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Foreign workers: Filling job vacancies with care

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The federal government, which has announced a scheme to speed up the processing of temporary foreign workers, is concerned with ongoing reports of job vacancies going unfilled in Western Canada, arguing that the vacancies act as a bottleneck choking off economic growth. In response, it will cut the time to process a temporary foreign worker to 10 days and allow employers to offer a wage that's as much as 15 per cent below the "going wage" in the local labour market.

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The policy suggests that either the Harper government didn't take basic economics or it failed it. At its most basic level, it suggests the government doesn't understand the laws of supply and demand. To see this, think about a town in northern Alberta where there are 20 carpenters who are typically paid $30 an hour. Suppose that, initially, there is the same number of carpenters as there are jobs offered by firms at that wage. Now suppose that a new oil field project opens nearby and wants to hire five carpenters at this wage. The Harper government's response is to bring in five temporary workers.

The policy goes further than that, though. Employers would actually be allowed to pay these new workers $25.50. At that lower wage, of course, some of the original employers would probably want to hire additional carpenters. This is economics at its most basic: Lower prices equal a greater quantity demanded. With the additional demand for workers, the five temporary ones wouldn't be enough to meet what employers are seeking to hire. The policy would then kick in again and bring in yet more workers at even lower wages. The result would be a downward spiral in wages. There would be an increase in employment, but it would consist of the new temporary workers. The initial 20 carpenters would still be working as before (though some of them might leave to work elsewhere if wages got low enough).

What would happen if the new workers were not brought in? The old firms and the new oil field firm would bid for the 20 existing carpenters and wages would rise. A contractor in town might go out of business because he can't afford to pay the new, higher wages. He may decide he can make more as a carpenter. We may feel sorry for him, and we can put in place policies to help him adjust. But it's important to notice that this is not a loss of employment: The 20 carpenters are still employed.

More important, the higher carpenter's wages act as a signal that induces some people to train as carpenters and other carpenters to move across the country. Can we really expect young people to want to get training when we set up a policy that says, "Whenever demand increases for your work, we will bring in new workers to lower wages"?

This is the essential sense in which this policy fails basic economics. Economies are not engines where the loss of one part causes a breakdown in the whole machine. They're organic entities that adjust to changes. The way they make those adjustments is through prices. If demand for skilled workers rises, then wages should rise in order to allocate the existing skills to the place they're needed most. In our example, the contractor goes out of business because the market has shown there's more demand for the skills in the oil fields than in renovations. That's how markets are supposed to work.

The government's counterargument might be that, for some firms, a carpenter is a bottleneck: Without one, everyone else has to be laid off. Again, this is a misunderstanding of how economies function and shows a lack of faith in markets. Just about any economic project can be carried out in many different ways. In recent weeks, we've even heard of being able to replace highly skilled anesthetists with nurse practitioners. Firms in other sectors, too, will choose different ways to produce as wage signals change in the short run and, in the longer run, more people will train as carpenters. Economic growth will not be choked off.

What's most surprising about this policy is that it reveals that a free-enterprise-type government doesn't trust the market. It wants to micro-manage wages and employment. The government seems to be declaring that it wants to unfetter business to create jobs by, for example, cutting environmental regulation, but that if the market delivers an outcome that businesses don't like, then it needs to intervene. The net result of this policy won't be a gain in employment for Canadian workers – it's just a redistribution from workers to firms. Perhaps that's the real goal.

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