Trends that count

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Consumers will decide who calls the shots

Does a labour shortage mean that workers will call the tune and consumers will pay the piper?

No!

Labour shortage or not, it will be consumers' ability to pay that will both call the tune and pay the piper, just as it has always been. Firms will be rewarded according to their ability to produce goods and services efficiently.

Certainly a labour shortage will mean improvements for labour market participants: unemployment rates will be low so the chances of finding a job that matches one's skills will improve. But other than that, a labour shortage in itself holds no justification for higher wages or better benefits packages. Only if productivity increases will higher levels of compensation occur, as the ultimate constraints on compensation are consumers' ability to pay and firms' ability to produce goods and services efficiently.

We only have to look at what happens when minimum wages, the cost of energy or interest rates increase to find evidence of what will happen as labour markets tighten. In fact, **BC Hydro**'s Power Smart Program, introduced to produce more useable electricity without building more generating capacity, provides a model for the Labour Smart programs that employers will implement.

In the short run, the scarcity of labour will mean some increases in labour prices. Some of this increase may be passed directly on to consumers in higher prices. These price increases, however, will lead to the reduction in the amount consumed and in the required output of firms and, in turn, less demand for labour. The firms and the workers whose product cannot compete in this smaller market will become unemployed. Some employed workers wages may go up, but fewer workers will be receiving wages.

Firms, wanting to stay in business, will look to the costs of production in order to survive. They will sell the same product at the same price but produce it more cheaply. Or they may lengthen waits for service, provide poorer service by less skilled workers or encourage self-service.

Other firms in the short run, and most firms in the long run, will not simply attempt to increase the price or reduce the costs for the same product, but will change the product and its production. These firms will change not only the ratio of labour to capital, but also the technology that governs how labour and capital work together: a labour shortage means labour must be used more sparingly.

One of the biggest long-run winners from the labour shortage will be business applications of technology. "Killer aps" have historically been proclaimed by geeks. In the future, they will be proclaimed by businesses looking for ways to replace labour that otherwise would be too expensive or too hard to find. The successful application will be one that allows very little expensive labour using a lot of capital (physical and digital) to replace a lot of relatively inexpensive labour that uses little capital.

Air Canada continues to provide examples that show the direction of responses to increasingly scarce supplies of labour. Its recent decisions to not pay travel agents commissions on tickets they sell, use Internet-only seat sales, provide personal ticket offices to its frequent flyers and employ express check-ins all reduce its aggregate use of labour. They push the work of selling and booking tickets into either the digital sphere or consumers' laps.

As Labour Smart programs are implemented, significant rewards will be offered to recruit, retrain and retain some workers. But all of the rewards will have to be earned in increased productivity: consumers cannot afford to pay the rewards without the productivity. We will soon see an era where employers offer daycare to get valued employees back sooner, provide private medical insurance to help employees queue-jump in the emerging two-tier health care system and introduce golden handcuff programs to keep workers from jumping to other firms.

They will do all of this and more, but not because there is a labour shortage: they will do it because, and only when, productivity gains justify it.

Shortages will make the labour market more competitive, with very competitive compensation packages offered in exchange for very competitive working conditions. Shortages will not bankrupt either firms or consumers. Rather, they will force a redefinition of how goods and services are produced. Labour will be used as sparingly as possible, with its physical and technological substitutes increasingly relied upon.

Consumers, labour and employers will all increasingly embrace technological substitution. It will reduce costs and queues for consumers; increase productivity and hence compensation for workers and ensure that firms survive to produce the commodities that consumers can pay for. ◆

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