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Commentary

1. Introduction

Motivated by concerns about the wage impact of deindustrialization and growing trade, René Morissette and Anick Johnson examine changes in the relative importance of well-paid jobs in Canada from 1981 to 2004. The authors analyze many dimensions of the issue using a mosaic of data sources, and have produced a thought-provoking paper with intriguingly mixed results. My comments use the parallel experience of the United States during the same period to find contrasts and commonalities that might clarify whether good jobs are indeed waning in Canada.

2. Why Wage Structures Change

To begin, it is helpful to review why the distribution of wages might change. Employer influences, labor force composition, and institutions that mediate supply and demand are all reasons. Four fundamental shifts can affect the need for workers: trade activity, technological change, consumer tastes, and business conditions. The authors are particularly concerned about the influence of the first two shifts. Trade adds and eliminates jobs as it boosts production of exports, reduces production of import-competing goods, and expands transport and warehousing jobs. Technology affects which goods are produced and how they are made.

However, consumer tastes—which reflect such characteristics as age, wealth, and fashion trends—and the business cycle also affect wages, as can workforce composition and institutional changes. On the worker side, wage changes can reflect differences in human capital, such as education, training, or skills, as well as the amount of competition faced from other workers, such as through demographics or immigration. Institutions that mediate supply and demand influences on wages also have an important effect. Government safety nets, such as unemployment insurance and transfer payments, can affect the willingness to work for a given wage. Retraining options can influence wages by enabling workers to upgrade their skills. Finally, union negotiations can also have an effect on wages.

How similar are trends in these influences across Canada and the United States? The strongest similarities probably relate to technology, consumer tastes, and trade. These sister economies use much the same technologies and are increasing their trade with the rest of the world and with each other. Populations in both countries are also aging and growing wealthier. The countries differ, however, in terms of the depth of the 1990 and 2001 recessions and their institutional labor market practices. With regard to the latter, unionism is higher in Canada, and the social safety net of unemployment insurance, training options, and other transfer payments is wider. These institutional differences are likely to result in more rigid wages in Canada.

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3. Canadian and U.S. Labor Market Trends

A comparison with labor markets in the United States may shed light on the causes of trends in Canada, as many influences on wages have been the same across both countries, while others have differed. Accordingly, we examine five labor market trends: unemployment rates, mean wages, wages of new workers versus those of incumbents, pension plan participation, and the share of temporary jobs.

Recent unemployment rates have been higher in Canada than in the United States. The two countries began the 1980s with almost identical unemployment rates of 7 to 8 percent. However, the 1980s recession proved to be much deeper in Canada. By 1984, the Canadian unemployment rate exceeded the U.S. rate by about 4 percentage points. A differential of 3 to 4 percentage points persisted until around 2000, when the milder recession in Canada narrowed it to about 2 percentage points.

In contrast, real wage patterns have been steadier and stronger in Canada throughout most of the past two decades. Morissette and Johnson find that median real wages in Canada have been stable for the past twenty years. By comparison, average hourly earnings of production and nonsupervisory workers in the United States have displayed a U-shaped trend: earnings declined from the mid-1980s to the mid-1990s; in the mid-1990s, they started to rise, reaching 5 percent growth in 2003.

Patterns for the countries also appear to differ for new hires and incumbents. Although I did not attempt to replicate Morissette and Johnson's careful analysis of this effect, I did examine the U.S. Census Bureau's Quarterly Workforce Indicators data. These data report average monthly earnings of new hires and incumbents by quarter for many U.S. states. Looking at states for which data are available since 1994, I found that wages of new hires in the United States, with no control for composition, grew more rapidly than those of incumbents between 1994 and 2003. This result stands in stark contrast to the pattern for Canada, whether or not one controls for composition.

For temporary jobs, the trend is similar between the two countries, while the pension experience is different. Employment in the temporary-help industry has doubled in both the United States and Canada since 1990. Although the same percentage of U.S. private industry workers, about half, were covered by pension plans in 2003 and 1990, defined contribution plans are now replacing the traditional defined benefit plans. This pattern differs from Morissette and Johnson's finding that pension coverage is declining in Canada.

Overall, these comparisons suggest that when both countries were exposed to similar aggregate shocks during the past decade, the Canadian response was weighted more toward employment levels than wage fluctuations, while the U.S. response centered on wages rather than employment. As we observed, growth in temporary jobs has been similar in the two economies. However, the decline in both pension coverage and wages for newly hired workers in Canada may be absent in the United States.

4. Reason for Concern?

These comparisons with the United States may soften concerns about a loss of good jobs in Canada. Morissette and Johnson raise the question whether the decline in wages for newly hired workers in Canada reflects technology and trade trends that are likely to continue for the foreseeable future. In the United States, the wages of newly hired workers are not declining relative to those of incumbents. Because these technological and trade-related influences are likely to be similar across the two countries—although we have observed different outcomes in the countries—Canada's current pattern of declining pay for new hires may reflect other influences, perhaps ones that may not persist.

If the slow pay increases of new hires are not caused by trade or technology, what other influences could be responsible? One possibility is the business cycle. During the 1980s and 1990s, the United States saw average wages fall, but it experienced lower unemployment than Canada did. The consequence of the preservation of wage levels in Canada, owing to the country's labor market institutions, may have been a period of slower wage and benefit growth until unemployment was restored to lower levels. That is to say, perhaps compensation growth of new hires was suppressed during the 1990s until the pool of unemployed was absorbed.

Finally, with regard to the quality of new jobs, the growth of temporary jobs has an arguably ambiguous effect on the welfare of workers. Revealed preference suggests that holders of temporary jobs would choose these positions over unemployment. To the extent that temporary assignments enable people to enter or reenter the workforce, they may offer more opportunity for transitions. Without knowing the counterfactual, however, we cannot be sure that the expansion of temporary arrangements has been problematic.

5. Conclusion

Morissette and Johnson make an ingenious, successful effort to combine information from various data sets to produce new stylized facts about recent trends in the Canadian labor market. Further research and the passage of time will establish the extent to which these trends prove worrisome. Technology and trade may underlie some of these patterns, but so may the business cycle as mediated by Canada's labor market institutions. My cursory comparison of recent Canadian and U.S. trends provides additional support for the authors' conclusion that it may be premature to mourn the demise of good jobs in Canada.