

STUDY COORDINATION OFFICE
Update identification record

COMMISSION: Commission on the Political and Constitutional Future of Québec (Bélanger-Campeau)

ORIGINAL STUDY

Reference: Volume 1, pages 167-241

Author: Pierre Fortin

Title: *La question de l'emploi au Québec : la photo et le film* (the question of employment in Québec: photography and film)

UPDATE

Author: Mario Fortin

Title: *La question de l'emploi au Québec : la photo et le film* (the question of employment in Québec: photography and film)

Comments: The author of the original study having declined the invitation of the Coordination Office, responsibility for updating the study was given to Mario Fortin, chosen in a call for proposals and recommended by the evaluation committee.

2001-12-19

The Question of Employment in Québec: Photography and Film

EXECUTIVE SUMMARY

After a review of the essential elements of the original study, the overall employment situation in 2000 is presented in Part 2, along with a description of the changes in the situation since 1989. Structural phenomena are analysed in Part 3, and the study concludes with the outlook for two challenges over the next ten years. The main points of this update are as follows:

- In 2000, the economic situation was as good as in 1989 and Québec's unemployment rate was the lowest in 25 years (8.4%). At 57.9%, its employment rate was comparable to that of 1989 and was among the lowest in North America. Only the Atlantic provinces and West Virginia had a lower employment rate. Québec's rate of activity dropped 0.7 percentage points between 1989 and 2000.
- The gap in the employment rate between Ontario and Québec narrowed considerably, from 8.4 percentage points in 1989 to 5.4 percentage points in 2000. Québec also narrowed the gap with the Canadian average, from 4.1 to 3.5 percentage points (i.e. a drop of 0.6 percentage points). Québec made up that ground even though total employment rose only 10%, compared with 14.8% in the rest of Canada, due to the slower growth rate of its population aged 15 and over (+10%, compared with +16.2% in the rest of Canada). Consequently, while Québec would have needed an extra 430 000 jobs (14% of the total) in 1989 to reach an employment rate comparable to that of Ontario, an extra 320 000 jobs (+9%) would have been needed in 2000. Thus, the employment deficit between Québec and Ontario has been reduced by one quarter in a decade. A full-employment policy can therefore be achieved even though Québec's share of net job creation in Canada is less than its share of jobs in Canada.
- Between 1990 and 1992, Canada and Québec experienced the worst recession since the Depression of the 1930s, which resulted in a 10% relative decrease in the standard of living in Canada, compared with that in the U.S., as per capita GDP rose 27% in the U.S. between 1989 and 2000, but only 17.8% in Canada. On a regional basis, Québec's performance was almost identical to the Canadian average, with 17.5% growth, while Ontario's performance was the worst, with per capita GDP growth of only 12.9%.
- A number of elements confirm that restructuring associated with the adoption of new production technologies does not account for the magnitude of the Canadian recession. First, these changes affected all developed countries without their having experienced a comparable recession. Second, the impact of technological change on the demand for skilled labour was less pronounced in Canada than in the U.S., whereas the supply of skilled labour increased more rapidly. Third, the massive job cuts of the last decade occurred in sectors associated with government, while the job

destruction rate in sectors where there is foreign competition did not rise significantly. On the contrary, the real value of exports by Canadian and Québec businesses rose sharply. The restructuring theory is also incompatible with changes in the proportion of vacant positions. During more intense restructuring, the proportion of vacant positions increases simultaneously with the unemployment rate, because unemployed workers have more difficulty finding jobs just as businesses have more difficulty filling available positions. Instead, businesses were found to recruit less when unemployment was high, a sign that unemployment was caused by a low labour demand.

- The Québec Beveridge curve shows the evolution in vacant positions and unemployment. According to Statistics Canada, the proportion of vacant positions was 2.2% in Québec in 2000. That figure was used to calibrate the Beveridge curve, which was then calculated for the other years on the basis of the change in the Help-Wanted Index. The curve confirmed that the recession in Québec was caused by a decline in economic activity. It also showed a particularly rapid decrease in the unemployment rate between 1993 and 1996, with no variation in the number of vacant positions, as if restructuring or the activity rate had tapered off. Moreover, the curve indicated a strong recovery in labour demand as of 1998, resulting in a rapid reduction in unemployment in the last three years.

- The Canadian recession is more accurately explained by the highly restrictive nature of the Bank of Canada's monetary policy between 1988 and 1992. Québec is rather vulnerable to such a policy because its activity is concentrated, relatively speaking, in the manufacturing sector. Ontario was affected most, however, partly because activity is concentrated in the production of durable manufactured goods even more there than in Québec. The exceptionally dramatic slowdown is probably also due to the bursting of the real-estate speculative bubble that held sway in the south of the province at the end of the 1980s.

- The recession in New England was worse than in Québec and Ontario, because of an even bigger real-estate speculative bubble that burst in the Boston area. Full employment was nonetheless re-established in the region even though total employment rose less than 7% in ten years. This is a further indication that sluggish employment growth is compatible with full employment, provided population growth is slow.

- Recovery was slow in Canada after 1992 because high interest rates were maintained too long. Not only did the Bank of Canada take action to limit the decline in interest rates, the market also demanded interest rate premiums on securities in Canadian currency because of the concern over the state of public finances. In addition, constitutional wrangling sporadically pushed interest rates upward but, ultimately, that impact was relatively limited.

- Continuing the downward trend begun in 1984, the average weekly wage in Québec dropped 6.6% compared with Ontario, between 1989 and 2000. The average wage rose

from \$543 to \$613 in Québec (+12.7%), while it increased from \$577 to \$698 in Ontario (+21%). Since consumer prices increased 12.7% in Québec and 15.4% in Ontario, the real wage in Québec hovered at \$554 (in relation to 1992 purchasing power), but rose 4.8%, from \$583 to \$611, in Ontario (in relation to 1992 purchasing power). The average real wage stagnated despite 14% minimum wage growth between 1991 and 2000.

- Regional job distribution changed little. Again, the employment situation was rosier in the Montréal belt and in the Outaouais region. To all intents and purposes, the employment rates in the Montérégie and Laurentides regions mirrored those in Ontario. Conversely, the Gaspésie-Îles-de-la-Madeleine region again posted the lowest employment rate.

- The relative decline in the primary and manufacturing sectors continued in the past decade. In 2000, the primary sector accounted for no more than 3% of the Québec labour force, while the manufacturing sector's share fell to 18.3%. The service sector now accounts for nearly three in four jobs. Employment growth has been strongest in commercial services, education and health in the past ten years. The health sector has the highest employment rate, accounting for 11% of the Québec labour force. The increase in the number of jobs has been sharpest in the scientific and technical sectors, which, in 2000, accounted for 5.8% of the labour force, compared with 3.6% in 1989.

- The traditional industries in the manufacturing sector—namely, the clothing and paper industries—have declined in relative importance, but nonetheless account for a large share of jobs. Thus, the clothing industry accounts for 9.1% of manufacturing jobs, whereas the paper industry's share has plummeted, from 8.9% in 1991 to only 6% in 2000. Growth was highest in the following industries: wood products (+1.8%, to 7.1%); computer and electronic products (+1.6%, to 5.1%); machinery (+1.1%, to 5.1%); rubber and plastic products (+0.9%, to 7%); foodstuffs (+0.7% to 10.2%); and metal products (+0.6%, to 6.9%). The transportation equipment industry remained pretty much constant at 8.2%, as a result of the aerospace industry, which accounted for 4.4% of jobs.

- Level of education continues, more than ever, to be a determining factor in the employment rate. Regardless of education, the employment rate is highest among 30- to 54-year-olds, reaching a maximum of 50% in the case of persons with a grade 8 education or less, and up to 88% in the case of university graduates. As of 55 years of age, the employment rate begins to decline, varying between 30% (grade 8 education or less) and 56% (university graduates).

- Overall, the average level of education is still lower in Québec than in Ontario. The percentage of the population with a grade 8 education or less exceeds 16% in Québec, which is twice the percentage in Ontario. However, since the high-school dropout rate is lower in Québec, the percentage of the population having partially completed or

completed post-secondary studies is similar in both provinces—51.6% in Québec and 52.8% in Ontario.

- More young people have a post-secondary or university degree in Québec (66%) than in Ontario (62%). However, young Quebecers are more likely to abandon their secondary studies than their Ontario counterparts (15% compared with 9%). The higher dropout rate in Québec could be a contributing factor in its lower employment rate; however, the higher rate of post-secondary graduates has the opposite effect. While it is difficult to establish where the net advantage lies as a result of this situation, it is clear, in terms of the number of years of schooling, that young Quebecers have closed the gap with their Ontario counterparts.

- If the level of education in Québec paralleled that in Ontario, the employment rate would rise to 59.0% in Québec. At most, the gap in the employment rate between Ontario and Québec in 2000 would be reduced by one fifth. Québec's low employment rate is therefore due primarily to the fact that, at a given level of education, the percentage of workers in Québec is lower. However, this gap in the employment rate is not uniform, being most pronounced among persons with little schooling and non-existent among persons with the highest level of education.

- Between 1990 and 2000, there was a net decrease of 289 000 (-31%) jobs among persons not having completed their secondary studies. During the same period, the number of jobs held by post-secondary graduates rose by 344 000, for an increase of almost 38%, while, among university graduates, the number of jobs climbed by 245 000, for an increase of close to 60%. Thus, an extremely rapid transition occurred in the labour market, with the number of jobs held by post-secondary or university graduates standing at 70%, compared with 52% ten years earlier. This increase in the level of education in the jobs held represents a positive adaptation toward a knowledge-based economy.

- As of the early 1990s, baby boomers began reaching the 45-to-54 age group. This has had little impact on the employment rate. The percentage of young people and of people 55 or over has not changed much in ten years, whereas the percentage of 65-year-olds is definitely on the upswing (14.7% of the population consisted of 65-year-olds in 2000 compared with 12.4% in 1990).

- The employment rate was 54.7% for young men in 2000, and 50.5% for young women—a significant drop of 6.0 and 5.3 percentage points respectively since 1989. The increase in the school enrolment rate is primarily responsible for the reduction in the employment rate among young people, as their unemployment rate—13.9%—was the same as in 1989.

- The employment rate for women has continued to undergo strong growth in Québec, rising from 62.6% to 71.4% (+8.8 percentage points) for the 25-to-54 age group, and 6.1 percentage points for women aged 55 to 64. Their employment rate has drawn considerably closer to that of Ontario women of the same age. The increase in

the activity rate among women lasted longer than in Ontario, but has probably levelled out among 25-to-54-year-olds. The activity rate should continue to rise for at least ten more years among women aged 55 to 64 years.

- Amendments were made to the *Employment Insurance Act* (previously the *Unemployment Insurance Act*) in 1990, 1994 and 1996 in order to make it harder to qualify for benefits and to make benefits payable for a shorter period of time. This led to a reduction in the subsidy rate for unstable employment, particularly in 1994, which dropped from 178% in 1993 to 95% in 1995. In 2000, the rate was a scant 60%. As a whole, these regulatory amendments to the system resulted in an overall decline in Québec's activity rate of at least 0.5 percentage points between 1989 and 1997.

- Now that baby boomers are starting to turn 55, the impact of changing demographics on the employment rate is picking up speed. Whereas, during the 1990s, the Canadian employment rate fell by an average of nearly 0.1% a year due to aging, that impact will at least double over the next ten years in Canada. In Québec, aging could cause the employment rate to fall 4.1 percentage points between 2000 and 2011, placing it at 53.8%. In Ontario, the employment rate will drop by only 2.4% due to aging. Thus, the gap in the employment rate between Québec and Ontario will widen over the next ten years. The magnitude of the drop in the overall employment rate in Québec can be limited only through a significant increase in the activity rate among 55-to-64-year-olds. A likely scenario would place it at 55% in 2011.

- Because of this drop in the employment rate, net job creation in Québec between 2000 and 2011 will probably be below 100 000. It could even be nil. Should this be the case, with capital accumulation and technical progress continuing to occur at the same rate as since 1989, real per capita GDP would increase by only 13% by 2011, compared with 17.5% between 1989 and 2000. Real economic growth in Québec would thus be reduced by approximately 25%.

- If it accedes to sovereignty, Québec will have to adopt an advantageous monetary system. Canada currently maintains a flexible monetary system in which the value of the Canadian dollar varies according to commodity prices. Such a policy is well-suited to the needs of Alberta and Saskatchewan, but tends to amplify the shocks experienced by Ontario and Québec. If Québec were to decide not to adopt a new currency, adopting the U.S. dollar, instead of the Canadian dollar, would probably be a better choice from a macroeconomic standpoint.

- Given the extremely favourable impact of higher education on the employment outlook, access to post-secondary studies must be maintained. It is also crucial for educational institutions to have the financial capacity to provide instruction and carry out research on a par with the rest of North America.