

Intelligence MEMOS



From: Parisa Mahboubi and Tingting Zhang

To: Canadian Labour Force Observers

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Re: **NAVIGATING LABOUR SHORTAGES: A STRATEGIC PATH FOR CANADA'S SMEs**

Your local entrepreneur, whether a coffee shop owner or a medium-sized manufacturer, has a problem. They are likely to face labour shortages that stymie their growth plans and reduce their significant contribution to Canada's economy.

Small and medium-sized enterprises (SMEs) are in fact the backbone of Canada's economy, employing more than [88 percent](#) of the private sector labour force. However, post-pandemic, there are chronic labour shortages and two-thirds of small businesses cite the [scarcity](#) of qualified candidates as the cause. Understanding the root causes of labour shortages is crucial for addressing the issues.

Labour shortages arise from various factors, including wage levels, skill mismatches, demographic shifts and changes in worker preferences. Education and training gaps, geographical disparities, and labour market inefficiencies also contribute. Addressing these diverse factors requires different responses.

A significant contributor to labour shortages, our new C.D. Howe Institute [paper](#) shows, is the mismatch between job seekers' wage expectations measured by "reservation" wages – the lowest wage an applicant will accept – and the wage an employer offers. According to [Statistics Canada](#), in the first quarter of 2022, that gap was biggest in lower-paying sectors such as retail and accommodation and food services.

Some SMEs have tried raising wages. However, almost half of them found this strategy [ineffective](#), possibly because the wage increases still did not meet expectations. Unsurprisingly, job seekers move to higher-paying jobs or industries with better working conditions, shifting the employment landscape toward [higher-paying jobs](#).

It is imperative that employers and governments address wage mismatches to enhance competitiveness in attracting and retaining employees. This approach can potentially increase labour supply, especially among underrepresented groups with lower education levels, thereby helping mitigate shortages related to an [increased](#) demand for low-skilled labour.

SMEs can utilize government wage-subsidy programs and explore various complementary means such as optimized utilization of immigration, better human resource practices, and more investment in automation to mitigate labour challenges in the short and long term.

Immigration serves as a potential solution to labour shortages but Canada needs to do better at leveraging immigrant skills and integrating them into the Canadian workforce. In that regard, provincial and federal governments need to educate SMEs about international credentials and ensure credible oversight of foreign credential assessments. Raising awareness of, enhancing access to, and encouraging participation in employment services, language learning resources and bridging programs also [helps](#) provide better and faster labour-market integration of newcomers.

Enhanced human resource practices can also help. Offering flexible work options, training opportunities, and competitive compensation packages are vital to attracting and retaining talent. Remote work, in particular, has shown promise in improving employee retention and attraction in jobs where it's feasible. Additionally, provincial programs supporting underutilized labour pools – such as youth, immigrants, Indigenous people, workers with disabilities, and older adults – can significantly expand the available talent pool. [Nova Scotia](#) and [Quebec](#) have wage subsidies for businesses to hire young workers, skilled graduates, immigrants and visible minorities. Other provinces need to consider similar programs. Currently, the federal government provides financial support only for small businesses in hiring apprentices, summer students and interns. Governments also need to create programs targeting hiring seniors, such as the Part-time Re-employment Grant in [Singapore](#).

Finally, automation can augment the existing workforce, increase productivity, and widen the search for workers. But SMEs encounter challenges in adopting automation due to the initial investment costs and a lack of expertise. A strategic and phased approach to automation adoption is necessary. Governments can support SMEs by providing grants, expert advice, funding programs, and digital training initiatives, thereby facilitating the integration of automation technologies into their operations.

Labour shortages have many causes, and require a range of responses from both employers and governments, and a close collaboration between them to make an impact.

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