

Intelligence MEMOS



From: Marcel Boyer

To: The Hon. Francois-Philippe Champagne, Minister of Innovation, Science and Industry

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Re: **INTEGRATING LABOUR MARKETS INTO COMPETITION POLICY**

The federal government's consultation [paper](#) on the *Competition Act* asked "whether amendments to the Act could give labour a more central role in competition analyses."

It is natural for a government to want to increase wages. Workers vote. Capital does not.

But competition policy is about generating economic growth. The true source of economic growth, wealth and wellbeing for all is not low prices/high wages but the right prices/wages. That is, prices and wages that send the right signals of scarcity to workers, consumers, buyers, sellers, and producers. These prices and wages are competitive prices and wages, and so they are bounded or set by competition or by mechanisms that emulate competition.

There are multiple reasons why giving labour a central role in competition is difficult.

The role of technological change and "creative destruction" is a major source of growth and productivity gains. Creative destruction has unavoidable adverse effects on certain jobs that need to be lost for others to be created. Job losses may be as important as job gains to the process of job growth over time. Tampering with this process of creative destruction may backfire and lead to lower job growth.

Wages are holistic, including insurance, pensions, training, compensation growth prospects, and benefits related to location and the stress level.

The very definition of labour markets is difficult to grasp. Given the fluidity of labour competencies (a manager may leave to become a teacher, a teacher may leave to become an adviser, etc.) and worker mobility (a butcher in Montréal may become a butcher in Toronto), this will be difficult to practically implement in competition analysis.

Competition may take some time to materialize, particularly in labour markets.

Here's an analogy: Once seated, a restaurant-goer may decide to leave after seeing the prices of the different meals. But leaving is costly. The consumer's decision will often be to choose a reasonably priced meal, but never come back to that restaurant. Eventually, the restaurant will lose its clientele and be forced to shut down. Similarly, leaving a job to take a new one at a higher wage takes some time to materialize. Workers must search for a new job, possibly in a different industry or city. Searching and moving are costly activities. But eventually, a low-wage employer will lose its workforce. Hiring and training new workers as well as adjusting wages are costly activities for the firm. The exercise of market power is tricky and may be profitable in the short-term but costly in the long-term. Market power in static versus dynamic environments are very different realities.

Similarly, in a competitive equilibrium, there is no shortage of workers. If a firm or group of firms have market power on given labour markets (or any input markets), the non-competitive equilibrium wage on those markets will settle at a level lower than the competitive wage. At that non-competitive equilibrium wage, firms would like to hire more workers (they will have a shortage of workers, possibly through unfilled job openings or vacancies), but refrain from hiring to avoid having to increase wages. Being starved for labour is symptomatic of monopsonistic and oligopolistic firms. Subsidizing firms, one way or another, in such contexts would be an anti-competitive policy.

Workers have competitive recourse. For example, the existence of a countervailing worker power, through unions and recruiters. How would these factors feature into a competitive analysis?

Regulations on mobility and credential recognition in numerous industries are impediments to productivity gains and hence wage growth and increases in living standards as whole. They increase prices for consumers (who are workers in other sectors) but increase wages in the sector with restrictions.

How should governments give labour markets a central role in competition analysis? They should start by declaring illegal the numerous restrictions to mobility in professions and trades. They should also consider abolishing regulations on certification for professionals who are not in direct contact with the public when it is difficult or costly for the public to be educated or informed about the quality of service. Those certification rules in medicine, engineering, law, industrial relations, and numerous other fields are constraints on competition intensity and worsen outcomes for workers as a whole in Canada.

Competition is beneficial and generates efficiency, economic growth and wellbeing. Competition will be resisted by all those who benefit financially, economically, or politically from its deficiencies or abuses. That includes groups of workers who have created barriers to competition in their areas of practice. It is these labour market competition deserts that the government should consider how to tackle.

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