





market adjustments is displaced workers. Human capital is far more difficult to transform than physical capital. Education in one field can often take years of investment, and is not necessarily applicable to other (growing) sectors of the economy. In many ways, the challenges faced by the United States and Canada revolve around the ability to redeploy workers quickly and efficiently.

As neighboring countries that are also each others' largest trading partners, cooperation and discussion of these challenges are invaluable to both the United States and Canada. Each has its own experiences dealing with myriad challenges to the economy, and has much to offer the other.

The subject of this paper is how the United States and Canada deal with the adjustment challenges of the 21<sup>st</sup> century. What are the effects on employment, and how can each country learn from the other in dealing with the small dislocations that may occur? Section II discusses U.S. and Canadian labour markets, and the challenge posed by their aging workforces, a challenge faced by both nations. Section III deals with the United States, and Section IV covers Canada. Section V concludes.

in the prime working age group, 25 to 54, will increase by only 14 million.<sup>4</sup> Similarly, Canadian seniors, making up 4.4 million people today, or about 13% of the population, will double over the next 30 years to make up nearly 25% of the

Canadian senior workers face unemployment rates of 4.8%, compared to the nation's rate of 6%.<sup>8</sup>

In the United States in particular, older workers are more likely to be self-employed: 17.5% of workers age 65 or older were self-employed in 2007, compared to 11% of age 55 to 64 workers and 8.6% of age 45 to 54 workers.<sup>9</sup>

One noteworthy trend has been toward a higher proportion of older workers working full-time. This may be a result of the removal of the Social Security earnings test for workers age 65 or older in 2000. In 2007, on average, 83% of workers age 55 or over worked full-time. In 2007, 17% of workers ages 55 and above usually worked part-time weekly schedules (down from 28% in 1994).<sup>10</sup> The labour force participation rate of older Americans has increased steadily over time, reaching a high of 39.2% in February 2008.<sup>11</sup> Similarly, older Canadians (those 45 and over) work full-time at higher rates than they used to. In 2003, 84% of working older Canadians worked full-time; in 2007, this had increased to 84.5%.<sup>12</sup> The labour force participation rate increased from 52% to 54% over the same period.<sup>13</sup>

Some may say that older workers have to work more because they are less well off. But data show the opposite: the economic condition of older Americans and Canadians is above average and steadily improving.

According to the 2000 Census, Americans age 65 or older were more likely than younger groups to own their own home (78%),<sup>14</sup> to earn interest from financial assets (70.5%) or to own stocks (29%).<sup>15</sup> The more recent Canadian Census showed that 72% of elderly Canadians owned their own homes.<sup>16</sup>

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<sup>8</sup> Statistics Canada, "Labour force characteristics by age and sex." Summary Tables. 2007. Retrieved from <http://www40.statcan.ca/101/cst01/labour20a.htm>.

<sup>9</sup> U.S. Department of Labour Bureau of Labour Statistics, "Employed persons in agriculture and related and in nonagricultural industries by age, sex, and class of worker." Household Data Annual Averages.

Retrieved from [ftp://ftp.bls.gov/pub/special.requests/lf/aat15.tj10.02 0 0 10ST78009 Tm\(sts/c325878009 Tm\(tj10.TEMC /Span 24](ftp://ftp.bls.gov/pub/special.requests/lf/aat15.tj10.02 0 0 10ST78009 Tm(sts/c325878009 Tm(tj10.TEMC /Span 24)

In 2006, the proportion of Americans age 65 or older with incomes below the poverty level was smaller than the overall population proportion of persons below the poverty level---9.4% of the age 65+ group compared to 12.3% of the overall population. In 1970, 25% of Americans age 65 or older were below the poverty line, and, as recently as 1993, the proportion was 12%.<sup>17</sup> The proportion of elderly Canadians with low income in 2005 demonstrated a long decline over the past twenty years; 6.1% of elderly Canadians spend more than 20% more of their income than average on necessities, versus the national average of 10.8%.<sup>18</sup>

The flexibility of the U.S. and Canadian labour market enables older workers to choose the pattern of labour force participation that fits their preferences and needs. The removal of Social Security earnings tests for workers age 65 or older in the United States ensures incentives to remain in labour force if desired. Income tax reductions since 2001 have increased the incentive to remain economically active.

The question of an aging workforce, however, brings with it concerns that apply to both countries. An older workforce is not prone to significant increases in productivity, and faces higher-than-average health care costs. The challenges of an aging population apply to both countries, and both Canada and the United States must address them.

### **III. The Challenges of the 21<sup>st</sup> Century for the United States**

Global competitiveness is a major challenge for the American economy. New forms of communications and more efficient mobility make it easier to import goods from abroad and to export products to other countries. In January, U.S. exports of \$148.2 billion were at a record high and were 16.5% higher than a year earlier.<sup>19</sup>

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and Census Agglomerations, 2006 Census – 20% Sample Data.” *2006 Census*. Retrieved from <http://www12.statcan.ca/english/census06/data/topics/RetrieveProductTable.cfm?ALEVEL=3&APATH=3&CATNO=&DETAIL=0&DIM=&DS=99&FL=0&FREE=0&GAL=0&GC=99&GK=NA&GRP=1&IPS=&METH=0&ORDER=1&PID=89058&PTYPE=88971&RL=0&S=1&ShowAll=Lan #MCID 15 BDC 10..47272 166.3201 Tm77>.

Nether the United States nor Canada can shy away from increased global competitiveness. It is here to stay, and lawmakers need to face it head on rather than hiding from discussions of outsourcing. Yes, it is

than Italians, French, and Germans. British workers are taxed about the same, and only Japanese workers are taxed less.

We saw above that Americans and Canadians have lower unemployment than do some other major industrialized countries. However, even when compared to workers in Nordic countries and others with lower unemployment rates, American and Canadian unemployed workers find jobs faster—they are unemployed for a shorter period of time. Only 12% of unemployed Americans and 10% of unemployed Canadians are unemployed for a year or more, compared with 33% for Japan, 34 % for France, 50% for Germany, and 58% for Italy.<sup>24</sup>

The greatest obstacle facing American workers today is the transition of manufacturing workers into the service economy. Over 3.5 million people in the manufacturing industry have lost their jobs in the last 10 years; however, the services industry has created over 16.5 million jobs in the same period.<sup>25</sup> Intuitively, those people who lost their jobs should have been absorbed into the growing services market. However, the high unemployment rates in traditionally manufacturing states such as Ohio and Michigan (5.5 and 7.1 compared to the national average of 4.9) suggests that this is not the case.<sup>26</sup>

The United States must find a way to help these workers transition into the service economy, the rising star of the American economy. These jobs, however, require different skills than those required in what were once high-paying, low-education jobs.

The cry for greater investment in education, particularly science and technology, in the United States, rings strangely. There is an avowed need for U.S. investment in R&D and other scientific fields, and yet there are many highly-trained workers that the United States prevents from working here. According to data provided by the National Science Foundation, 41% of U.S. doctorate degrees awarded in 2005 in science and engineering were awarded to foreigners on temporary visas.<sup>27</sup> Of these 11,500 graduates, only 66% remained in the country for two years or more. Historically, the United States has lost 30% or more of the

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<sup>24</sup> U.S. Department of Labour, “A Chartbook of International Labour Comparisons.” January 2008, p 18 <http://www.dol.gov/asp/media/reports/chartbook/2008-01/chartbook.pdf>.

<sup>25</sup> U.S. Department of Labour Bureau of Labour Statistics, *Employment Situation*. Retrieved through Haver Analytics. Valid as of March 2008.

<sup>26</sup> U.S. Department of Labour Bureau of Labour Statistics, “Regional and State Employment and Unemployment: January 2008.” March 11, 2008. [http://www.bls.gov/news.release/archives/laus\\_03112008.pdf](http://www.bls.gov/news.release/archives/laus_03112008.pdf).

<sup>27</sup> National Science Foundation, “Science and Engineering Doctorate Awards: 2005: Detailed Statistical Tables.” December 2006. Retrieved from [http://www.nsf.gov/statistics/nsf07305/content.cfm?pub\\_id=3757&id=2](http://www.nsf.gov/statistics/nsf07305/content.cfm?pub_id=3757&id=2).





integrated, making the two countries co-workers rather than simple trading partners, producing goods and services to

of liquefying and shipping natural gas; and electricity transportation is geographically limited by the reliance on power lines.

The Bank of Canada's Commodity Price Index (BCPI) is a fixed-weight index of prices for 23 commodities produced in Canada and sold around the world. The weight of each commodity (categorized in three groups: energy, food and industrial materials) is based on the average value of Canadian production of that commodity between 1988 and 1999. The most recent annual data show that world market prices for commodities that Canada produces and exports hav

equipment for the automation of production by manufacturing companies in the United States.



types of programs can carry us through this transition and enable us to move with confidence into the 21<sup>st</sup> century.