

January 1996

Human Resources in Canada: The Impact of NAFTA on Human Resources

Gordon Betcherman

Follow this and additional works at: <https://scholarlycommons.law.case.edu/cuslj>



Part of the [Transnational Law Commons](#)

Recommended Citation

Gordon Betcherman, *Human Resources in Canada: The Impact of NAFTA on Human Resources*, 22 Can.-U.S. L.J. 17 (1996)
Available at: <https://scholarlycommons.law.case.edu/cuslj/vol22/iss/7>

This Speech is brought to you for free and open access by the Student Journals at Case Western Reserve University School of Law Scholarly Commons. It has been accepted for inclusion in Canada-United States Law Journal by an authorized administrator of Case Western Reserve University School of Law Scholarly Commons.

HUMAN RESOURCES IN CANADA: THE IMPACT OF NAFTA ON HUMAN RESOURCES

*Gordon Betcherman**

CANADA HAS ALWAYS BEEN VIEWED as a resource-rich country. However, it is a mistake to think only of forests, fish, land, and minerals when considering our stock of resources. Human resources -- the skills and knowledge of Canadians — have also been fundamental to the creation of our prosperity which is among the highest in the world. And, as the business gurus are always telling us, the economic importance of human resources will only escalate as we move into the next century.

In this Article I plan to review the state of Canadian human resources, and, in particular, how prepared we are for the demands of the dawning era of technology-based, global competition. Ultimately, my main point will be that significant changes will have to occur if Canadians (and, indeed, citizens everywhere) are going to fully exploit the potential of our human resources and thereby widely share in the benefits of this new era.

Let me begin with Canada's traditional strength on the human resources front. For much of the past decade, we, like Americans, have spent a great deal of time looking, often enviously, at foreign experiences, especially in Germany and Japan. However, although we don't have an apprenticeship system like the Germans or the lifelong learning in the workplace that the Japanese have, we have a well-educated and skilled workforce. For most of the postwar period, levels of labour productivity in Canada have been second only to those in the United States. Similarly, in terms of formal educational attainment, we tend to stand among the world leaders.

In short, Canada has made major investments in its human resources, primarily through deep public funding of education, including postsecondary education. This has been part of a broader national strategy involving strong social security and health care systems.

It is important to understand that this national strategy has been very much a government-led strategy. Our health care system is a public system which is one of the best-known facts in the United States about Canada! We have had strong government unemployment insurance and social assistance programs. Our approach to developing

* Dr. Gordon Betcherman is Executive Director of the Human Resource Group at Ekos Research Associates and the Research Director of the Work Network for the Canadian Policy Research Networks.

skilled workers has been primarily rooted in a public education system that ranges from kindergarten to postsecondary schooling. Unlike other countries, neither private educational institutions nor industry traditionally has played a significant role. However, this national strategy, which served us so well for decades, appears unlikely to sustain itself in the future. In fact, certain aspects of it are already being dismantled. There are a variety of reasons for this, some of which I will briefly note.

The first is the fiscal situation. Over the past two decades, Canadian governments, federal and provincial, accumulated major debts which we are now being forced to address. This has serious implications for all publicly funded activities. None are affected more than health, education, and social services, all huge expenditure items.

Related to this, and reinforcing it, is an apparent ideological shift away from the direct government provision of services. Over the past decade or two, most governments, including Canadian governments, have adopted the view that markets are the most efficient way of doing many things that we once agreed should be in the purview of government. This perspective is clearly an important one on the Canadian landscape. However, I wanted to make the point that, while a desire for less government has been assumed to be the conventional wisdom by the elite (in government, in the media, and elsewhere), we may be overestimating the degree to which the public has actually come to this conclusion. Indeed, recent public opinion surveys by Ekos Research Associates indicate that Canadians want governments to continue to play the central role in many areas, especially those related to human resources. The skepticism revolves around their ability to deliver, not whether they should be responsible.

Another relevant point in the Canadian context is the jurisdiction issue. Without getting into any detail, let me note that both the federal and provincial governments have a major presence in the policy areas central to human resources. Again, I am talking about education, training, health, and social services. Given the federal-provincial wrangling that seems to be an intrinsic part of Canada, and given the importance of these policy areas, it should not be a surprise that they represent the major battle fronts in the current jurisdictional disputes. This is a real brake on the effectiveness of either level of government.

The fourth factor concerns the broad "environmental" forces that are leading to a redrawing of all aspects of work. The consequence of this is that our institutions, including those relating to human resources, need to be reconfigured in order to meet the demands of the rapidly changing environment. This imperative, by the way, is not specific to Canada, but must be dealt with everywhere.

I do not want to spend a lot of time on the forces that are driving all of this because they have been the focus of so much discussion al-

ready. But let me quickly summarize what I see as the three major ones: increased competition, the technological revolution, and social change.

First, let me address increased competition. Most national economies, and this certainly applies to Canada and the United States, are now characterized by much more intense competition than was the case a couple of decades ago. This has been driven by regulatory changes that have opened up product markets both domestically and internationally. NAFTA, of course, is a prime example of the latter and, since its inception, it certainly has been an important variable for Canadian business. Intensified competition has accelerated economic restructuring, altered economic behaviour, and increased incentives to innovate.

This brings us to the second factor, technological innovation. As firms, industries, and nations were looking for fresh sources of competitive advantage, the emerging revolution in information and communication technologies held enormous promise. In Canada and elsewhere, these technologies have been creating new industries, eliminating others, and radically altering organizations and the nature of work everywhere.

Finally, we come to social change. Shifting values and attitudes are affecting how all of us act as consumers and producers. Universal education (including postsecondary education) and the rise of mass media have played big roles in this. As consumers, we have become increasingly well-informed and demanding. As "producers" (i.e., workers), our expectations about how we relate to our jobs, our superiors, and our organizations have changed dramatically. Obviously, the changing role of women has been a prominent development in all of this.

Together, increased competition, technology, and social change have led to a questioning of longstanding approaches to human resource management and industrial relations.

For many decades, Canadian business (like U.S. business) was characterized by workplace systems with strong managerial prerogative, seniority-based labour deployment and compensation, narrow job classifications, and "job control" unionism. Starting in the 1980s, however, these traditional models began to be contested by employers as not being up to the task of meeting the emerging competitive challenges (from the United States and beyond) and of being too rigid to fully exploit the productivity-enhancing potential of the new technologies. More recently, employees and their unions have also recognized the limitations of the traditional system. For example, the lack of scope for employee involvement in decision making and its failure to accommodate family-related needs.

In fact, a growing body of research supports the conclusion that traditional systems are no longer optimal systems. Further, new work-

place strategies are necessary to fully exploit the potential of new technology and to compete in high value-added markets. There seems to be an emerging consensus among those of us who study human resources that the best performing systems in the new environment emphasize workplace policies that maximize the contribution employees can make to quality and productivity. These are frequently referred to as "high-performance" workplace systems. While there is no recipe, high-performance systems tend to include some combination of teamwork, multi-skilling, employee involvement, performance-based pay, family-friendly practices, and mutual-gains bargaining. Ultimately, they are grounded on a high degree of commitment between employer and employee.

Existing research suggests that high-performance systems generate performance dividends for companies and provide good workplaces for employees. In Canada (like the United States), we see some evidence of the diffusion of the high-performance approach. But the data indicate it is less prevalent in the real world than its high profile in the business press would suggest.

More often, we see either traditional systems or, increasingly, another emerging model which is based heavily on contract or contingent employment. In this system, labour (both lower-skilled workers and mobile professionals) is contracted for on an as-needed basis, usually in the form of part-time employment status, temporary help, or through an independent contractor arrangement. It may or may not exist alongside a high-performance system for a small group of "core" employees. The contract or contingent model brings with it very limited obligations on the part of the employer. High-performance practices are non-existent for these workers. The diffusion of this contract/contingent employment model is clearly being driven by (short-term) competitive pressures and by an abundant supply of workers, including skilled workers.

Obviously, contract or contingent employment is insecure employment and is not the first choice for most people (although it may be, particularly for highly skilled knowledge workers who value the flexibility it offers). Nor from a longer-term perspective does it lead to an economy that provides either widespread prosperity or durable competitive advantages. This is because where the "human factor" is the critical production input, contract or contingent employees are unlikely to have the firm-specific experience or commitment to make the difference.

If high-performance systems really can lead to good outcomes for both firms and employees, an obvious question to ask is why they have not become the norm. There are various reasons for this. In the first place, they are difficult systems to implement, especially where the traditional model has existed. It requires trust, commitment, and risk-

taking. Firms do not have the measurement tools to assess whether they are getting a return from these “social investments.”

Furthermore, making major social investments flies in the face of some very compelling longer-term economic trends associated with the intensification of competition that I spoke about earlier. The commitment required by firms in moving towards a high-performance workplace model runs counter to the short-termism and the premium on flexibility that are now so much a part of the business world.

As workplace practices have been changing, so too has the labour market picture itself. In many respects, the two are closely connected. We have witnessed a number of significant developments in the Canadian labour market, most of which have also been evident in some form in the United States and in other advanced industrialized countries.

To provide the most visible examples: unemployment has ratcheted up each decade. In the 1990s, the annual rate has been in double digits more often than not. Interestingly, unemployment is one area where the United States story is not just the Canadian one just ten times larger. For much of the decade, the American unemployment rate has been three points lower than in Canada.

“Nonstandard” employment, part-time, short-term, and contract work has been on the rise. It now accounts for about one-third of all jobs. In part, of course, this reflects the changing nature of the employment contract as the contract/contingent employment model has become more widely diffused. Also, earnings distributions have become significantly more polarized and unequal. However, this trend has not been as dramatic in Canada as in the United States.

All of this raises a critical question: are we experiencing a transitional period of economic “restructuring” or are trends such as these actually evidence of a more fundamental transformation that will permanently change the role of human resources in production and, ultimately, what we as individuals get out of work? Questions surrounding the future of work are important questions because the answers will fundamentally dictate how we, and our institutions, will have to respond.

One device for thinking about the future is to construct various scenarios, not necessarily to predict which is the “right” one, but rather to consider various possibilities and what each suggests about what we should be doing. I have synthesized the thinking on the future of work into three scenarios: one is pessimistic, one optimistic, and the third is what I have labeled an “almost-business-as-usual” scenario. Let me highlight the major points of each starting with the pessimists.

I call this the “qualified” pessimistic scenario because the writers in this vein do believe that the future might be salvageable, but only if we buy their prescriptions. But the essential picture is pessimistic at best, apocalyptic at worst. The most popular version of this scenario

these days is Jeremy Rifkin's book, *The End of Work*. The basic idea underlying the arguments put forward by Rifkin and the others is that we are now going through the equivalent of another industrial revolution, fueled not by coal or steam, but by computers. This time, though, the impacts are going to be gruesome; mass unemployment, high levels of poverty, extreme polarization, and a "race to the bottom." The reason for this pessimism is essentially two-fold: first, the potential for the new technologies to displace workers is extraordinary and, second, globalization is extending the power of capital beyond the reach of any balancing forces, including government regulation and collective bargaining, forces that were designed to operate at the national level only.

The optimistic scenario actually shares the same starting point as the pessimists. This view, which I associate with business gurus like Peter Drucker and William Bridges, is also based on the belief that we are now in the midst of another revolution, a "postindustrial" revolution driven by information, communication technology, and globalization. However, the implications drawn in the optimistic scenario are diametrically opposed to those identified by the pessimists. The argument here is that new technology and the global marketplace offer new momentum for social and economic opportunity and growth. However, the organization of work will fundamentally change from one based on relatively permanent jobs to self-employment, project-based employment, and independent contractor arrangements. Bridges has coined the term "de-jobbing" to describe this phenomenon. The onus will be on the individual to have something to sell in this market but, for those who do, there will be more freedom, more challenging work, and greater rewards than has been the case in the past.

It is important to note that there is a third scenario that takes a much more considered view of what is going on. This scenario, which I call "almost-business-as-usual," recognizes that major technological, social, and economic changes are taking place. However, it falls short of calling these changes "revolutionary." This is the perspective that describes the dominant view of the future held by most governments and by most mainstream economists. By calling it "almost-business-as-usual," though, I don't mean to suggest that proponents of this scenario are not concerned about employment trends. For example, the OECD, in its Jobs Study, expressed serious concerns about trends in unemployment and income security. However, the "almost-business-as-usual" scenario does not imply radically new behaviours and institutions, but rather what I would call serious reforms in order to meet the changing environment.

Which scenario is the right one? As I mentioned before, this is probably not the right question to ask. Each has its points that resonate. And most importantly, how we respond to all of this change will have a lot to do with which scenario is actualized.

A prominent conclusion coming from the scenarios, though, is that traditional institutions, both in the corporate and government realms, are no longer appropriate for the emerging economic, social, and technological context. One way of looking at this is that we have not yet devised the institutions, the formal and informal rules and behaviour-setting that fit with the new economic reality.

I have talked about this issue within one arena, the workplace, where yesterday's practices do not work today and they certainly will not work tomorrow. But we have not settled on new models that jointly support economic efficiency and the well-being of workers. In North America, at least, the innovation that has taken place has too often met the flexibility and short-run competitive needs of employers at the expense of employees. Whether governments can encourage more sustainable workplace reform through better information or through not-yet-invented incentives remains to be seen.

I wanted to wind up by flagging a few policy areas which will be particularly crucial for Canada in shaping institutional change.

The first is worker representation. If we are, in fact, moving inexorably towards a "de-jobbed" economy, how can the interests of all of the nonstandard employees, independent contractors, and micro-enterprise employees be best represented? The need is clearly there, but the means are not. It may be that the future is in "full-service" unionism where labour market information, job/contract matching, and benefits would be provided by the union to an occupationally homogeneous group of workers. The union, then, would be the constant factor for the workforce. This model is along the lines of what has long been in place in the entertainment industry.

Another area is working time. In Canada, those reporting very long hours are increasing at the same time that the numbers with no work or very little work are also rising. This is not a satisfactory situation for either segment nor, I suspect, is it good for productivity and the overall health of the economy. Unfortunately, there is a great deal of reluctance, especially in the business community, to seriously consider institutional mechanisms that might even things out.

In terms of security, we have typically tied programs and benefits to the state of having a job. This applies in different ways in Canada and the United States. But, in general, pensions, health insurance, and income support (in the form of UI) are all tied to having a traditional job (or having had one). We need new arrangements that recognize the new forms of economic activity and that offer security for those who have entered the "de-jobbed" world.

Finally, despite the fact that the importance of lifelong learning has become so widely recognized that it has almost become a cliché, Canada seems to be moving away from, not towards policies and programs that support adults in investing in their human capital. Training

in Canadian industry appears to be more and more concentrated in large, technologically sophisticated firms with the result that workers outside this segment of the economy have little access to employer-sponsored programs. At the same time, the federal government is restricting its commitment to training with little guarantee that the provinces will pick up their efforts.

In all of these areas, worker representation, working time, social security, and human resource development, Canada had formulas that were successful for a long time. The challenge we are now facing is how to modernize these areas under much greater constraints than we have previously faced. How successful we are will go a long way to determining the well-being of Canadians as we head into the next century.