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# **The Diversity Advantage: A Case for Canada's 21st Century Economy**

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*Presented at the:*

**10th International Metropolis Conference:**

**Our Diverse Cities: Migration, Diversity, and Change**

**Toronto, Ontario**

October 20 2005

*Available on the Internet at  
[www.rbc.com/newsroom](http://www.rbc.com/newsroom)  
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# Executive summary

Canadian society has undergone profound change since the 1960s in how it views the role of women, celebrates cultural diversity and the contribution of visible minorities, and recognizes the strong contribution of Aboriginal Peoples in shaping Canada's culture. This social revolution has been significantly shaped by both public policy and corporate practices and will continue to be so as diversity issues become even more important in Canadian life.

Our society — and especially the workplace — bears little resemblance to the world so poignantly depicted by William Whyte's caricature of the "organization man" and John Kenneth Galbraith's *New Industrial State*. Indeed, we now celebrate our pluralistic society and recognize the social and economic benefits of diversity. This is perhaps nowhere more evident than in our cities, which have become rich centres of creativity and places that attract talented people from around the world because of the vibrancy that successful pluralism brings. As globalization, technological change, collective human experiences and advances in knowledge drive human societies in the 21<sup>st</sup> century, how successfully Canada continues to manage the challenges of diversity will have an important bearing on the social and economic success of Canada, the quality of our communities and the success of our corporations.

From an economic point of view, how well Canada continues to meet the challenges of diversity will determine our future success in attracting talented immigrants as global competition for talent intensifies with the aging of Western societies. Without a talented workforce, Canadian businesses will be unable to achieve corporate strategies for innovation and growth, or will be forced to implement those strategies in other parts of the world. Moreover, in the face of potential labour shortages, employers will miss out on opportunities for growth unless they recognize the potential of all groups in Canadian society.

But we face some very real challenges in this regard. Today, just above 18 per cent of people in Canada are foreign-born, but by 2017, barely a decade from now, this share could rise to 22 per cent. In our major cities the proportions are and will be much higher. While Canada has achieved a great deal of success in bringing immigrants into the mainstream of society, much remains to be done in order to truly capitalize on the talents that immigrants bring with them. The diversity of our population and the success we have enjoyed as a tolerant, pluralistic society has been recognized by celebrated authors such as Jane Jacobs and Richard Florida. But a careful examination of our success in capitalizing on diversity also reveals that

there is a significant risk of losing what has been a source of competitive advantage and national pride at a time when we can least afford to do so.

Indeed, Canada's track record in successfully integrating immigrants is slipping. On average, immigrants arrive in this country better educated, in better health, and at similar stages of their careers as those born in the country, but the evidence suggests that during the past two decades, they have been much less successful in achieving success than earlier waves of immigration. Immigrants are having a harder time reaching Canadian income levels than was true in the past, in part because we have cut back on programs that help immigrants adjust and in part because many immigrants have difficulty gaining recognition for the education, skills and work experience they bring with them.

Likewise, while women have made significant progress in the workplace in terms of equal pay for equal work and opportunities for advancement, there is more that can be done to facilitate the role of women, including more family-friendly workplaces.

The cost of failure to fully realize the potential of immigrants and women in the workplace is significant. It reflects untapped economic opportunities that quickly tally up to billions in lost wages, productivity and output.

If foreign-born workers were as successful in the Canadian workforce as those born in the country, personal incomes would be about \$13 billion higher each year than at present. And if women had identical labour market opportunities available to them as men, then personal incomes would be \$168 billion higher each year. If we achieved identical labour market outcomes for men and women regardless of their birth place, then personal incomes would be 21 per cent, or \$174 billion higher (after subtracting \$7 billion to take into account double-counting between the two scenarios above), and 1.6 million more working-age Canadians would be employed.

It is implicit in the Canadian value system that all individuals should have the opportunity to achieve their full potential, which is not the case at present. Moreover, there is a strong economic argument that all Canadians would be better off with the larger and more productive economy that would result if all Canadians were able to participate fully. Indeed, our only hope in paying for the infrastructure, health and education requirements of the future workforce is to address our long-standing weakness on productivity growth.

## *Executive summary*

But there is a third argument as well, namely that with the aging of the Canadian population during the next 20 years as the baby boom generation retires, we will need to fully engage all Canadians of working age in the workforce. That's because the gradual future retirement of the baby boomers will not be fully replaced by the smaller number of boom-echo kids participating in the workforce. More importantly, simple replacement leaves no room for growth in labour needs. A growing economy in the period ahead will require full realization of the untapped potential of Canadians of working age as well as raising immigration targets to between 300,000 and 400,000 new immigrants per year.

In fact, the gains from successfully integrating immigrants into our economy and society are actually higher than calculations showing the gains from reaching parity with their native-born counterparts. That's because many immigrants arrive with a high level of skills that

could, with the removal of credential and other workplace barriers, give them above-average incomes. These higher incomes would have obvious multiplier effects in markets for housing and consumer spending, as well as savings and investment.

Smart employers recognize the benefits of diversity in gender, race and national origin, building a skilled workforce with a variety of cultural backgrounds, and that this will become even more important in the years ahead. This same diversity must be extended to our political and cultural life and our social institutions. But for most Canadians, participation in society will start with successful employment. This is why all stakeholders in our society must work together to remove artificial barriers and improve the pathways to success for all of our people whether they are born here or come to Canada to build new lives as future citizens. Key recommendations are provided next, followed by the full report.

## *Key recommendations*

### *Multi-pronged approach required*

▲ Canada needs an effective long-range economic strategy if it is to ensure a successful 21st century economy and society. This means implementing an ambitious productivity agenda based on high skill levels and a capacity for constant innovation and upgrading in the economy. Higher productivity is vitally important to being able to pay for future infrastructure, health and education spending. An important part of this agenda will be to ensure that barriers to full and effective labour force participation by women, immigrants and Aboriginal Peoples are eliminated and opportunity for participation enhanced.

▲ The key priorities of a productivity agenda must address the capacity of Canadians to participate in a knowledge-based economy, starting with early childhood education but continuing through both the process of formal education and skills training to retraining and lifelong learning; the need for innovation in both the private and public sectors; the levels and composition of business taxation; and, improving productivity in small- and medium-sized enterprises.

▲ Cities are at the frontline in providing childcare so that parents can participate in the workforce and in dealing with the integration of immigrants into Canadian life. The structure of municipal finance makes it difficult for many municipalities to effectively meet these challenges. For these and many other reasons, municipal finances are

in need of reform. Many of the diversity challenges, infrastructure shortfalls and future demands through higher immigration levels can only be addressed through serious consideration of proposals to broaden revenue-raising authorities of municipal governments. Infrastructure bonds, three-P partnerships and Tax Increment Financing are among the ideas requiring fuller consideration. Forcing municipalities to fully rely on profit insensitive property taxes raised disproportionately from businesses is a counterproductive policy since it can make business operations uneconomic.

▲ Infrastructure shortfalls in the Canadian economy must be overcome to address current challenges and to accommodate future immigration. The full range of public-private partnerships should be considered so that private capital markets can provide funding where governments may feel fiscally constrained.

▲ More communication and co-operation are required between the federal government, which controls immigration policy, and provinces, which control certification across the professions and skilled trades and the movement of labour.

### *The cultural advantage*

▲ All levels of government should significantly improve the ways they co-ordinate their policies on accepting, placing and integrating immigrants. Canada is losing out on the potential contributions of

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many immigrants, while the disappointing experiences by some highly skilled immigrants on their arrival in Canada is making Canada less attractive for immigrants at the very time that competition for immigrants is increasing.

▲ Immigration targets should be raised to between 300,000 and 400,000 immigrants per year to help meet future labour shortages.

▲ A more concerted effort is needed to encourage immigrants to settle in communities across Canada where there are labour shortages, such as in western Canada. The majority of immigrants in recent years have settled in just three metropolitan areas —Toronto, Vancouver and Montreal. Along this line lie concerns about the under-utilization of the Provincial Nominee Program and the notable absence of an Ontario agreement.

▲ Businesses and governments should set up programs that can help integrate new immigrants into the workforce at levels commensurate with their skills.

▲ Businesses and governments should work together to improve identification of areas of skill shortages so that immigration recruitment can be better focused on helping fill these needs.

▲ New ways to address foreign certification more effectively are needed as well as better ways to recognize foreign work experience of immigrants. Better information is also needed on foreign educational institutions, including easily accessible ratings or overviews of these institutions.

▲ Language training and programs should be significantly improved in order to sharply reduce language difficulties as a barrier. Funding should be restored and even increased for language training for newcomers to Canada whose language skills need upgrading to effectively participate in the workforce.

▲ Municipal governments must be brought more fully to the table with federal and provincial counterparts on determining immigration targets and proposed distribution strategies.

### *The gender advantage*

▲ Businesses should provide more flexibility and options to women on maternity leave or with young families, including opportunities if so desired among individual women, to work part-time or on a project basis in order to maintain skill sets and networks.

▲ More innovative approaches in partnering and work solutions should be pursued by employers, such as phased maternity or paternity leaves, job sharing, reduced hours, optional leaves of absence, secondment programs between large and smaller employers

where mutually beneficial and co-op work arrangements with post secondary educational institutions, etc.

▲ Government should review the effect of higher marginal rates of taxation on second incomes since these may create disincentives to two-earner couples and restrain female labour force participation.

▲ Apprenticeship programs in the skilled trades need to be reformed to pursue the goal of greater participation by women and visible minorities.

▲ The adequacy of current levels of paid parental leave should be revisited, including consideration of participation of both partners in such programs.

### *The age advantage*

▲ Canada needs a fuller debate on ending mandatory retirement across all provinces as well as a review of the existing incentives for early retirement and disincentives for working beyond normal retirement age. This should also include discussion of the possibilities regarding phased retirement periods.

▲ Far-reaching reforms of trustee pensions should be undertaken to broaden their reach and sustainability in the context of workforce changes.

▲ Our young people need to be equipped with the skills they will need by raising education funding and expanding private ventures across the full spectrum from early childhood to post-graduate studies and ensure the maintenance of skills in the adult workforce through improved systems of lifelong learning.

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## 1. Introduction — Proud building blocks

Canada has successfully evolved to become what is today one of the world's most diverse, tolerant, progressive and open societies. A willingness to embrace change, pursue new ways of thinking and learn from past mistakes has made this possible. Today, much of this spirit is captured in the Charter of Rights and Freedoms. But, our evolution as a society that values and protects basic human rights dates back more than 200 years. For example, Canada abolished slavery in 1803, giving rise to the underground railway that brought so many African-Americans to Canada long before U.S. President Abraham Lincoln signed into law the celebrated *Emancipation Proclamation* of 1863, and a century before the U.S. civil rights movement began to tear down further barriers across the southern states that were initially exempted.

Also, while Canada was not in the vanguard of women's rights, it finally granted women the right to vote in 1918 — two years before the United States and long before many other countries, such as France, Italy, Japan and Switzerland. Furthermore, in the past several decades Canada has made significant progress on issues such as equal pay for equal work and enacted legislation governing formal maternity leave programs in 1974, well ahead of the United States and other countries.

In addition, just this year, the leaders of the Assembly of First Nations, the Inuit Tapiriit Kanatami, the Métis National Council, the Congress of Aboriginal Peoples and the Native Women's Association of Canada signed joint accords with the Government of Canada that will ensure their direct involvement in Aboriginal policy development. This is an historic step forward for Aboriginal Peoples in their relationship with the federal government.

Canada has also adopted important social programs for a more cohesive and fairer society. The public healthcare system, for example, provides all Canadians with full access to medically necessary health care. Families with children benefit from the Child Benefit provisions. And older Canadians benefit from income support programs such as the Guaranteed Income Supplement and a basic pension through the Canada/Quebec Pension Plan.

While Canada has a relatively progressive history of tearing down divisive barriers rooted in gender, race, ethnic, religious, lifestyle, cultural and age-based differences, there is, nonetheless, further room for improvement — for example by creating more family-friendly workplaces so that women are better able to combine family responsibilities and careers and by improving the opportunities for newcomers to Canada to gain recognition for their education, skills and experience obtained in their home country. Pursuing these kinds of changes for greater inclusiveness and participation is consistent with Canadian values, but also offers potential economic gains. The public and private sectors both have roles to play.

It is tempting to assume that as a land of opportunity, anyone can achieve his or her dream for a better life, whether born in Canada or not. The opportunities are here and many are able to take advantage of them. But, for others, particularly newcomers, proactive measures, or simply the elimination of barriers, are needed if dreams are to be realized.

## 2. The economic case for diversity

In its most fundamental state, the broad case for leveraging diversity argues that the most successful economies are ones that are defined by high and rapidly growing living standards and will be those that optimally employ as many people in their populations as possible. They do so subject only to societal choices guided by economic incentives that influence behaviour, which is as unencumbered by artificial barriers as possible. This means maximizing potential labour force participation rates, employment rates and productivity per worker by employing people at what they do best and at the highest income per worker possible within this context. More specifically, there are three key reasons for addressing diversity issues that involve releasing untapped potential in today's existing workforce, targeting future workforce challenges and capitalizing on the broader economic benefits that more diverse populations have to offer.

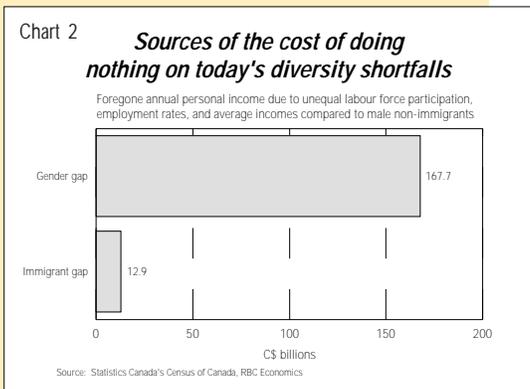
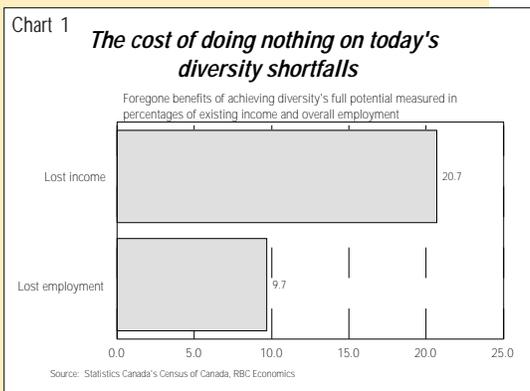
### i. Untapped potential — The \$174 billion bonus

Canada has significant untapped potential since there is still considerable room to successfully integrate immigrants and women into the economy. The cost of doing nothing amounts to billions of dollars in lost incomes. The Appendix to this paper provides the actual data and details behind the scenarios we have devised to measure the cost of doing nothing. What follows is a brief description of the methodology.

Chart 1 provides the grand totals by showing how many more people would be employed and how much higher total incomes would be in Canada if the labour market experiences of immigrants were identical to those who were born in Canada, plus if women had identical labour market experiences as men. The result would be an extra 1.6 million employees, and an extra \$174 billion in personal income, a gain of 21 per cent compared to today's levels. Naturally, supply and demand conditions in the overall workforce would have to adjust gradually and in sync with one another in order to realize this untapped potential over the long periods being examined in this report.

Chart 2 breaks down the totals. The split between the immigrant earnings gap and gender differences is very telling of where the greatest opportunity lies at present. Personal incomes would be \$168 billion higher if women had identical labour market outcomes as men born in Canada as measured by the same likelihood of having employment at the same average income, and there would be an additional 1.6 million women employed in Canada. Of this \$168 billion, about \$126 billion comes from equating the labour market experiences of women born in Canada to men born in Canada, and the remaining \$42 billion is derived from equating the outcomes for women born outside of the country to men born in Canada.

Similarly, if immigrants had the same likelihood of employment at the same average income as people born in Canada, then personal incomes would be about \$13 billion higher and there would be almost 400,000 extra workers. This is evenly split between \$6.4 billion in higher incomes achieved by equating the labour market experiences of men born out of the country with men born here, plus \$6.5 billion in higher incomes achieved by equating the experiences of women born out of the country with women born in Canada.



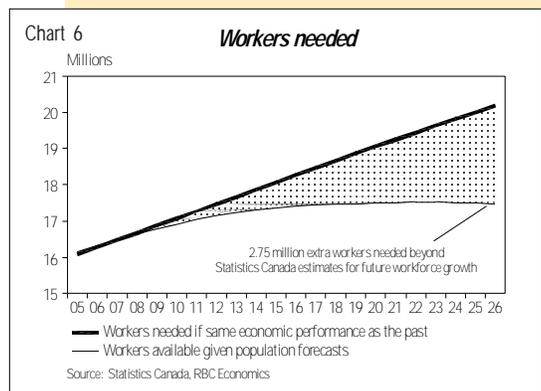
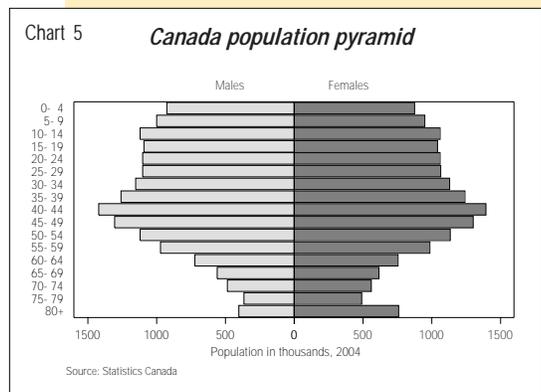
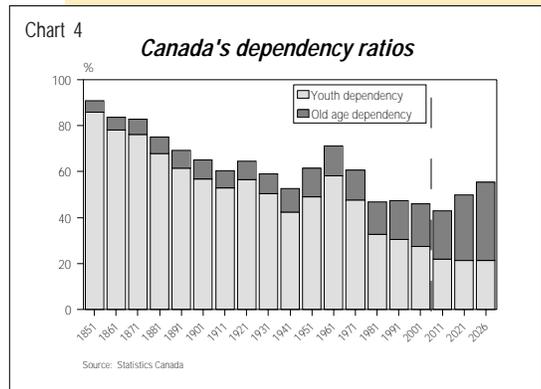
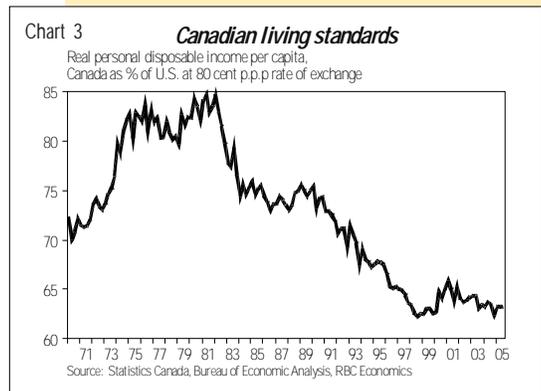
These two measures — \$13 billion for immigrants and \$168 billion for women — represent rather different forms of lost potential that require different policies to address them. One cannot, however, just add them up to get the grand tally. That is because there is some overlap in the definitions since both scenarios include equating the labour market experiences of foreign-born women with women born in Canada, which itself involves a gain of \$6.5 billion in overall personal incomes. Removing this double counting in the two scenarios and then adding them is how the total of \$174 billion is determined. In both illustrations, the potential benefit to leveraging diversity may appear to be upper bounds given the objective of equalizing labour market outcomes to the born-in-Canada male experience. This may be true from a narrow workforce perspective, but that is just the first stage in estimating the benefits. If immigrants and women face barriers to full integration in the workforce, then they face barriers in accessing the markets for housing, consumer spending, wealth management services and related business investment opportunities. Such evidence will be provided in the gender and cultural diversity sections of this report.

## ii. Future workforce challenges

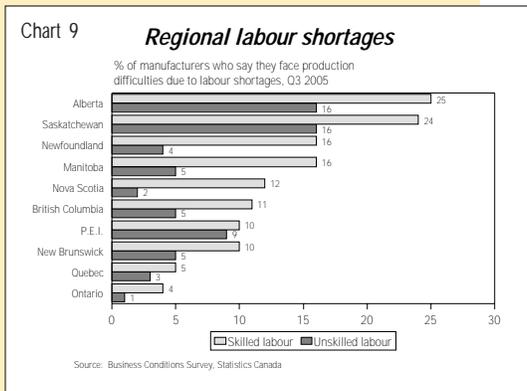
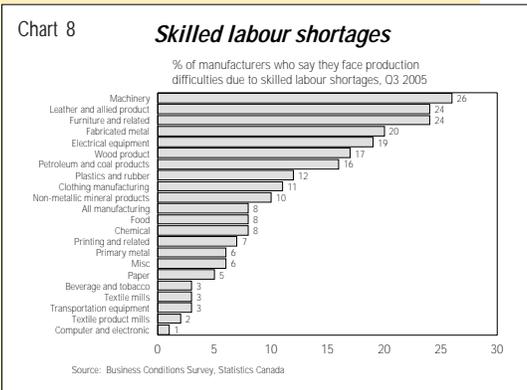
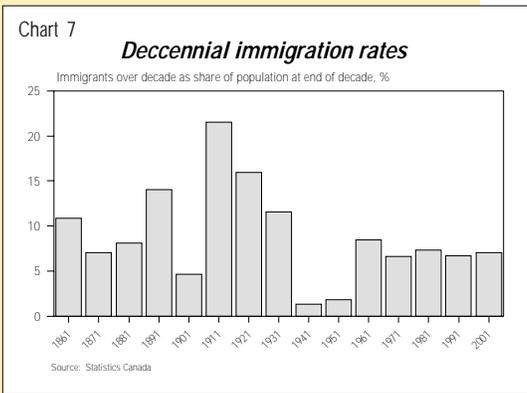
A second reason to leverage diversity is to help offset a marked slowdown in labour force growth and the threat of future labour shortages. Canada has experienced a one-sixth decline in its standard of living relative to the United States in the past 25 years (chart 3). Reversing this trend is vital to our ability to compete for capital and labour and grow our own living standards. But, to succeed we must address growing skills shortages that already exist, or which are on the horizon. Statistics Canada's *Survey of Business Conditions* depicts labour shortages as a major business constraint. Canada's overall rate of unemployment stands at its lowest level in about 30 years. Labour shortages are particularly acute in the western provinces as reflected in the pace of construction wage gains in British Columbia, widespread help-wanted signs and anecdotal evidence of retailers, food service companies and hotel operators having to curtail operating hours, or even withdraw from some markets, due to acute labour shortages. The shortage of skilled trades is particularly acute in Alberta's oil sands development.

### Future workforce shortages

Labour shortages, especially in some skills and professions, are likely to become an even greater challenge in the future with the aging of our population as the great wave of baby boomers exit the workforce during the next 20 years. This will push up the ratio of retired Canadians to working-age Canadians during the next two decades (chart 4). As baby boomers retire during the next two decades, there will be fewer Canadians to replace them (chart 5). Without immigration, the size of our labour force would quickly decline. By the end of this decade, immigration will account for all of the net increase in the labour force and, by the latter part of the next decade, the size of the labour force will stop growing even with current levels of immigration. As chart 6 shows, even under a low estimate, Canada will need an additional 2.75 million workers in the next 20 years over and above Statistics Canada's long-term population projections and the embedded assumptions on fertility, mortality, aging out of labour markets by baby boomers, aging into labour markets by their children in the boom echo cohort, and net immigration rates.



Indeed, this long-range population projection already incorporates the assumption that gross immigration to Canada will be 225,000 people a year. Furthermore, it assumes that growth in demand for labour will have to accommodate economic growth identical to that of the past 30 years. That is, we have assumed that growth in living standards — defined as real GDP per capita — would match the last 30 years' average of 1.8 per cent a year, that productivity growth would be no better than the 1.3 per cent average we have experienced during the same period, and that Canadians would desire working similar average workweeks. These are lowballed assumptions since the criterion to make up for lost ground on living standards surely has to be higher than our lacklustre performance of the past 30 years, which, in turn, would require faster productivity growth *and* likely faster employment growth.



The implication is that an additional 140,000 workers will be required, on average, each year in the next two decades *beyond* current immigration targets and assuming that no further progress is made in integrating women and immigrants into the workforce. This means that, with roughly 80 per cent of recent immigrants destined for the labour market, an extra 175,000 immigrants would be needed *over and above* Statistics Canada's assumed level of immigration of 225,000 immigrants a year. If the only solution to future workforce requirements were to depend on increased immigration, then Canada would need an annual immigration target of about 400,000 people a year. This would still not break any records compared to large waves of immigration in the past, when expressed as a share of the total population (chart 7). The difference lies in the fact that, in the absence of higher fertility rates similar to those that sparked the baby boomer trend of the 1950s and 1960s, we need higher immigration today and in the future. Canadian fertility rates are well below the 2.1 rate that is necessary to sustain a population at current levels. In the absence of immigration, Canada's population would decline significantly in the 21st century.

Building a 21st century economy, however, requires much more than just more people. It requires attracting, retaining and continuing to educate the best and most talented workers from around the world. In raising immigration targets, we must ensure that the focus is on attracting highly skilled individuals who can meet Canadian workplace needs. Canada faces potentially serious shortages in skilled trades and professions. Data from Statistics Canada's *Survey of Business Conditions* in charts 8 and 9, show that Canada already faces significant labour shortfalls across a number of industries and regions. There are now about one in five employers in the largest manufacturing sectors that say they face production difficulties because of a lack of skilled labour in Canada. There are now no fewer than 10 manufacturing industries in Canada in which one of every 10 or fewer employers say that they can't find enough skilled labour. On a regional basis, chart 9 shows that every region in Canada except for central Canada currently faces significant labour shortages. The oil patch provinces of Alberta and Saskatchewan are in the worst overall position with one of four manufacturers saying they can't find enough skilled labour, while about one of six employers say they can't even find relatively unskilled labour. This is further supported by the Bank of Canada's *Business Outlook Survey*, which more recently reports that one of two firms across all industries say that they face labour shortages (chart 10). This is partly cyclical

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in nature, but also partly structural, with skilled labour shortages in a number of industries. Clearly, governments and businesses need to work together more closely in determining the future skills requirements of the Canadian economy. If reports on future possible shortages of skilled workers in manufacturing from groups such as the Ontario Chamber of Commerce turn out to be anywhere close to the expressed concerns, then the challenges will be even more severe (OCC, 2005).

### ***More fully integrating immigrants will fall short of the mark***

With a sharply higher level of immigration, the challenges of successfully integrating immigrants into the workforce once they arrive in Canada would be that much greater. This means that the issues of successful integration have to be much more effectively addressed before higher levels of immigration are achieved, otherwise we will merely compound existing difficulties. While closing the gap between labour market outcomes for immigrants and the born-in-Canada population would result in a one-time gain of almost 400,000 workers and 1.5 per cent of personal income, this is equivalent to only one year's necessary level of immigration under the above scenario and is clearly an inadequate solution. If, however, we significantly raise immigration targets, then the benefits of more successful policies would be even greater. So, solving the integration challenges of immigrants into the Canadian labour force is of paramount significance to the success of future higher immigration levels.

### ***Boom-echo kids won't be enough***

There are two other reasons why the entry of the children of baby boomers, born roughly since 1980, into labour markets will not be close to sufficient to meet future workforce demands. First, there are fewer baby boomer children than there are baby boomers, so the numbers are not there to replace aging parents. There are about 10 million baby boomers but only just over eight million children born since 1980. With low fertility rates, the baby boomers have not replaced themselves, in sharp contrast to the parents of baby boomers, with much higher fertility rates, who more than replaced themselves and contributed to significant growth in the future workforce. Second, we need *growth* in the labour force to meet the growing needs of employers for a wider variety of skill sets and, in the process, sustain and raise Canadian living standards.

Higher living standards — as measured by real GDP per capita — can only be achieved through three main channels: higher productivity growth than we have had during the past quarter century (real GDP per hour worked); much longer average workweeks (hours worked per employee); and/or, a much higher share of the population that is employed (employment/population). If all we do is replace retiring

employees with younger ones, then the employed share of the population overall will not grow and neither will living standards. If one assumed that businesses and the economy remained totally stagnant at today's level of operations and demand for labour, then it would be sufficient for the boom-echo kids to replace their parents in the workforce; however that is an unrealistic assumption. Further to that, demographers argue that older workers are more productive than younger workers on average, so replacing retirees with younger workers would presumably make faster productivity growth harder to achieve. This, however, is a dubious argument since demographics probably plays a tiny role in overall workforce productivity growth compared to other factors. Since many Canadians may not want to work longer hours, our future depends on improved productivity performance and a higher level of employment.

### ***iii. Diversity and economic growth***

The third reason for pursuing a wide-ranging diversity agenda comes from current research demonstrating the beneficial impact of more diverse communities on city-level economic performance. This is a topic we will return to in the final section of this report, which brings home the vital role to be played by cities.

All of these arguments apply to the general economy-wide perspective. But, at the more micro level of the individual firm, the reasoning is similar. A successful firm will be one that is best able to secure top talent from all sources and employ them productively. Diversity is compatible with this goal. The more successful a firm becomes in adopting a diversity agenda, the better able it will be to cope with labour shortages. There is a bonus as well. Companies that employ diversity strategies will find hidden talents and new perspectives when they attract employees from other cultures.

There are other reasons why a diversity agenda is beneficial. For example:

▲ There is now much more variety in family structures than in the past. There has been a relative decline of the nuclear family and a growing proportion of single parents, single-person households, and other lifestyles, as well as smaller traditional families. Richard Florida describes how much the world has changed compared to the nuclear family concepts of the past.

▲ Canada has an aging workforce. We are living longer and healthier in post-retirement years, and some Canadians want to work longer (although others are opting for earlier retirement).

▲ Immigration patterns have shifted away from Europe and towards Asia, bringing new opportunities and challenges.

▲ Work-life balance preferences have shifted, with a greater proportion of the population moving away from traditional 9-to-5 em-

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ployment and towards more project-based, collaborative work. Today's workplace is radically different, as are employer and employee needs, from the environment depicted in John Kenneth Galbraith's *New Industrial State* or portrayed by William Whyte's "organization man".

▲ Canada is more trade-oriented than ever, but we may not be maximizing our international trading connections if we are not effectively integrating immigrants into the economy.

As countries around the world compete for talented immigrants, Canada has some advantages. For one, we don't have the deep divides or tensions that exist in some other countries. Moreover, we have enjoyed reasonable success in building a successful pluralistic society, which should make it easier for Canada to attract talent from other countries.

Nevertheless, we are in danger of dissipating our advantages because current immigrants are having a more difficult time joining the mainstream of the Canadian work world than earlier immigrants. Too many of them are experiencing difficulty in having their foreign credentials and foreign work experience accepted by Canadian employers, forcing too many immigrants to accept low-paying jobs when their talents, education and experience suggest they are capable of much more. As word of this spreads, we may have greater difficulty in attracting the talented people we seek and need. We have fallen behind the pace of change and risk losing some of the positive reputation that was built up over a long period of time for being a nation that embraced and encouraged diversity. We have to do better, given the growing international competition for talent and the fact that attractive opportunities will exist elsewhere.

### ***3. Unleashing diversity's potential***

Looking to the future, there are serious underlying challenges that either suggest that there is much work yet to be done, or that we remain too focused on traditional solutions. This report has chosen to define diversity principally along the lines of age, gender and cultural distinctions across the broad population. While there are many legitimate, wide-ranging definitions of diversity, given the demographic challenges facing the nation and the potential for returns, we have decided to address each of these three main areas as follows.

#### ***i. The age advantage***

It is easy to get carried away with the impact of demographic change on the economic and financial market environment, and there are many variables that go into determining a nation's long-run prosperity. Simplistic scenarios for housing, consumer and saving markets based solely on demographic projections have all turned out to be totally wrong over time as the feared collapse of housing and

consumer markets never happened, nor did a massive run-up in saving rates with boomers now in what demographers argued would be their theoretical peak years of saving activity. The aging of the workforce, however, is a credible challenge to Canada's long-run prosperity simply because Canada has such a poor track record on the other variables that can help mitigate the potential consequences of aging workers.

We have not been successful enough at stoking faster rates of productivity growth and fully incorporating both women and immigrants into the workforce. This means that we cannot afford to "waste" working-age Canadians and newcomers by maintaining barriers to their full participation in the economy at their highest level of potential. It also means that we will need more effective systems of lifelong learning so that Canadians and newcomers alike can maintain and upgrade their skills and professional requirements, particularly if we are to extend working lives beyond age 65. Many of those who can make a contribution will be women, immigrants or Aboriginal Peoples.

#### ***Mandatory retirement in Canada***

One step in addressing future workforce shortages would be to eliminate mandatory retirement across all parts of Canada, except in those instances where there are special circumstances such as in the military for pilots or for firefighters.

Canada is making progress in ending mandatory requirement, both at the federal level and among a growing number of provinces. But further steps are needed if mandatory retirement is to be abolished throughout the country. In six provinces, mandatory retirement after age 65 is still the law; it has been abolished in four provinces and the three territories. Ontario has introduced legislation to eliminate mandatory retirement. New Brunswick is also taking similar steps. British Columbia, Newfoundland and Labrador, Saskatchewan and Nova Scotia have retained mandatory retirement, yet British Columbia faces among the worst labour shortages in the country, Saskatchewan already faces downward pressures on its population, while the Atlantic provinces face the greatest future population and aging pressures.

Apart from the merits of providing choice to workers and employers, there is a clearer economic case for ending mandatory retirement policies. Lifting this constraint should help somewhat in alleviating future labour supply shortfalls. A fuller debate on this topic is required given the competing and uncertain influences on pension funds and other matters. There are other considerations that need review as well, not least of which is that a large proportion of Canadians are opting for early retirement. Incentives in our existing

pension systems, for example, may encourage early retirement, while creating disincentives for working beyond age 65. According to the Chief Actuary of Canada, 33.1 per cent of eligible males apply for Canada Pension Plan benefits at age 60 and 57 per cent begin receiving this pension benefit before they reach age 65. There is also a need to address issues of age discrimination in labour markets; older workers who lose jobs have a much harder time gaining new employment, suggesting an age bias on the part of many employers. Addressing age diversity matters in Canada, however, is just a very preliminary first step alongside simultaneously addressing our shortfalls on maximizing the benefits of gender and cultural diversity.

## ii. The gender advantage

Canada has made major improvements in its treatment of women in the workforce. By many international measures, Canada ranks highly in terms of female labour force participation rates, the number of women in high-level business positions and the share of women in government. There is, however, room for improvement. Female labour force participation rates are still well below those of men (chart 11), the glass ceiling blocking the advancement of women has yet to be eliminated, and other broader social measures such as the number of women in parliament and other elected bodies leave considerable room for further gains (table 1). Wage gaps between men and women also persist, and a growing number of mostly women are facing the added pressures of single parenthood (chart 12). Increasing the number of women in the workforce across all types of jobs is important not just from a social perspective, but from an economic one as well. A recent study by Catalyst, an advisory group on women's issues, found that companies with a higher representation of women in senior management financially outperformed companies with fewer women at senior management levels.

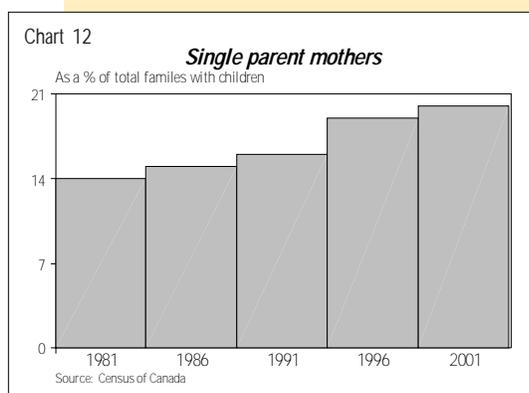
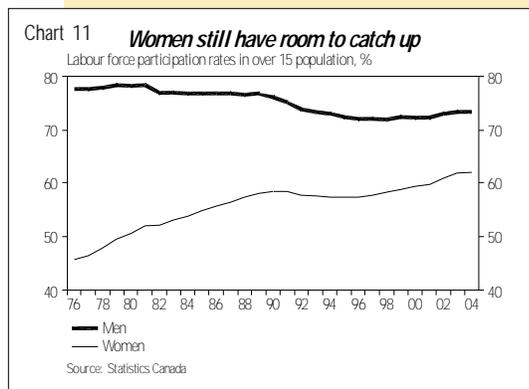
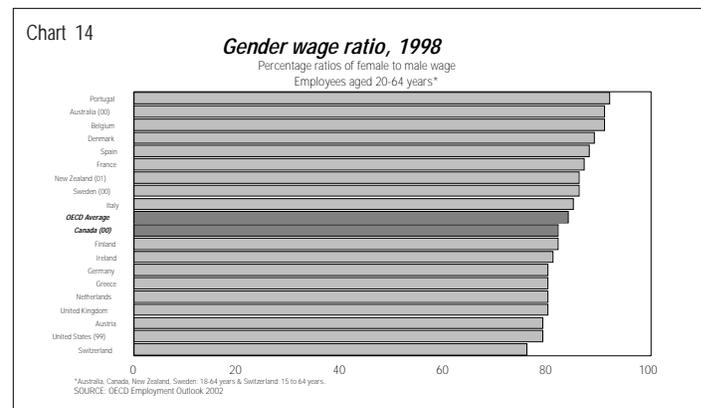
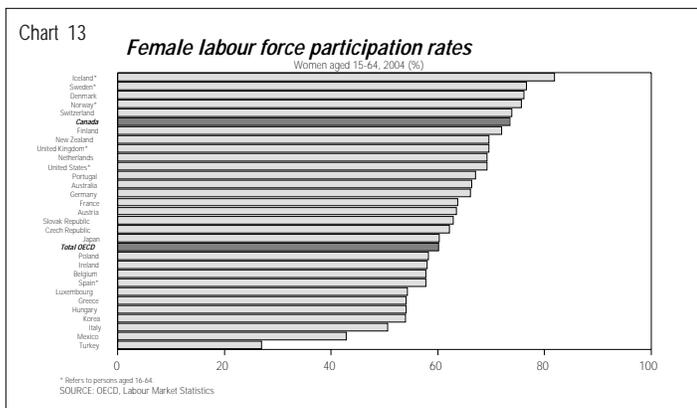


Table 1

### *Women in national parliaments*

Country	Lower/single house			Upper house/senate		
	Date	% women	Rank	Date	% women	Rank
Rwanda	2003	48.8	1	2003	34.6	7
Sweden	2002	45.3	2	---	---	---
Norway	2001	38.2	3	---	---	---
Finland	2003	37.5	4	---	---	---
Denmark	2005	36.9	5	---	---	---
Netherlands	2003	36.7	6	2003	29.3	12
Cuba	2003	36.0	7	---	---	---
Spain	2004	36.0	7	2004	23.2	21
Costa Rica	2002	35.1	8	---	---	---
Mozambique	2004	34.8	9	---	---	---
Belgium	2003	34.7	10	2003	38.0	3
Germany	2002	32.8	12	n/a	18.8	26
Switzerland	2003	25.0	25	2003	23.9	18
Australia	2004	24.7	26	2004	35.5	6
Canada	2004	21.1	38	n/a	37.1	4
United Kingdom	2001	18.1	52	n/a	17.8	28
United States	2004	15.2	61	2004	14.0	36
France	2002	12.2	72	2004	16.9	30
Italy	2001	11.5	76	2001	8.1	50
Japan	2003	7.1	102	2004	13.6	37
Turkey	2002	4.4	115	---	---	---

Source: International Organization of Parliaments of Sovereign States



### Steps needed to improve female participation rates

The first step to realizing the full potential of women in the workforce lies in raising female labour force participation rates by removing barriers to their participation, while still leaving open the options to pursue private choices. It is clear that Canada has already taken positive steps in this direction. Based on international comparisons, Canada ranks highly in terms of female participation rates (chart 13), coming in sixth of all OECD countries. However, maintaining current rates is not enough, particularly given that the potential benefits to Canada of further increases to female participation rates could be significant. The fact that women now outnumber men in university enrolment suggests that women will play a greater role in Canada's future economic and political life.

There are many factors accounting for the disparity in male and female participation rates, including the role of women as child-bearers and, often times, primary care-givers. But, the wage gap between male and female workers with parallel skills is also important, acting as a disincentive to women to stay in the workforce. Canada's gender wage ratio relative to other OECD countries falls just below

average, with female wages comprising 82 per cent of male wages when measured using full-time wage and salary hourly earnings (chart 14). If female labour force participation and employment rates plus average incomes equalled those of males born in Canada, then personal incomes would be about \$168 billion higher. While full parity may not be achievable in the very short-term given differences in work experience, the potential economic gains from continuing to narrow the gap are significant.

### Barriers to improvement

A number of current policies in Canada developed to support female labour force participation have recently been suffering in their comparisons to other OECD countries. One important example is the higher tax rate that is charged on second-earners relative to single-earners in Canada. Although this inequality exists for many OECD countries, Canada ranks near the top with one of the highest disparities. For women earning the full salary of an average production worker, the ratio of tax rates between a second-earner and a single-earner is 1.4 in Canada compared to an average of 1.2 across the OECD (table 2). Reducing this disparity in marginal tax rates, or eliminating

Table 2  
**Relative tax rates of second earner vs. single person earners**  
2000-01

	67% of APW* (ratio)	100% of APW* (ratio)		67% of APW* (ratio)	100% of APW* (ratio)
Iceland	2.8	2.0	Denmark	1.2	1.2
Ireland	2.3	1.5	France	1.2	1.0
Czech Republic	1.9	1.7	Japan	1.2	1.1
Italy	1.6	1.4	Netherlands	1.2	1.1
Spain	1.6	1.3	New Zealand	1.2	1.2
Belgium	1.5	1.3	Norway	1.2	1.1
Canada	1.5	1.4	Austria	1.1	1.1
Germany	1.5	1.3	Korea	1.1	1.0
Slovak Republic	1.5	1.7	Finland	1.0	1.0
Australia	1.4	1.4	Greece	1.0	1.0
Poland	1.3	1.2	Hungary	1.0	..
Portugal	1.3	1.1	Luxembourg	1.0	1.1
Switzerland	1.3	1.2	Mexico	1.0	1.0
United Kingdom	1.3	1.1	Sweden	1.0	0.9
United States	1.3	1.2	Turkey	1.0	1.0
<b>Unweighted average (all)</b>	<b>1.4</b>	<b>1.2</b>			

\*Average production worker earnings

Source: OECD

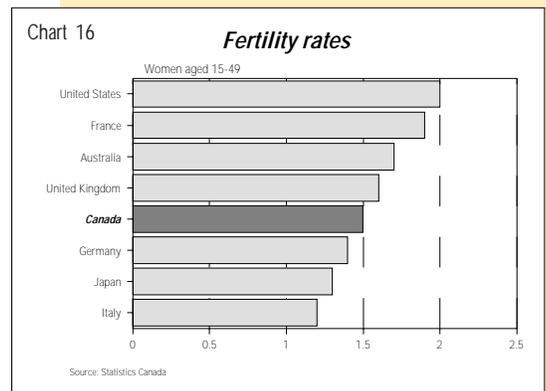
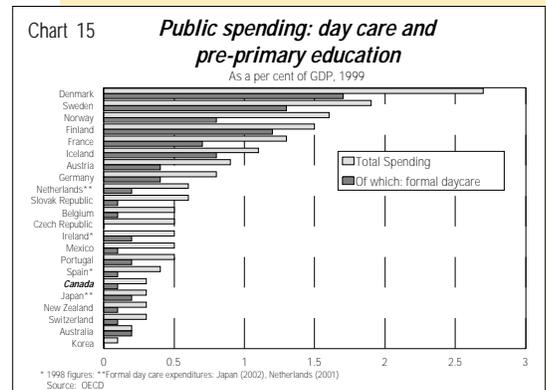
the inequality altogether, would lower the relative tax costs for second-earners, could attract more women into the labour force and encourage those already working to contribute more hours.

Canada also has fewer childcare subsidies and child benefits than many other OECD countries. Total public expenditures on formal daycare and pre-primary education, either on a per-child basis or as a share of GDP, falls below the OECD average by a considerable amount (chart 15). In Canada, the share of GDP devoted to total public expenditures on formal daycare and pre-primary education is 0.3 per cent compared to the OECD average of 0.7 per cent. Denmark spends 2.7 per cent of GDP, which is likely one reason it ranks in the top-three of countries with the highest female participation rates. Sweden, Finland and France all offer high-quality early childhood development starting at very young ages.

Canada has taken positive steps in paid leave benefits. In 2001, parental leave benefits rose from 10 weeks to 35 weeks, bringing Canada closer to the OECD average and effectively increasing total combined maternity and paid parental leave time from six months to one year. Moreover, both parents can take advantage of the benefit period, and fathers who did so were no longer required to serve an additional waiting period. In the year following the change, the share of fathers claiming, or planning to claim, leave benefits more than tripled from three per cent to 10 per cent.

Although a review of government policies is important, the responsibility for removing barriers to women is equally shared by businesses. Companies can do many things to support women who decide to have children including, where possible and desired, offering part-time or project-based work that can be completed while on maternity leave. In this way, women can remain connected to their job, maintaining their skills and networks and not feel isolated. More companies should also offer new fathers the opportunity to take part in early childhood care, allowing these responsibilities to be shared by both spouses. The goal of family-friendly workplaces should be embraced throughout the business community.

While relatively small employers face unique resource challenges that may constrain their ability and flexibility on gender issues, there also exists untapped potential in attracting top talent through more innovative workforce management practices such as secondment programs with larger employers or even co-operative programs with post-secondary educational institutions. Improving such supports should encourage higher female participation rates. Moreover, if structured correctly, the resulting increases in participation need not come at the expense of fertility rates. A comprehensive OECD study found that, provided appropriate work-life policies were adopted that properly aligned incentives, fertility rates may increase slightly because would-be mothers would have greater certainty of high-quality care for their children. With Canada's fertility rate already lower than in many other comparison countries (chart 16), the need for appropriate policies is paramount. As a result, it is necessary that proper care be taken when devising policies to ensure that there is a balance between offering more assistance, while at the same time ensuring that incentives to work remain in place. Herein lies the trade-off in that fertility rates may be encouraged by improvements to paid leave, but that, in turn, requires individuals and employers to go the extra mile in retaining connections with the workplace and networks.



## Additional obstacles stemming from changing family structures

The traditional structure of families is changing in Canada, making it even harder for women to balance work-life responsibilities, putting additional pressure on participation rates. With many single-parent households, there exists a greater need to address the barriers that prevent women from entering the workforce. In 1981, only 14 per cent of families consisted of single mothers; in 2001, the proportion rose to 20 per cent. The barriers making it difficult for women to enter the labour force tend to have a larger impact on lower income households. When the costs of childcare become too high relative to incomes, many women find it difficult to justify working at all, or at least working a full-time job. As such, many face the choice of working part-time, starting lifestyle-oriented businesses or opting out of the workforce entirely, depending significantly on workplace and government support.

## Reforms needed for skilled trades

There is also room for considerable improvement in the participation of women in skilled trades. According to figures based on 2001 data from Statistics Canada, men accounted for 91 per cent of total registrations in formal apprenticeship programs. If food and service trades, which are comprised of hairdressers, aestheticians and cooks, as well as the “other” category, are excluded, the share of males jumps significantly higher to 98 per cent of total registrations (chart 17). This covers trades related to construction, electronics, industrial production, metal fabrication and motor vehicles. With scarcely any representation from the female half of the workforce in these apprenticeship programs, it should not be surprising that Canada is facing a real shortage of skilled labour. The argument that some skilled trades simply do not lend themselves to female participation is similar to arguments in the past suggesting that certain occupations were off-limits to women, such as the military, police, business management and engineering. Governments, businesses and unions running apprenticeship programs should seek ways to increase the participation of women.

The improvements needed in skilled trade training rounds out a broader set of educational needs across other sectors of the workforce as well. Comparing the educational attainment of managers in Canada to those in the United States, far fewer managers hold either bachelor’s degrees or advanced university degrees in Canada (chart 18). Moreover, the value placed on university education by both the general public and the business community in the United States exceeds that in Canada (chart 19). Our under-investment in university education has a negative impact on productivity; any initiative aimed at boosting higher education in Canada, including attracting highly educated immigrants, would have a positive influence on Canada’s growth prospects.

## Entrepreneurship

The number of small businesses started and operated by women is growing faster than the overall pace of new business creation in Canada, suggesting that women have turned to entrepreneurship as a way to combine the responsibilities of childcare with the desire to work (chart 20). To the extent that this is a choice women make based on their preferences, there is little to be concerned about. Indeed, in such cases an environment that fosters entrepreneurship actually facilitates

Chart 17  
**Registered apprenticeship training programs**  
Total registrations, 2001

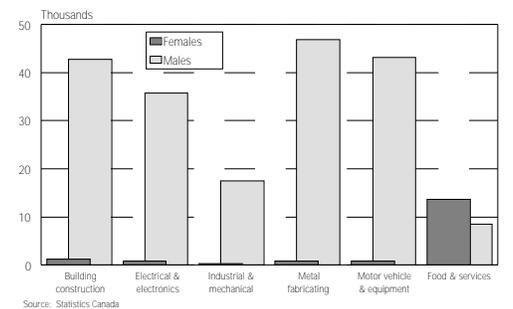


Chart 18  
**Managers are less well educated in Canada than the U.S.**  
Managers' educational attainment, 2001: 25-64 years-old

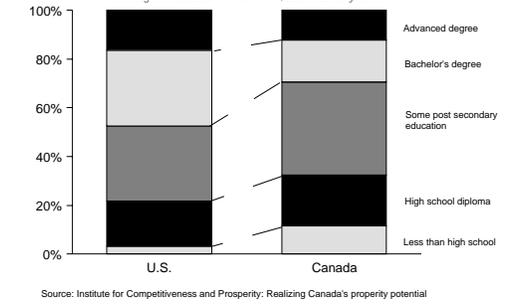


Chart 19  
**Americans place more value on university education**  
Respondents' choice of advice of level of education to achieve

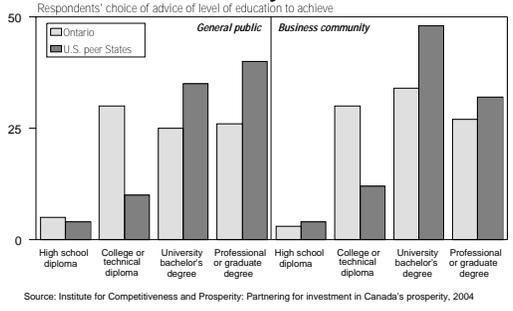
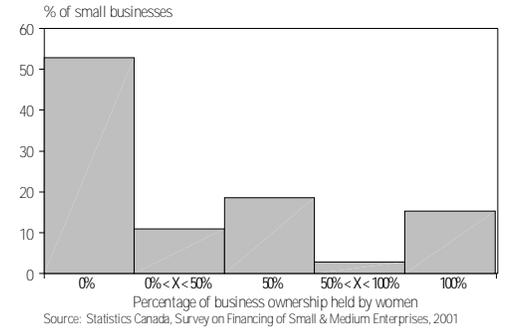


Chart 20  
**Women-owned businesses**  
% of small businesses



growth in female participation rates. However, if women are starting their own business because employer or government programs are not adequately addressing their needs, this is a clear signal that reforms are needed.

### Finding the right job

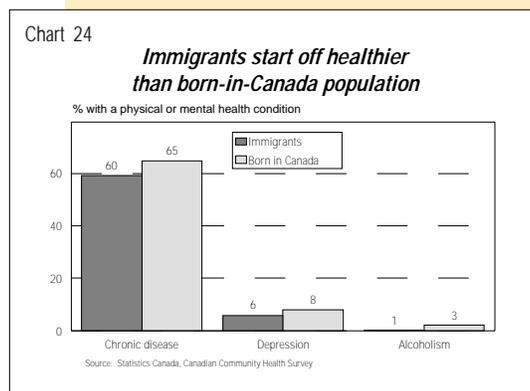
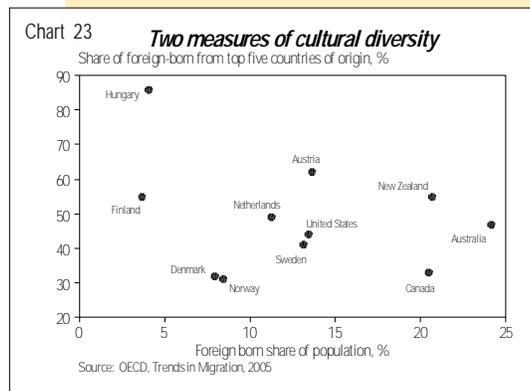
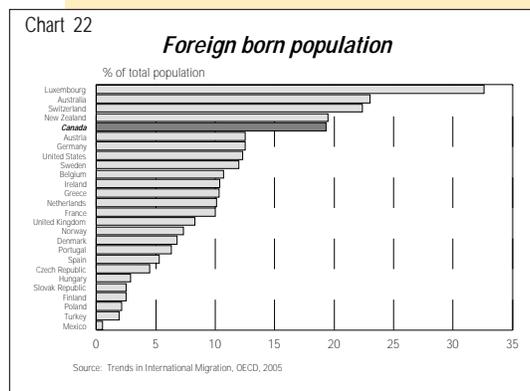
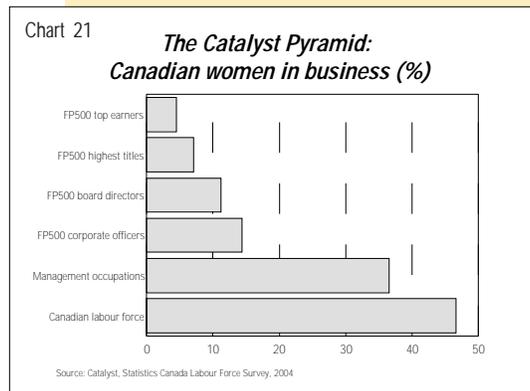
In addition to raising the labour force participation rate of women, the second step to unlocking the full potential of women should be to remove barriers that limit the productivity of women already in the workforce. It is important that women occupy jobs that make full use of their skills and educational background, thereby maximizing their productivity and their rewards from work. If a woman has to forego a job she is well suited for simply because it does not allow enough flexibility to balance both work and life responsibilities, this results in a net loss to both the business community and the economy as a whole.

Examples of these types of job-specific barriers show up in the mismatch between the educational attainment of women and the jobs they occupy. For example, increasing numbers of women are achieving high levels of education; however, this does not appear to be translating directly into high-level jobs. According to Catalyst, the share of women registered in Canada's four main MBA school programs averaged more than 27 per cent in 2004. However, based on the 2004 Catalyst Pyramid (chart 21), the share of women who act as corporate officers in Canada's 500 largest companies was only 14 per cent, with only 11 per cent holding board seats. Further, only seven per cent of women hold jobs with the highest titles, while only 4.5 per cent were represented in the top-earners category.

It is possible that part of this disparity is a result of a time lag between the point when female participation rates really began to rise in Canada and the experience usually needed to occupy high-level jobs. This suggests that Canada should see more female CEOs during the next decade. In addition, there are likely to be family needs or lifestyle preferences at play, with possibly fewer women interested in top jobs that are typically associated with longer hours and higher levels of stress. However, the extent to which this difference reflects barriers women face in attaining top jobs represents a loss in productive capacity. The responsibility for addressing these types of barriers falls more to business than to government. Companies must ensure that they are not preventing women from obtaining executive positions, either by making it difficult for them to fulfil the requirements of the position and have children or by fostering perceptions that women do not belong in such jobs.

### Public perception needs an overhaul

The responsibility of governments and businesses to support the female workforce is obvious; however, there is also a responsibility for the general public. For example, women are significantly under-represented in elected positions in our Parliament and provincial legislatures; the proportion of elected politicians who are female is far below their share of the total population. Comparing countries with either a single house of government or with a lower house, such as the House of Commons, Canada only ranks 38th. Comparisons across upper houses rank Canada much higher, at fourth, but the Senate is appointed and not elected by the general populace. There is considerable room here for an improvement in public



perception about the leadership abilities of women; the merits and accomplishments of women need to be recognized not just in the private arena, but in the public one as well.

Encouragingly, Canada has made progress in appointing women to the top judicial posts in the country, notably to the Supreme Court of Canada.

### iii. The cultural advantage

Canada is one of the most successful examples of an open, culturally diverse society. Its achievements as a pluralistic society can be an example to the rest of the world. But, past success cannot be taken for granted. Today, we are falling short in helping newcomers from other countries integrate into our economy and society, thus disappointing them in their dream of a new life in Canada that allows them to achieve their potential.

### Current cultural diversity measures and integrating immigrants

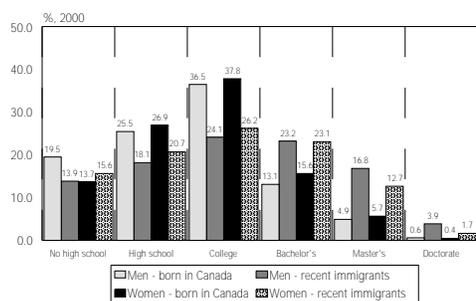
Canada's current ranking in measures of cultural diversity indicates that it is the most ethnically diverse country in the world. As chart 22 demonstrates, Canada's population has the fifth highest foreign-born component in the world behind Luxembourg, Australia, Switzerland and New Zealand. This is not, however, the only way of looking at cultural diversity. In fact, those other four countries all have foreign populations that are not as diversified as Canada's. For instance, about one-quarter of the foreign-born population in Australia and New Zealand are from the United Kingdom. That is why we should look at the diversity of the foreign-born population itself. The two measures are considered simultaneously in chart 23 in a scatter plot; the most diverse populations as measured by the two factors simultaneously are those found towards the bottom right of the chart with high foreign-born shares of the population and a highly diversified foreign-born population. Canada arguably ranks as the most culturally diverse population among major industrialized nations. This means that Canada also has the greatest incentive to realize the benefits of cultural diversity. We also have the greatest potential for rewards from our success.

What is more, by many measures, the foreign-born population in Canada arrives with great potential and even sets a higher standard in average educational attainment than the born-in-Canada population. They arrive in similar or somewhat better health (chart 24), more often than not are better educated than the native-born population (chart 25), tend to have higher fertility rates, are multilingual, mobile, very open to naturalization, arrive in their peak working years and have similar desires to count themselves in the workforce. After arriving in Canada, however, these advantages do not readily translate into broadly defined economic success.

### Room for improvement

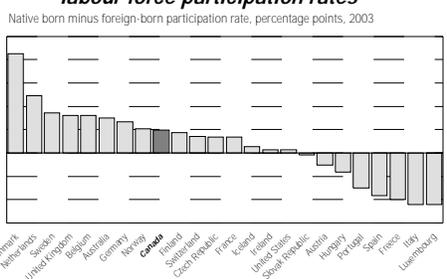
Within the international context, immigrants to Canada experience relatively better prospects than they do in many other parts of the world. Native-born populations typically have higher labour force participation rates (chart 26) and lower unemployment rates (chart 27) than the foreign-born population, but the gaps in Canada are more favourable to immigrants than in many other countries. Nevertheless, even the existence of a relatively small degree of underperformance by immigrants in the Canadian economy represents foregone potential that is worth addressing.

Chart 25 **Educational attainment**



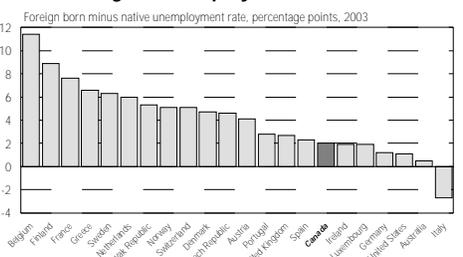
Source: Statistics Canada [Frenette and Morissette, October 2003]

Chart 26 **Foreign born usually have lower labour force participation rates**



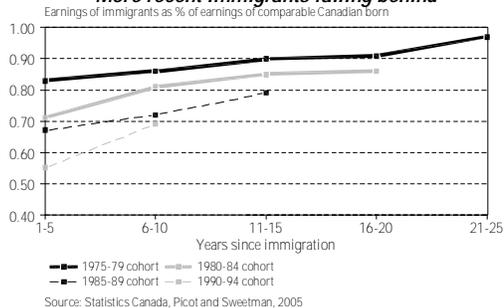
Source: Trends in International Migration, OECD, 2005

Chart 27 **Foreign born usually have higher unemployment rates**



Source: Trends in International Migration, OECD, 2005

Chart 28 **More recent immigrants falling behind**



Source: Statistics Canada, Picot and Sweetman, 2005

A more serious problem appears to have begun in the mid-1980s when the employment and earnings experiences of immigrants started to show lower levels of achievement than might have been expected based on past experience. Chart 28 shows that by examining the earnings of immigrants as a share of earnings of those born in Canada at similar age and education levels over a number of years after immigration to Canada. Each successive entry cohort within a five-year period has experienced declining starting incomes in the Canadian labour force, and their incomes are taking longer to catch up to native-born Canadians. Sizeable income gaps still exist up to two decades after immigrating to Canada. The earnings of recent immigrants tend to drop, or the education premium does, once they arrive in Canada compared to what they earned at home.

Chart 29 depicts the low income rates of recent immigrants by source country after controlling for differences in age, education, language and family type. Immigrants from Southeast Asia, western Europe, the United States and the Caribbean have all enjoyed improvements over time, but immigrants from everywhere else in the world have witnessed deteriorating prospects. The deteriorations have been concentrated in the biggest source countries for immigration to Canada of the past 10 to 20 years.

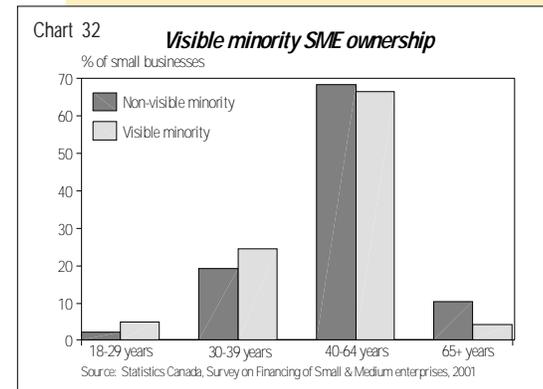
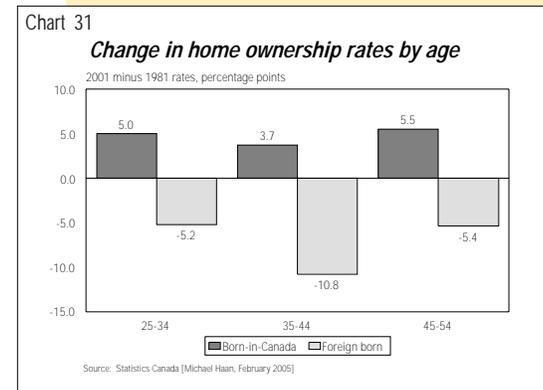
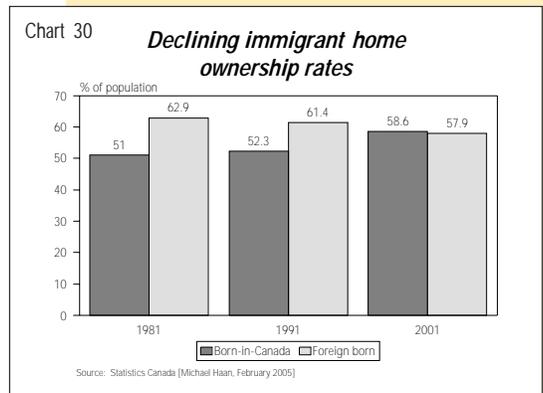
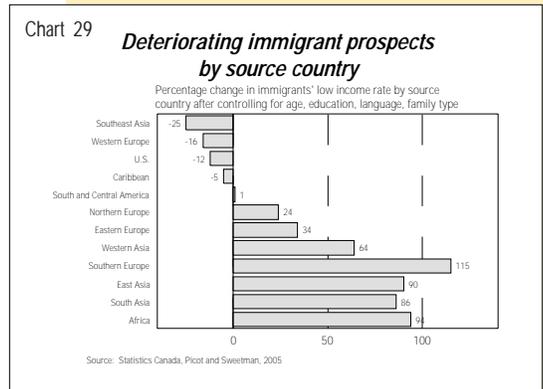
The cumulative impact is that because of lower labour force participation rates, lower employment rates, lower average incomes and evidence of further deterioration over time, untapped potential exists in Canada's foreign-born population. If parity with those born in Canada were achieved, then almost an extra 400,000 workers and roughly \$13 billion in personal incomes would be realized.

### ***Decline of the immigrant home ownership advantage***

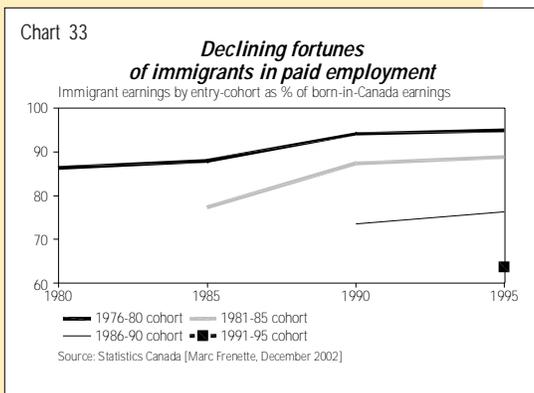
A further sign of the foregone opportunities facing immigrants in Canada is derived from housing markets. Immigrants used to have higher home ownership rates than the born-in-Canada population. But, they have steadily lost that advantage in the past two decades during which time home ownership rates fell for immigrants and increased for those born in Canada (chart 30). This is true for all age groups (chart 31). The weaker earnings position of immigrants along with significant increases in the cost of housing may be factors, with lower-income immigrant families unable to achieve adequate savings for a down payment.

### ***Immigrants shifting to self employment***

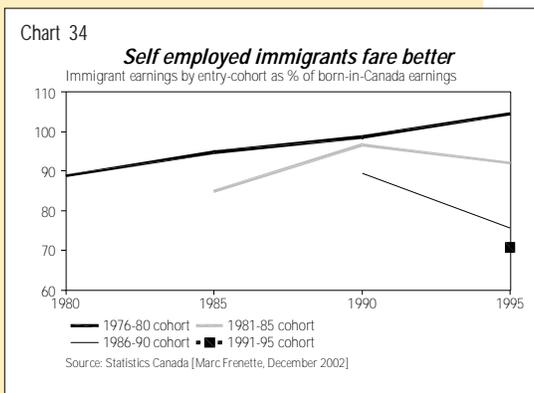
There is also evidence that immigrants are turning to self-employment, perhaps in part because of their difficulties in obtaining full-time employment elsewhere. Younger visible minorities, for instance, have higher rates of ownership of small- and medium-sized businesses than their counterparts born in Canada (chart 32). All of the earnings deterioration of immigrants since the 1985 Census has been focused on payroll employees compared to their born-in-Canada counterparts (chart 33). Self-employed immigrants, however, have witnessed no change in their relative compensation compared to born-in-Canada entrepreneurs (chart 34). Immigrants and visible minorities are, however, one of the greatest sources of growth in small businesses. Those immigrants who are most likely to start a small business are from



East Asia and western Europe (chart 35). When weighted for their relative sources of migration to Canada during the past decade, an overwhelming proportion of the self employed come from East Asia (chart 36).

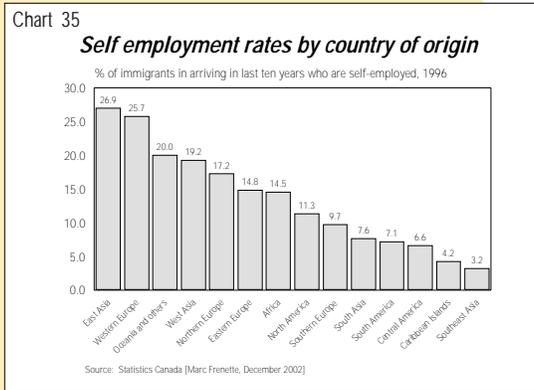


Immigrants may be choosing to become entrepreneurs, or they may feel they have no alternative because they feel discriminated against in traditional payroll employment at established corporations. If it is the latter case, then this is clearly a matter of concern. However, the very act of moving to another country is a form of entrepreneurship, so it may be that immigrants represent the more entrepreneurial segment of their home-country population, in which case Canada will benefit from their entrepreneurship here. But, it also means that Canadian companies are missing out if they fail to recognize the entrepreneurial capabilities of newcomers seeking employment.

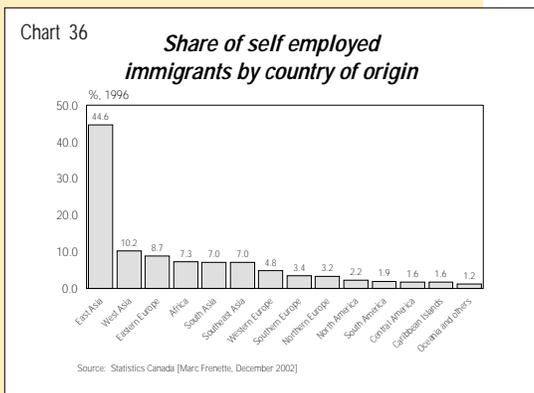


### Barriers to the integration of immigrants

Asking whether they face significant barriers to achieving their full potential in Canada and what those barriers might be is a useful exercise. Statistics Canada has done just that, with the results to be found in chart 37. The top-three barriers immigrants cited on entering the Canadian labour force included: a lack of job experience in Canada and the fact that experience in their country of origin was generally not recognized; difficulties in transferring foreign qualifications; and language problems.



If even large employers lack the capacity and ability to assess the quality of foreign credentials and the resources to assist in language training, then the problems for our small- and medium-sized enterprises, which constitute the largest share of our economy, are even greater in assessing job applications from immigrants. National assessments of foreign university qualifications and skilled trades programs are clearly needed. Moreover, we must do more on language training. There may be additional opportunities for smaller employers to take advantage of the resources of larger private and public employers through secondment programs when mutually beneficial. Lastly, difficulties in transferring foreign qualifications speak volumes about the inflexibility and inadequate resources behind foreign certification programs in a variety of employment fields within Canada. This is likely particularly true for self-regulated professions that limit entry to their fields.



## 4. The role of cities

Many of the challenges and opportunities presented thus far are of particular relevance to cities for two main reasons: evidence on diversity and growth and Canada's ranking on city diversity measures.

### Diversity and a city's economic growth

A growing number of economists are studying the possible link between diversity and economic growth. Although such research is still arguably in its early stages, emerging evidence has pointed to the existence of a positive relationship. A recent paper from the National Bureau of Economic Research (NBER) looking at diversity's impact on growth across countries found that, when the level of economic development of the country was accounted for, the impact on growth from a diverse

population was positive [Alesina 2004]. This suggests that the more developed an economy, the better equipped it is to benefit from a diverse population, with gains to productivity. Another NBER paper went further. It looked at 160 metropolitan areas in the United States and found that, all else being equal, U.S.-born workers living in cities with higher levels of cultural diversity were paid on average higher wages and higher rents than those living in cities with lower levels of diversity.

These findings at the city level are particularly important as large urban centres are where populations are most diverse and, therefore, have the greatest responsibility to address diversity issues. Not only are cities the destination for most immigrants, cities also tend to have a larger proportion of women in the labour force and tend to have younger populations as new entrants into the workforce relocate to cities to find employment and attractive lifestyles. Indeed, Canada's prosperity depends on the productivity growth that occurs in large urban centres. As shown in chart 38, there is a clear positive correlation between the proportion of people living in urban areas and relative labour productivity, underscoring the view that large, diverse cities promote innovation. So, diversity is very much a city issue.

### Canadian cities among the most diverse

To measure how diverse Canadian cities are in comparison to other international locations, we must go beyond simply looking at the foreign-born share of the population. A city may have a high share of foreign-born residents, but if a large majority of those immigrants have come from the same country of origin, the actual level of diversity in the city is not very high. Alternatively, if the foreign-born share is high *and* there are a large variety of origin countries, then the actual measure of diversity is much higher. Chart 39 plots major cities in Canada, the United States and Australia, and shows that Toronto is ranked as one of the most diverse cities, with not only a large foreign-born share, but also a wide variety of origin countries. In contrast, although Miami has a higher foreign-born share than Toronto, the majority of these residents have originally come from the same country. A broader sampling of all Canadian Census Metropolitan Areas shows a similar result (chart 40). According to Statistics Canada, 32 per cent of metropolitan Toronto and 31 per cent of metropolitan Vancouver consist of visible minorities and, by 2017, their share could reach 50 per cent. Moreover, the median age of visible minorities is projected over the next decade to be 10 years younger than other Canadians, so they will be even more important to the future labour force.

### City challenges

Because Canada's largest cities are so diverse, the challenges outlined in this paper are felt more acutely in these cities. Evidence of the problems faced by immigrants can be seen in the growing number of immigrants with family incomes below the low-income cut off; the proportion of immigrants in this category rose from 24.6 per cent in 1980 to 35.8 per cent in 2000. What is more "[a]s a result of both rising low income rates among immigrants, and their increasing share of the population, in Canada's major cities virtually all of the increase in the city low-income rates during the 1990s was concentrated among the immigrant population." [Picot and Sweetman, 2005]. So, it was not a more general deterioration equally affecting all Canadians, it was a specific focus on the immigrant population.

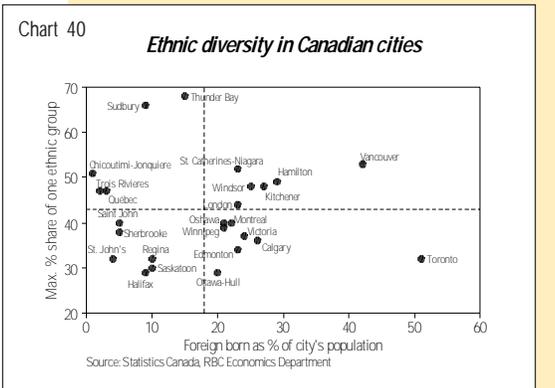
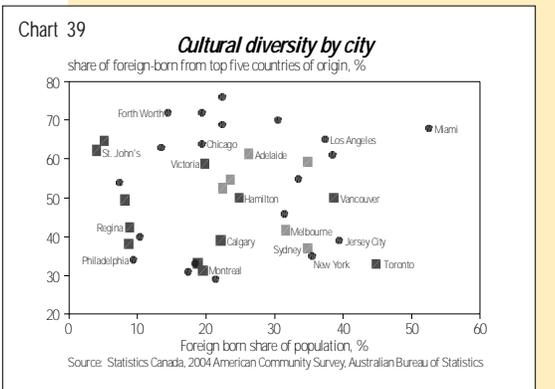
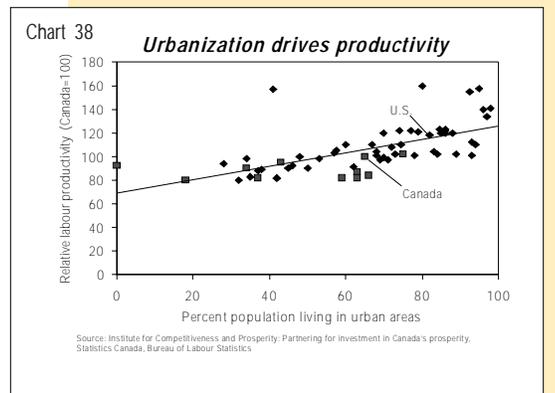
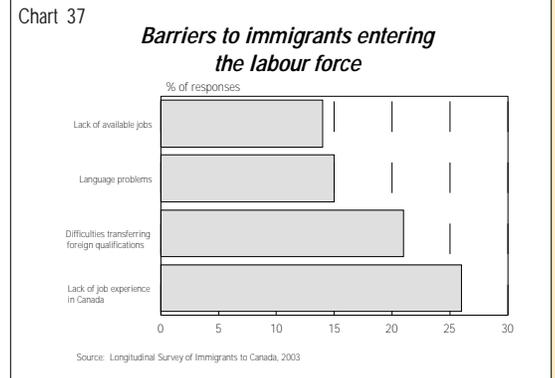


Table 3

**Non-federal government capital expenditures**

As a share of GDP, 10-year average\*

Rank	State/province	%	Rank	State/rovince	%
1	ALASKA	4.1	28	TENNESSEE	2.0
2	WYOMING	3.2	29	OKLAHOMA	1.9
3	HAWAII	3.1	30	OHIO	1.9
4	MISSISSIPPI	3.0	31	ARKANSAS	1.9
5	WASHINGTON	2.8	32	LOUISIANA	1.8
6	UTAH	2.8	33	MASSACHUSETTS	1.8
7	NEVADA	2.6	34	MISSOURI	1.8
8	MONTANA	2.6	35	MARYLAND	1.8
9	NORTH DAKOTA	2.6	36	INDIANA	1.8
10	SOUTH DAKOTA	2.5	37	TEXAS	1.8
11	FLORIDA	2.4	38	ILLINOIS	1.8
12	MINNESOTA	2.4	39	NORTH CAROLINA	1.8
13	ARIZONA	2.3	40	QUEBEC	1.7
14	IDAHO	2.3	41	VIRGINIA	1.7
15	NEW MEXICO	2.3	42	MICHIGAN	1.7
16	IOWA	2.3	43	CALIFORNIA	1.6
17	WISCONSIN	2.2	44	PENNSYLVANIA	1.6
18	NEBRASKA	2.2	45	DELAWARE	1.6
19	COLORADO	2.2	46	MAINE	1.6
20	WEST VIRGINIA	2.1	47	RHODE ISLAND	1.5
21	NEW YORK	2.1	48	VERMONT	1.5
22	OREGON	2.1	49	ONTARIO	1.4
23	GEORGIA	2.1	50	NEW JERSEY	1.4
24	KENTUCKY	2.1	51	CONNECTICUT	1.3
25	SOUTH CAROLINA	2.1	52	NEW HAMPSHIRE	1.3
26	KANSAS	2.1	53	DISTRICT OF COLUMBIA	0.8
27	ALABAMA	2.0			
	UNITED STATES	1.9%		CANADA	1.6%

\*U.S. state data 2002, provincial data 2003. Other Canadian provinces excluded due to data limitations.

Source: Statistics Canada, Bureau of Economic Analysis, Bureau of the Census

There are a number of steps that need to be taken at the city level to help address these diversity issues. An important starting point is the need for better co-ordination and integration between immigration policies across the federal, provincial and municipal levels of government. Municipal governments in particular are in a better position to be able to evaluate policies since they can see the issues and challenges first-hand and would, therefore, have many important contributions. The need for English as a second language instruction is just one example.

A more cohesive immigration policy may also help address additional problems that result from the high concentration of immigrants in only a select few urban areas, such as the sizable infrastructure shortfall faced by urban centres in Canada. Toronto, Montreal and Vancouver face many additional pressures as they try to absorb the inflow of immigrants, and limited transportation options make it increasingly difficult to effectively distribute people both throughout the city and to surrounding locations.

Compared to many U.S. cities, Canadian cities spend considerably less on infrastructure, which in part contributes to other challenges such as urban sprawl and gridlock, both of which serve to decrease productivity. As table 3 indicates, Canadian provinces grossly underinvest in infrastructure compared to U.S. states. The limited tax authority of municipal governments compounds these problems even further. Cities are only able to raise funds via property taxes and user and licensing fees and are hard-pressed to address new spending pressures being forced on them from federal and provincial

governments, let alone deal with their own challenges and goals. This excess reliance on profit insensitive revenues results in higher property tax rates on industrial and commercial properties that in cities like Toronto are among the highest in North America. This forces more businesses out into suburban areas, putting additional stress on current levels of infrastructure and making it harder for workers to reach the new places of employment since public transportation will be much less reliable, if available at all. Addressing the challenges of municipal finance is a critical issue, although there are encouraging signs of federal and provincial governments beginning to respond. Proposals such as Tax Increment Financing, public-private partnerships and municipal infrastructure bond issuance also require serious consideration.

A final consideration is the need to address current failures in urban planning. More effort needs to be taken to structure neighbourhoods to enhance the flow of ideas and innovation and foster social and cultural variety. As a pioneer of urban planning, Jane Jacobs proposes many solutions for cities, including more compact city neighbourhoods that mix different households and individuals together within multi-purpose, mixed-use land. She argues that the closer the proximity of individuals, the more idea sharing, innovation and broader cultural experiences is encouraged. In contrast, cities in decline or stagnating are those that have lost sight of the importance of encouraging and capitalizing on diversity. As people grow and change, a diverse and multifaceted city will be able to accommodate their changing lifestyle needs, values and preferences. This is not to suggest that creativity and innovation do not exist outside of the concrete borders of a large city, but rather that effective planning can facilitate creativity and innovation in a complex environment where it would otherwise be difficult for this to happen in isolation.

More recent work by Richard Florida takes these ideas further by suggesting that it is not only diversity that matters, but also tolerance, and that cities that embrace these ideals are better able to attract creative and innovative people, ultimately leading to higher productivity and growth. His idea is that of a “creative class”. He posits that a community’s economic health is directly related to how attractive it is to young, talented and open-minded people and how all three of technology, talent and tolerance are what drive growth in cities. In addition, he argues that a “Bohemian” environment, one that celebrates the new over the traditional, is what helps attract the “creative class” to cities, which in the process become the diverse and dynamic places people want to live. The ideas of Jane Jacobs, Richard Florida and other researchers in this field should be placed front and centre in public policy debates on the future of Canada’s cities, the long-run living standards of all Canadians and the contributions of diversity to successful communities and society generally.

## Appendix: Methodology for calculating diversity's untapped potential

### Background statistics for the year 2000

	<u>Born in Canada</u>		<u>Foreign born</u>	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
Population	9,078,470	9,520,190	2,462,450	2,669,200
Workforce	7,553,287	6,883,097	2,058,608	1,911,147
Employed	6,930,600	6,202,310	1,726,615	1,500,360
Labour force participation rate	83.2	72.3	83.6	71.6
Employment rate	91.8	90.1	83.9	78.5
Average income per worker	37,017	23,079	36,577	22,415
Total income	256,550,020,200	143,143,112,490	63,154,396,855	33,630,569,400

### Broad scenario objectives

There are five broad scenarios examined below. In each scenario, the labour force participation rate, employment rate and average earnings of the target group are raised to the level of the benchmark group by using the background data presented above. The first two address differential labour market experiences of immigrants compared to those born in Canada and serve as measures of the untapped potential of fully integrating immigrants into the labour force. The next two address the differential labour market experiences of women born in and out of Canada compared to males born in Canada and are an attempt at fully integrating women into the labour force. The final scenario addresses differential labour market experiences of women and immigrants by equating their opportunities to the born-in-Canada male profile and serves as a guide to the full tally on integrating immigrants and women into the labour force.

### Scenarios

#### 1. CLOSING THE IMMIGRANT INCOME GAP

##### Scenario I

###### Raise the labour market outcomes for foreign-born males to that of born-in-Canada males

Impact on size of labour force if foreign born male workers had the same labour force participation rate	(9,850)
Impact on number of employees if foreign born male workers had the same participation and employment rates	153,245
Impact on average incomes per worker if foreign born male workers had the same average incomes	440
Impact on total personal incomes after equating labour force and employment rates as well as average income per worker	\$ 6,432,394,448

##### Scenario II

###### Raise the labour market outcomes for foreign-born females to that of born-in-Canada females

Impact on size of labour force if foreign born female workers had the same labour force participation rate	18,684
Impact on number of employees if foreign born female workers had the same participation and employment rates	238,598
Impact on average incomes per worker if foreign born female workers had the same average incomes	664
Impact on total personal incomes after equating labour force and employment rates as well as average income per worker	\$ 6,502,830,864

#### 2. CLOSING THE GENDER INCOME GAP

##### Scenario III

###### Raise the labour market outcomes for born-in-Canada females to that of born-in-Canada males

Impact on size of labour force if females born in Canada had the same labour force participation rate	1,037,701
Impact on number of employees if female workers born in Canada had the same participation and employment rates	1,065,504
Impact on average incomes per worker if female workers born in Canada had the same average incomes	13,938
Impact on total personal incomes after equating labour force and employment rates as well as average income per worker	\$ 125,889,547,948

##### Scenario IV

###### Raise the labour market outcomes for foreign-born females to that of born-in-Canada males

Impact on size of labour force if females born in Canada had the same labour force participation rate	309,627
Impact on number of employees if female workers born in Canada had the same participation and employment rates	537,336
Impact on average incomes per worker if female workers born in Canada had the same average incomes	14,602
Impact on total personal incomes after equating labour force and employment rates as well as average income per worker	\$ 41,798,805,144

#### 3. CLOSING THE OVERALL DIVERSITY INCOME GAP

##### Scenario V

###### Raise everyone's labour market outcomes to that of born-in-Canada males

Impact on size of labour force if everyone had the same labour force participation rate	1,348,155
Impact on number of employees if everyone had the same participation and employment rates	1,589,973
Impact on average incomes per worker if everyone had the same average incomes	11,572
Impact on total personal incomes after equating labour force and employment rates as well as average income per worker	\$ 174,120,747,540

Sources: Statistics Canada 2001 Census, RBC Economics

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