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# Quebec's labour woes

## QC's labour market ranks 50th out of 60 in North America

Keith Godin & Milagros Palacios

WITH Labour Day celebrations now over, it is a good time for Quebecers to seriously ponder why labour market performance in *la belle province* is dismal compared to other Canadian provinces and US states. Over the last five years, Quebec performed poorly on a host of labour market measures, including private sector job creation, unemployment, and productivity. While there a number of external factors that impact labour markets, it is critical for the government of Quebec to focus on the characteristics and regulations of its labour market in order to improve the province's performance.

A recently released Fraser Institute study, *Measuring Labour Markets in Canada and the United States: 2008 Report*, assesses the performance of labour markets in North America, and examines the characteristics and regulations of the labour market that impact performance. Unfortunately, labour market performance has been dreadful in Quebec over the past five years (2003–2007). Quebec ranks 9th among the 10 provinces and 50th out of the Canadian provinces and US states (table 1). Contributing to its poor showing are the province's

high unemployment rate (56th out of 60), lengthy spells of unemployment (38th out of 60; measured as the percentage of the labour force experiencing unemployment for 27 weeks or longer), low private sector employment growth (30th out of 60), and dismal worker productivity (57th out of 60).

Of course, there are many explanations for Quebec's woeful labour market performance. External factors such as Canada's high dollar and declining manufacturing sector, which are beyond the control of the provincial government or the province's residents, certainly play a role. However, the provincial government's economically damaging policies are also having a significant impact on Quebec's performance. That is, Quebec does not have the right economic environment for individuals and businesses to succeed. While many policies are needed to create the right environment (i.e., competitive business taxes, low personal income taxes, optimally sized government, low level of regulation, etc.), ensuring that Quebec has the right labour market characteristics is critical.

Research shows that the split between private and public sector employment is an important characteristic of labour market performance as incentives, productivity, and performance of labour

**FURTHER READING:** *Measuring Labour Markets in Canada and the United States: 2008 Report* by Keith Godin, Milagros Palacios, and Niels Veldhuis Available at [www.fraserinstitute.org](http://www.fraserinstitute.org).

Table 1: Summary of provincial rankings, labour market performance

|    | Index of Labour Market Performance, 2008 |       | Average total employment growth, 2003-2007 |     | Average private employment growth, 2003-2007 |     | Average unemployment rates, 2003-2007 |      | Average duration of unemployment, 2003-2007 |      | Average productivity per worker, 2003-2007 |            |
|----|--|-------|--|-----|--|-----|---------------------------------------|------|---|------|--|------------|
|    | Rank (out of 60)                         | Score | Rank (out of 60)                           | %   | Rank (out of 60)                             | %   | Rank (out of 60)                      | %    | Rank (out of 60)                            | %    | Rank (out of 60)                           | 2007 CDN\$ |
| AB | 1  | 8.6   | 3  | 3.2 | 6  | 3.1 | 13                                    | 4.1  | 1   | 7.2  | 5  | 130,254    |
| BC | 11                                       | 6.3   | 5  | 2.9 | 8  | 2.9 | 49                                    | 6.0  | 17  | 14.8 | 51   | 83,316     |
| MN | 28                                       | 5.0   | 35   | 1.0 | 41   | 0.7 | 24                                    | 4.8  | 4   | 10.5 | 56   | 78,595     |
| NB | 43                                       | 4.3   | 33   | 1.1 | 31   | 1.1 | 58                                    | 9.2  | 7   | 11.3 | 59   | 72,365     |
| NL | 51                                       | 3.9   | 39   | 0.9 | 22   | 1.6 | 60                                    | 15.2 | 25  | 16.1 | 9  | 124,137    |
| NS | 45                                       | 4.2   | 32   | 1.1 | 33   | 1.0 | 57                                    | 8.4  | 11  | 12.9 | 58   | 73,396     |
| ON | 25                                       | 5.0   | 14   | 1.8 | 24   | 1.4 | 52                                    | 6.6  | 18  | 14.8 | 47   | 86,835     |
| PE | 33                                       | 4.7   | 25   | 1.4 | 11   | 2.3 | 59                                    | 10.9 | 2   | 9.4  | 60   | 64,138     |
| QC | 50                                       | 4.0   | 21   | 1.5 | 30   | 1.2 | 56                                    | 8.2  | 38  | 18.4 | 57   | 76,685     |
| SK | 14                                       | 6.0   | 24   | 1.4 | 14   | 1.9 | 29                                    | 5.0  | 6   | 11.2 | 25   | 101,014    |

Table 2: Summary of provincial rankings, labour market regulation and characteristics

|    | Average provincial and local public sector employment* as a % of total employment (2003-2007) |      | Average federal, provincial, and local public sector employment* as a % of total employment (2003-2007) |      | Average minimum wage as a % of per-capita GDP (2003-2007) |      | Average unionization as a % of total employment (2003-2007) |      | Index of flexibility in labour relations law, 2006 |       |
|----|---|------|---|------|---|------|---|------|--|-------|
|    | Rank (out of 60)  | %    | Rank (out of 60)  | %    | Rank (out of 60)  | %    | Rank (out of 60)  | %    | Rank (out of 60)                                   | Score |
| AB | 40  | 14.1 | 33  | 15.5 | 2   | 20.7 | 49  | 24.0 | 51   | 6.0   |
| BC | 46  | 15.0 | 40  | 16.7 | 58  | 42.4 | 56  | 32.8 | 55   | 3.2   |
| MN | 58  | 22.1 | 58  | 25.1 | 56  | 41.8 | 58  | 37.2 | 57   | 2.7   |
| NB | 56  | 18.7 | 53  | 21.8 | 55  | 41.3 | 53  | 28.2 | 56   | 3.0   |
| NL | 59  | 22.6 | 59  | 25.9 | 31  | 30.6 | 59  | 38.1 | 52   | 3.8   |
| NS | 57  | 20.3 | 57  | 24.2 | 57  | 41.9 | 54  | 28.8 | 54   | 3.5   |
| ON | 42  | 14.3 | 41  | 16.8 | 48  | 36.0 | 52  | 28.2 | 52   | 3.8   |
| PE | 55  | 18.5 | 56  | 23.8 | 60  | 47.1 | 55  | 30.9 | 59   | 2.2   |
| QC | 53  | 17.7 | 51  | 19.8 | 59  | 43.8 | 60  | 40.2 | 60   | 1.2   |
| SK | 60  | 25.0 | 60  | 27.4 | 43  | 33.8 | 57  | 35.4 | 58   | 2.3   |

\* Including employment in government business enterprises.

Note: These rankings are based on data that contain several decimal places. In this table, there are cases where one jurisdiction appears to rank differently from another, even though their scores are the same. This is because the underlying data for the jurisdictions are different.

Source: Godin et al. (2008).

activity in the private sector are different from those in the public sector. For example, a study by Yann Algan and his colleagues (2002) measured the impact of public sector employment on unemployment in 17 OECD countries from 1960 to 2000. The authors found that, on average, the creation of 100 public sector jobs may have eliminated about 150 private sector jobs and increased the num-

ber of unemployed workers by about 33. They also found evidence that public sector employment decreased labour market participation.<sup>1</sup> Unfortunately, Quebec has one of the largest public sectors in all of Canada and the United States; it constituted almost one-fifth of total employment in the province on average between 2003 and 2007 (table 2). The province's public sector was nearly 30% larger than that in Alberta, which had the lowest public employment ratio in Canada during the same period.

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ber of unemployed workers by about 33. They also found evidence that public sector employment decreased labour market participation.<sup>1</sup> Unfortunately, Quebec has one of the largest public sectors in all of Canada and the United States; it constituted almost one-fifth of total employment in the province on average between 2003 and 2007 (table 2). The province's public sector was nearly 30% larger than that in Alberta, which had the lowest public employment ratio in Canada during the same period.

Additionally, Quebec has the highest rate of unionization in all of Canada and the United States. At 40.2%, Quebec's average unionization rate from 2003 to 2007 is more than 10 times greater than the rate in North Carolina (3.9%), the North American jurisdiction with the lowest rate of unionization, and substantially higher than the rate in Alberta (24.0%), where the rate of unionization is lowest among the Canadian provinces (table 2). High unionization is particularly harmful to labour markets, as research shows that unions tend to reduce employment growth, profitability, and investment (Hirsch, 1997).

Quebec's unionization rate is high largely because of the province's biased

and overly prescriptive labour relations laws. In fact, Quebec maintains some of the most pro-union labour relations laws in North America (table 2). These laws are critical to labour market performance as research shows that unbalanced and overly burdensome labour relations laws have significant negative effects on workers and firms. For instance, a study by Besley and Burgess (2004) in the pres-

tigious *Quarterly Journal of Economics* found that jurisdictions that legislated labour relations that favour one group over another experienced lower output, employment growth, and investment, as well as lower incomes for the majority of workers.

High minimum wages also contribute to Quebec's poor performance. There is a large and growing body of research that demonstrates convincingly that high minimum wages have adverse impacts on the labour market. Two of the world's most renowned minimum-wage experts, University of California Professor David Neumark and US Federal Reserve Board economist Dr. William Wascher, recently reviewed over 100 studies covering 20 countries over the past 15 years and concluded that the "overwhelming majority" of studies consistently show that minimum wage increases result in decreased employment. Minimum wages have also been shown to reduce on-the-job training, which is particularly harmful given that this training is a key driver of skill development and higher wages. When compared to average earnings in Quebec, Quebec has the second highest minimum wage out of all 60 jurisdictions (table 2).

If the Quebec government is serious about making a transition from one of the worst performing labour markets to one of the best, a good first step would be to reduce its intervention in the labour market. Reducing public sector employment, bringing balance to the province's labour relations laws, and freezing, or even eliminating, the minimum wage would be a good place to start.

### **Note**

<sup>1</sup> The authors found that with the creation of 100 public sector jobs, about 20 people decided to leave the labour force. The authors suggested that this could be the case "if public-sector workers produce goods that make out-of-labour-force status more appealing for their fellow citizens. For example, supply and management of public housing, and some health programs for the disadvantaged, can have such effects" (Algan et al., 2002: 35).

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