as a partner

The third party's role could include galvanizing organizations to sign on, connecting companies with qualified women to help meet targets, tracking and publishing results, promoting success stories, implementing a coaching and sponsorship program to develop leadership capabilities and creating a supportive and inclusive environment, and establishing hiring and performance-review guidelines to ensure fair practices. To prevent the initiative from becoming a mere public-relations stunt, the federal government could consider annually convening the leaders of participating organizations to share their best practices, challenges, and opportunities. ■

[1] *Reconciliation: Growing Canada's Economy by $27.7 Billion*, The National Indigenous Economic Development Board, November 2016.

[2] *The Talented Mr. Robot: The Impact of Automation on Canada's Workforce*, Brookfield Institute for Innovation and Entrepreneurship, June 2016.

[3] New Zealand Ministry of Business, Innovation, and Employment website, accessed November 30, 2016.

[4] *Skills in Canada: First Results from the Programme for the International Assessment of Adult Competencies (PIAAC)*, 2013.

[5] *Evaluation of the Alternative Funding Arrangement (AFA) and Flexible Transfer Payment (FTP) Funding Authorities*, Indian and Northern Affairs Canada Corporate Services, 2005.

[6] *Promise and Prosperity: The 2016 Indigenous Business Survey*, Canadian Council for Indigenous Business, 2016.

[7] Manitoba Hydro website, accessed December 14, 2016.

[8] Tiessen, Kaylie, *Making Ends Meet: Toronto's 2015 Living Wage*, Canadian Centre for Policy Alternatives, April 2015.

[9] "Child-Care Policy and the Labor Supply of Mothers with Young Children: A Natural Experiment from Canada," *Journal of Labour Economics*, July 2008.

[10] *Women in Work: The Norwegian Experience*, OECD Observer No. 293, November 2012.

[11] *Pensions at a Glance 2015*, OECD and G20 Indicators.

[12] *Diversity Matters*, McKinsey & Company, 2015.

[13] *Women Heads of the TSX 60*, Catalyst Canada, 2015.

[14] *2014 Catalyst Census: Women Board Directors*, Catalyst, 2014.

[15] "The Sponsor Effect: Breaking Through the Last Glass Ceiling," *Harvard Business Review*, 2012.