

Intelligence MEMOS



From: Parisa Mahboubi and Tingting Zhang
To: Canadian Economic Observers
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Re: **WE HAVE MORE WORKERS. NOW WE HAVE TO INVEST IN THEM**

As trade tensions with the United States escalate, putting tens of thousands of Canadian jobs at risk, our home-grown productivity problem continues to erode the country's economic strength. Without a change of strategy, Canada faces stagnating wages, declining competitiveness, slowing GDP growth and eroding living standards.

Our recent [labour market review](#) for the C.D. Howe Institute highlights key concerns. Employment has grown, as the federal government has kept emphasizing. But it has not kept pace with the rapid influx of workers.

Hence last year's rise in the unemployment rate. Meanwhile, our productivity continues to lag peer nations, recently trending down, despite strong employment growth in high-skilled occupations.

A major factor behind this decline is Canada's reliance on labour-intensive growth rather than productivity-enhancing investment. With many recent immigrants and non-permanent residents concentrated in lower-paid, lower-skilled roles, businesses have little incentive to invest in automation or workforce training.

This overreliance on expanding the labour supply without matching investments in technology, equipment and skills has long-term consequences. More workers alone will not drive higher living standards if they lack the necessary tools and training to enhance output.

Now trade uncertainty is making things worse. Nearly [1.8 million jobs](#) are in sectors where at least 35 percent of employment relies on US demand. Tariffs on key industries like oil and gas, pipeline transportation and primary metal manufacturing will send shockwaves through the labour market. Ample [evidence](#) shows that when trade barriers rise, businesses hesitate to invest, economic growth [slows](#) and workers face layoffs. The impact will be nationwide, particularly in regions where manufacturing and resource industries are economic cornerstones.

With these challenges mounting, it is more important than ever to ensure workers can transition into available opportunities. One of the biggest obstacles for Canadian workers, especially immigrants, is the rigidity of our credential recognition and labour mobility. [Skilled newcomers](#) often face long, complex and inconsistent licensing that keeps them from fully contributing to the economy. Outdated credential recognition also stops workers from moving to where they are needed most. With economic uncertainty prompting [more workers](#) to seek opportunities across provinces, now is the time for regulators to streamline these processes. Canada cannot afford to let red tape keep highly trained professionals – both domestic and immigrant – under-employed. Addressing these barriers is a low-cost, high-reward way to strengthen the labour market and ensure skilled workers are in the right jobs at the right time.

To keep pace with a rapidly evolving job market, workers need to continually acquire new skills. While federal and provincial governments offer various training programs, the lack of a central coordinating body for skills development, along with the complexities of federalism and decentralized program design, make creating an effective system challenging. We need to focus on [improving](#) workforce training and re-skilling while ensuring individuals [are equipped](#) with [strong foundational skills](#) that enable them to adapt and re-skill as market demands shift. Employers, too, need to invest in keeping employees' skills up to date.

Canada also desperately needs to confront its chronic [underinvestment](#) in capital and automation. Compared to peer nations, Canadian businesses have been [slow](#) to adopt productivity-enhancing technologies.

To reverse this trend, policymakers must create strong incentives for firms to modernize. Growth-enhancing [tax reductions](#), including [lowering the corporate income tax rate](#) to boost international competitiveness and attract investment, will help. So will regulatory reforms that facilitate innovation. Without these changes, Canada risks falling further behind.

Finally, we need to rethink our approach to older workers. As the population ages, unblocking obstacles to workforce participation by older Canadians who want to work should be a priority. Many seniors today are healthier and live longer, yet rigid pension rules and a lack of flexible work arrangements push them out of the labour force too soon.

A number of other rich countries have managed the political stresses involved in gradually increasing the retirement age and aligning pension eligibility with longer lifespans. We need to do the same, while at the same time ensuring that workers in physically demanding jobs have alternative pathways, such as phased retirement options and retraining. Enabling people to extend their careers, if that is what they want, would help address labour shortages in specific sectors, such as healthcare, retain valuable experience and mitigate the effects of an aging population.

These reforms will not be easy – that's why they haven't yet been done – but they are necessary. More than ever before, in this new economic environment Canada needs a labour market that is adaptable, competitive and ready to take on the future.

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