Labor issues and COVID-19

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Abstract
The COVID-19 pandemic has prompted Canada and several other countries to impose an economic shutdown to prevent a deadly public health crisis from becoming much deadlier. In the agriculture and food sector, several hundred thousand restaurant workers have lost their jobs. The rise in unemployment, the closing of restaurants and schools, and social distancing have triggered demand reductions for certain commodities and foods and demand increases for others, bringing along changes in demand for inputs including labor. Canadian employers of temporary foreign workers (TFWs) are facing delays and additional constraints in recruiting, but so have US and European employers of TFWs. Rising food security concerns are making protectionist trade policies popular. Domestic and foreign firms may export less and do more foreign direct investment, inducing trade in jobs.

Keywords
agri-food supply chain, pandemic, temporary foreign workers, unemployment

Abstrait
Pour atténuer les conséquences de la pandémie sur la santé publique, le Canada et plusieurs autres pays ont adopté des mesures économiques draconiennes. Dans le secteur agroalimentaire, plusieurs centaines de milliers de travailleurs de restaurants ont perdu leur emploi. L’augmentation du chômage, la fermeture des restaurants et des écoles et la distanciation sociale ont engendré des baisses de demande pour certains produits de commodité et des produits transformés et des augmentations pour d’autres. Ces changements ont eu à leur tour des répercussions sur la demande d’intrants, incluant le travail. Les employeurs canadiens de travailleurs étrangers temporaires sont confrontés à des délais et des contraintes additionnelles dans leur recrutement, mais les employeurs américains et européens sont aussi confrontés à ce genre de problèmes. La sécurité alimentaire est une préoccupation grandissante qui alimente un courant de protectionniste. Les firmes canadiennes et étrangères pourraient faire moins d’exportation et davantage d’investissement direct étranger et ainsi échanger des emplois.

1 | THE (BLURRY) MACRO PICTURE

People from my generation and younger have not witnessed a worldwide economic contraction as large and as rapid as the one we are currently witnessing in 2020. During his March 28 daily press conference, Prime Minister Trudeau announced a weekly increase of 500,000 unemployment insurance (UI) claims. The situation is even worse in the United States. For the week ending March 28, 6.6 million UI claims were processed in the United States, adding to the 3.3 million claims processed during the
The severity of the economic consequences of the COVID-19 pandemic on the Canadian labor market depends on several unknown factors. There is much uncertainty about when and how economic restrictions will be relaxed in Canada and abroad. Who can predict when an effective treatment or a vaccine might be found? The rise in unemployment is distressing, but there is consensus that the extreme economic restrictions put in place are necessary to minimize the devastating effects of the pandemic on public health. Governments in developed countries were quick to announce assistance to soften the economic blow, with wage subsidies, monthly stipends for laid off workers, and loans to businesses lacking liquidity. However, as time passes, the consensus will erode as more and more people will demand that businesses and governments resume their normal activities. Sectors in which firms will be able to provide a safe environment for their workers should resume their activities more quickly. Plants with workers working side by side along production lines may need to run slower lines with fewer workers or install separators between workers. Perhaps having fewer workers working shorter shifts and having more shifts, thus extending business hours, might help maintain plant productivity. Managers will have to find creative ways to ensure the safety of their workers in order to jumpstart their transition after the shutdown. The extent to which the 75% wage subsidy will prompt employers to keep or rehire many of their employees remains to be seen. If successful, this program could make for a less chaotic transition to normalcy. Unlike transitions following natural disasters, our infrastructures will not need rebuilding, this should make for a more rapid recovery once the transition to normalcy begins. On the other hand, different countries have different pandemic curves and different labor markets. Some countries will recover faster than others, but, in a globalized world, the slower countries will slow down the faster-recovering countries.

2 | AGRIFOOD SUPPLY CHAINS AND COVID-19

Agriculture and food is one of the sectors of the Canadian economy least affected by the COVID-19 pandemic. This, however, does not mean that the pandemic has not brought an important set of challenges and hurdles for the agriculture and food sector, but other sectors, like tourism and travel, will fare far worse. Most governments around the world have taken actions to ensure that supply chains continue to function as efficiently as possible under these most trying circumstances. Businesses involved in farm input supplies, primary agriculture, food manufacturing, food distribution, and food retail, were all ordered to operate as best they could during the pandemic.1 Non-essential businesses had to stop their activities, and this includes most restaurants. The ones still operating offer only take-out and delivery services. Figure 1 displays the evolution of employment for various

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1 Unfortunately, Russia, Ukraine, and Kazakhstan have announced restrictions on wheat exports. Similar behavior was observed in response to the 2008 and 2011 price spikes in commodity prices. Ivanic and Martin (2014) argue that the use of trade policy to stabilize domestic prices ends up increasing the volatility of world prices.
parts of the agriculture and food sector. There were roughly 2.4 million jobs in Canada’s agriculture and food sector, and most were in food services. The most devastating hit on workers in Canada’s food supply chain is thus downstream, on restaurants workers. Restaurants Canada, an industry advocacy group, estimates that 800,000 restaurant workers have been laid off because of the pandemic and that at least one out of ten restaurants will never reopen.\(^2\) Many of these workers will need to draw on UI benefits or Canada Emergency Response Benefits (CERB).\(^3\) Because social distancing will be practiced for months to come, the demand for restaurant workers will recover quite slowly. Workers in food retail and distribution fare better. Most of the workers in grocery stores and distribution centers will benefit from temporary pay increases/risk premiums and large retailers are recruiting more part-time workers, including security personnel.\(^4\) The demand for truck drivers was strong before the pandemic, driven by low unemployment and favorable economic prospects. However, the high job vacancy was also high before the pandemic, with long-haul routes a harder sell (HR Canada, 2020). The economic slowdown will reduce the demand for truck drivers and the likelihood of a wage supplement even though long-haul drivers must contend with fewer options when it comes to restaurants and restrooms.

Since supply chains are global, Canada’s production capacity depends on economic restrictions imposed not only in Canada but also abroad. Logistical hurdles have emerged in many areas of the world, forcing agricultural commodity traders to contend with inconsistencies in the measures taken by other local, state, and federal authorities as they attempt to limit the spread of COVID-19. There have been forced delays in moving agricultural goods from inland sources to points of export in several countries. In China, the unloading of ships is delayed due to a 14-day quarantine on incoming ships. This has provoked a scarcity of containers in North America and Europe, which is further slowing down Canadian exports and imports (Skerritt, 2020). Farm input suppliers may have to layoff workers if components made abroad are not available. Farm supply bottlenecks may interfere with the capacity of farmers to perform time-sensitive tasks, like planting and harvesting.\(^5\) The same is true for food processors relying on imported commodities.

COVID-19 can also affect the ability of food processors, distributors, and retailers to operate if too many workers become ill. Already, some slaughterhouses have closed or reduced their activities temporarily (e.g., Olymel in Yamachiche, QC, and Harmony Beef, AB). Temporary closures are always costly, but they are “manageable” as long as nearby plants can pick up the volume foregone by shutdown plants. Temporary shutdowns create inevitable delays in processing, but this happens when there is a labor strike or lockout in a plant, for example. Reallocation of capacities has its limits. Plant capacity can vary greatly, and the temporary shutdown of a very large plant may be too much for smaller nearby plants to fully absorb. Having several plants of a given subsector within a province shutting down at the same time would be much more difficult to manage. It is true that most commodities can be transported over long distances, but this occurs when there are economic incentives to do so. There has to be unused processing capacity and high enough prices to make it worthwhile. As a result, live animals might have to be locally destroyed and produce may have to be composted or buried in a safe fashion according to strict protocols.

Plant shutdowns are extreme, last resort actions. Like hospitals, some processing plants will have to operate understaffed and implement mitigating measures. Le Chatelier’s principle tells us that processing plants are and will be operating below their normal capacity. Thus, even in the absence of plant shutdowns, processing capacity may fall short at some point and commodities may go to waste.

On the bright side, people working in food processing plants are used to extensive sanitation and security measures, which intensified after September 11, 2001. On the other hand, workers’ alertness may falter once they leave the plant to be with family members who may not be as careful as they are. Workers most recently hired are likely more prone to oversights when it comes to safety and sanitation rules and practices. Finally, labor supply disruptions can arise if workers feel that the protocols put in place to protect them from COVID-19 are deficient and refuse to work.

The demand for labor by food processing plants is already impacted by the abrupt changes in the nature and scope of products demanded by consumers because of the closing of many food service establishments. For example, consumers are eating more meals at home, are trying to minimize trips to the grocery store, and those who have lost their jobs or who are working reduced hours have fewer dollars to spend on food. The demand for labor in primary food processing plants is bound to increase and that

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2 Restaurants have suffered inventory losses and must support non-trivial recurrent fixed costs like rent and heat expenses during the pandemic. A long period with no sales or reduced sales could bankrupt them.

3 CERB offers $500/week for up to 16 weeks to workers who expect to be out of work because of COVID-19 for at least 14 days. For details see https://www.canada.ca/en/revenue-agency/services/benefits/apply-for-cerb-with-cra.html.

4 Sobey’s Hero program provides an extra $50/week to all employees and a $2/hour wage increase to employees working more than 20 hours per week. The program began March 8. Metro workers will receive an extra $2/hour between March 8 and May 2. Loblaw’s is also paying an extra $2/hour during the pandemic. Temporary measures can become permanent. A speedy post-pandemic recovery would make this more likely.

5 A labour strike impeded train transportation in the Fall of 2019, creating a propane shortage in Eastern Canada when propane was needed to dry crops.
further processing plants is likely to go down. Plants producing products with a high-income elasticity will need to let workers go. Agropur, a dairy cooperative, has already reduced its workforce. Fine cheeses are most often enjoyed when shared with friends and relatives; therefore, imposed social distancing has reduced demand. The demand for fluid milk has also fallen due to school and restaurant closures. Donations of milk and cheese to food banks cannot absorb all the current excess supply. Milk is also being dumped in the United States in spite of the larger demand for fluid milk in grocery stores. An excess supply of fresh fruits and vegetables has also been induced by the closing of restaurants, schools, and farmers’ markets. US fruit and vegetables growers have asked their Federal government to purchase $1 billion in produce that can no longer be marketed through grocery stores. The excess supply problems can turn into excess demand problems if developed countries were to face agricultural labor supply shortages over the next few months. In contrast, anecdotal evidence suggests that the demand for staples like eggs, beans, pasta, rice, and orange juice is stronger than usual.

Primary agriculture accounts for a very small share of employment in developed countries, 3% for the 90th percentile countries versus 78% for the 10th percentile countries when countries are ranked in terms of income (Lagakos & Waugh, 2013). Agriculture has become increasingly capital and land intensive over time in developed countries like Canada, with fewer and larger farms accounting for an ever-increasing share of overall production. The ratio of agricultural and non-agricultural labor productivities is much higher in developed countries than in developing ones. In the current context, this is comforting for economic and public health outcomes in Canada. However, there are certain farm-level productions that are more labor-intensive that have relied increasingly over the years on temporary foreign workers.

3 | TEMPORARY FOREIGN WORKERS

Recruiting domestic workers for Canadian fruit and vegetable farms, greenhouses, and nurseries has proven difficult, especially in recent years of low unemployment. Temporary foreign workers (TFWs), primarily from Mexico, Guatemala, and Caribbean countries, are recruited each year to deal with these labor shortages, accounting for as much as one-third of all workers employed in these subsectors (Statistics Canada, 2019). Canada created its Temporary Foreign Worker program (TFWP) in 1973 to address labor shortages for skilled workers, seasonal agricultural workers, and live-in caregivers. The TFWp has always been controversial; therefore, it has undergone significant changes over time. Employers involved in “primary agriculture” can recruit temporary foreign workers under the seasonal agricultural worker program, the TFWp agricultural stream, the TFWp low-wage stream, and the TFWp high-wage stream. Figure 2 shows that the number of TFWs entering Canada has been on the rise, with over 60,000 TFWs working in primary agriculture in 2017. A shortage of farmworkers could have a significant adverse effect

6 See https://www.greenhousegrower.com/crops/vegetables/grower-groups-call-for-usda-to-buy-1-billion-in-perishable-foods/

7 According to table 1 in Bier (2020), the share of labor on input expenditures is 43% for greenhouses, nursery, and floriculture, 39% for fruit and tree nut farming, 29% for vegetable and melon farming. In contrast, labor costs make up only 5-6% of all input costs on oilseed and grains farms, beef cattle ranching, hogs and pigs farms, and poultry and eggs farms.

8 The TFW program was criticized for allowing the entry of foreign workers even when the evidence of regional or occupational labor shortages was weak, thereby contributing to unemployment (e.g., Gross, 2014). There is a large literature documenting employers’ abuses of foreign workers and challenges faced by TFWs, like limited access to health care services (e.g., Salami, Meharali, & Salami, 2015). Employment and Social Development Canada (2016) reviews many of the problems, like housing, and discusses the potential solutions.
on the production, import, and export of fresh and processed vegetables and fruits. Canada is a net exporter of fresh, frozen, and canned vegetables with a 2019 trade surplus of $1.3 billion and a net importer of fresh, frozen, and canned fruits with a trade deficit of $5.3 billion in 2019. For many productions, there are exports during the summer and fall and imports during the rest of the year. Most of the TFWs recruited in the past have worked in Ontario, Quebec, and British Columbia. A worker shortage would have regionalized consequences.

Under current COVID-19 circumstances, it is difficult to gauge how many temporary foreign workers may be incapacitated and/or unable and/or unwilling to travel. There have been announcements about TFWs departure postponements, but it remains to be seen whether these early failures will persist in weeks to come. TFWs able to travel will have to be in quarantine for 14 days. Because wages must be paid during the quarantine and workers must be provided with accommodation and meals, a subsidy of $1500 per TFW was announced to ease the extra burden on employers (Harris, 2020). Once cleared to work, the probability of having several TFWs incapacitated at once is non-trivial since most live in close quarters and travel in groups.

This situation is not as dire as it might seem. Given that CAE, a flight simulator company in Montreal, has developed a ventilator prototype in 11 days and is training workers to produce 10,000 ventilators in 3 months, it may also be possible for farmers to recruit and train local workers from those who are laid off, those working part-time and thus not qualifying for CERB and UI, as well as students who are out of school, to help with planting and harvesting. Domestic “first-timers” cannot be as productive as experienced TFWs and generally have higher reservation wages and more acute safety concerns. However, the required 14-day quarantine increases the cost of TFWs, which means that a wage premium could be paid to local workers.

Labor costs will be higher for Canadian fruit and vegetable farms, greenhouses, and nurseries, but labor cost inflation will most likely be worse in other developed countries with whom Canada competes and/or buys from, depending on the time of year. First, it should be harder for US farms to recruit illegal workers who are not already in the United States. Second, agricultural guest workers recruited under the H-2A visa program in the United States must be paid a minimum wage that exceeds every state’s minimum wage by an average of 57% (Bier, 2020). This explains why, in spite of the growth in the number of H-2A jobs (mainly on fruit, vegetable, horticultural, and tobacco farms) between 2005 and 2019 to slightly exceed 250,000 workers, agricultural guest workers made up only 10% of all US full-time agricultural jobs (Bier, 2020). Third, confusing announcements may reduce the US supply of Mexican workers. The US State Department announced on March 24 that the processing of H-2A visas in Mexico was suspended. Two days later, it was announced that the processing of H-2A visas in Mexico was resuming and that interviews were being waived for workers meeting some criteria to speed up the process. Five states require large farms to pay overtime when the number of hours worked by foreign workers exceeds a daily or a weekly threshold. In California in 2020, farm employers with 26 or more employees must pay overtime wages (1.5 times the usual wage) to workers after nine hours a day or 50 hours a week. Statistics reported by Custa and Martin (2020) indicate that 33% of California crop workers worked more than 50 hours a week in recent years and that more farmers may have to pay overtime to deal with labor shortages in 2020. The treatment of out-of-state workers varies from state to state, with some states imposing 14-day quarantines, some imposing quarantines for visitors coming from “hot spots,” and yet others imposing none. States with restrictions will find it harder to recruit foreign or out-of-state workers.

Because of COVID-19 in Western Europe this spring, Eastern European workers were prevented from entering when asparagus needed to be picked. Foreign workers already in Holland had no flowers to pick because of the collapse of the flower market. Now that borders are opening for TFWs, many do not want to go to countries in crisis. The risk of becoming sick, not being adequately treated if sick, and being forced into quarantine once they return to their own country are factors contributing to higher TFW reservation wages (The Economist, 2020). In this light, Canada’s agricultural labor problems may not be worse than those experienced in other countries. Higher labor costs contribute to cost-push inflation, while lower fuel costs do the

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9 It was reported that 14 TFWs working in a nursery in BC tested positive for COVID-19, forcing 63 other TFWs and 12 local workers to isolate. For details, see https://ipolitics.ca/2020/04/01/the-sprout-covid-19-outbreak-among-foreign-workers-at-west-kelowna-farm/ or https://globalnews.ca/news/6765729/temporary-foreign-workers-coronavirus-west-kelowna/.

10 The raison d’être of TFWp is the high reservation wage of domestic workers relative to TFWs. In a tight labor market, domestic workers typically prefer a job in line with their educational background, close to where they live, and with flexible hours. Studies reviewed by Salami et al. (2015) suggest that many TFWs have tolerated poor housing and sanitation and limited health care access to maintain employment in Canada.

11 Employers must also pay for the transportation of TFWs between their country of origin and their place of work in Canada. Part of these costs can be recovered through payroll deductions, except in British Columbia. Employers must also arrange transportation between the workplace and the location of accommodation. For additional requirements, see https://www.canada.ca/en/employment-social-development/services/foreign-workers/agricultural/seasonal-agricultural/requirements.html.

12 Foreign workers are expensive in Europe too. The Economist (2020) reported that the going rate for Bulgarian agricultural workers working on Belgian farms is 160 euros ($240) per day.
opposite. Fresh fruits and vegetables are perishable products with volatile prices. At the moment, prices are low because the higher demand from grocery stores cannot make up for the drop in restaurants and institutional demand. Demand for fruits and vegetables will further fall relative to normal because unemployed workers in Canada and in the United States will favor cheaper calories. In the end, higher labor costs may not translate into higher prices.

4 | WHAT’S NEXT?

The pandemic has spread rapidly in Canada’s metropolitan areas, prompting the imposition of drastic, unprecedented mitigation measures. Rural areas have fared much better. As of this writing, Montreal is averaging 130 COVID-19 cases per 100,000 persons while rural Chaudière-Appalaches is averaging 31 cases per 100,000 persons. Agriculture and food production and distribution have continued operating with remarkable normalcy amidst rapid, worldwide economic decline. Agricultural labor concerns pale in comparison to what is happening at the macroeconomic level. If unemployment remains high for many months to come, it will end up putting downward pressure on wages. A quicker recovery in the United States could induce an increase in interest rate, forcing Canada to follow suit and making its public debt more expensive to manage. There is no such thing as a free lunch.

In agriculture and food, the most pronounced changes might arise from changes in consumer demand and protectionist trade policies. Many people have discovered or re-discovered home cooking. How long will consumers buy whole chickens instead of seasoned chicken parts and continue to make their own bread? It is not clear whether this is the beginning of a solid trend or a short-lived pandemic fad. When will it be safe (or when will we feel it be safe enough) to eat again in restaurants? In the meantime, it will be difficult for the 800,000 laid off restaurant workers to find alternative employment.

Most worrying is a return to protectionism trade policies. As the length of the global economic shutdown increases, bottlenecks in supply chains and opportunistic actions by governments are becoming more likely. Alarmist calls for protectionist policies promoting self-sufficiency in medical equipment, drugs, energy, and food already have great populist appeal. Support for food-security-motivated special waivers could gather momentum at the WTO. Such waivers could become very disruptive by allowing importing countries to increase import tariffs beyond their Most-Favored Nations commitments, thus adding much uncertainty in the world trading system. If trade in agricultural commodities and food ends up being impeded by higher tariffs, Canadian and foreign firms will engage in tariff-jumping through foreign direct investment to serve distant markets. Rather than trading goods, firms will trade in jobs.

Last but not least, the prospects of agricultural and non-agricultural workers in developing countries is bleak. In Ethiopia, agricultural workers make up 85% of the workforce, which is coupled with issues of providing health services in rural areas, a challenge even in Canada. In developing countries with very large cities, informal workers are particularly vulnerable to contamination and to food insecurity if they become sick and cannot work. Food supply chain disruptions could trigger rapid increases in urban food prices and social unrest. India has been enforcing an economic shutdown since March 25. The unemployment rate in urban areas has reached 30.9%, forcing hoards of thousands of migrant workers without food and money to literally walk back to where they came from (Dev, 2020).

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13 PBH (2015) reports that 82% (90%) of vegetables (fruits) consumed in the United States are from home and that restaurants account only for 10% of vegetables consumption, 2% of fruits consumption, and 3% of fruit juices. The size of the institutional demand (which includes schools) relative to restaurants is larger for fruits.

14 Blisard, Stewart, and Joliffe (2004) show that low-income consumers spend significantly less on fruits and vegetables and that their spending is less income-sensitive than that of high-income households. Allcott et al. (2019) contend that nutritional inequality between rich and poor is primarily due to differences in preferences driven by factors like education and nutritional knowledge. This should not be construed to mean that the rise in unemployment will not impact the aggregate demand for fruits and vegetables. The pandemic drop in income for many Canadian households is very large, not marginal, and it is not limited to the poorest households.
