PUBLIC POLICY SOURCES

NUMBER 84 / SEPTEMBER 2005

Immigration and the Welfare State in Canada: Growing Conflicts, Constructive Solutions

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A FRASER INSTITUTE OCCASIONAL PAPER

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Printed and bound in Canada. ISSN 1206-6257; ISBN 0-88975-224-9

Date of issue: September 2005

Abstract

The paper[1] cites official statistics showing that recent immigrants on average have lower incomes than comparable Canadians even after 10 years' residence in Canada. As a result of the low income, the progressive income tax structure of the Canadian welfare state and the universal availability of government benefits results in substantial transfers from other Canadians to these immigrants. A tentative estimate of these transfers to immigrants who arrived between 1990 and 2002 values them at $18.3 billion in 2002.

This paper examines the causes of the decline in the economic performance of recent immigrants and blames the immigrant selection process used by the government of Canada.

The paper proposes the creation of a new immigrant selection process that would reduce the burden on Canadian taxpayers and reduce the hardships imposed on immigrants who cannot find employment to which their education qualifies them.

The proposed selection process is modeled after that used successfully under the NAFTA treaty. Under this new system, foreigners can enter Canada on renewable, temporary work visas only if they have a valid employment contract. These temporary work visas eventually lead to landed immigrant status for the workers and their families.

1 I thank Martin Collacott, Gordon Gibson, and Mark Mullins for many useful suggestions that greatly improved the quality of this study. Michael Walker, the Executive Director of The Fraser Institute, first suggested to me the extension of the NAFTA system for admitting temporary workers to allow foreign workers to enter Canada from all countries, which forms the basis of the policy changes recommended here. Niels Veldhuis of The Fraser Institute has provided me with many economic data used in this study. I also thank the John Dobson Foundation for its financial support during the time that I worked on this paper.

Executive Summary

The immigrant selection process used by the Government of Canada is in dire need of fixing. Many highly educated recent immigrants cannot find jobs in their professions. Statistics Canada shows that average incomes of recent immigrant cohorts are well below those of Canadians with similar demographic characteristics, even 10 years after their date of immigration. These facts are important because Canada has a pervasive welfare system and it is no longer true that immigrants do not affect the incomes of Canadians directly.

Canada's welfare system relies on a highly progressive personal income structure and provides universally accessible free government benefits. Because of the low incomes of immigrants, this system has resulted in substantial net transfers of taxpayers' money from Canadians to the recent immigrants. These costs are estimated to be $1.4 billion in the year 2000 for the cohort of immigrants that arrived in 1990. For all of the immigrants who arrived during the 13 years before 2003, the cost in 2002 alone is estimated to be $18.3 billion. Such costs have also been noted in Europe's Nordic states, which are known for the pervasiveness of their state welfare systems. Observers there note that the welfare state is incompatible with mass immigration and policies are enacted to curb the latter.

Government employees and academics have studied the reasons for the low incomes of recent immigrants in Canada. The findings of these studies are still tentative, but point to the large numbers of immigrants who bypass the government screens that are designed to allow entry only to foreigners likely to be economically successful. Those bypassing the screen include large numbers of family members and refugees, many of which have low earnings capacity.

There are other causes of low average incomes of recent immigrants. They include the wage-depressing effects their numbers have on the incomes of all workers with low skills in the country; the inability of many immigrants to find work for which their high education qualifies them; and the insensitivity of annual immigration rates to labour market conditions in Canada, a policy of relatively recent origin.

This paper recommends a continuation of the efforts to achieve a better use of the high skill levels of the recent wave of educated immigrants. However, its main recommendation involves a fundamental reform of Canada's immigration selection process to prevent the need for such measures and to avoid large costs to taxpayers in the future.

The essence of the proposal is that foreigners be allowed to enter Canada for an extended period only on a temporary work visa, which is issued to the holder of a valid offer for employment in specified occupations in Canada (or, alternatively, at a rate of pay above a specified minimum).

The work visa should be renewable and can lead to regular, permanent immigration status after a certain length of time. Unemployed holders of temporary work visas would face deportation. Private firms in a public-private-partnership arrangement would collect and maintain information needed by government to enforce the regulations. As taxpayers, the holders of temporary work visas are entitled to all government benefits available to Canadians.

The proposed reform of Canada's immigrant selection process is based on the one used successfully under the NAFTA treaty. Its main feature is the replacement of the judgments of government employees issuing visas with the judgments of private employers about the economic value of potential immigrants. The government remains involved by determining the occupations or minimum income requirements needed for qualifying employment contracts. It also remains involved in enforcing the proposed rules and deporting those who do not meet specific work requirements.

Introduction

"For the average male immigrant who came to this country in the 1970s, life was good. Within five years, his chances of being unemployed were lower than those of Canadian-born men. Within 10 years, his yearly earnings caught up to those of the typical Canadian.

"But the past two decades have seen a dramatic reversal of fortune.

"Today, 10 years after arriving, the average immigrant earns just 80 percent of what a Canadian-born worker takes home. According to 2001 census data, recent immigrants—those living in Canada for less than five years—suffered an unemployment rate of 12.7 percent, considerably higher than the 7.4 percent rate among the Canadian-born.

"Even though immigrant men are arriving with much more education than their predecessors, their inflation-adjusted earnings fell an average of seven per cent between 1980 and 2000. That fall was not the product of a poor economy, since the earnings of Canadian-born men went up seven per cent during the same time."

—Extract from Andrew Duffy, "Fears of an Underclass" *Toronto Star*, September 28, 2004.[2]

"We are in awe at the ineptitude of the Canadian immigrant selection process."

—Robert Birrell, Director of the Centre for Population and Urban Research at Monash University in Melbourne, Australia *(via e-mail)*

The first quote aptly summarizes the basic problem created by Canada's immigrants. The second quote explains the simple, basic cause of the problem: The current system used in the selection of immigrants over approximately the last 25 years is severely flawed.[3]

The first part of this study shows that the poor economic performance of these immigrants results in a substantial burden on Canadian taxpayers because of the progressivity of the personal income tax structure and the universality of access to government benefits.

The study's second part reviews the ongoing work of academics and government agencies to explain the relatively poor average economic performance of recent immigrants.

The third part proposes fundamental reforms to Canada's immigrant selection process. The reforms proposed include continuing Canada's traditional welcome to immigrants but replacing government agents with private sector employers as the judges of which foreigners are likely to be economically successful in Canada.

2 The author of this quote is the 2003 recipient of the Atkinson Fellowship in Public Policy. The *Ottawa Citizen* reporter, formerly with the *Star*, recently completed his year-long study of the relationship between immigration and education in Canada.

3 I have used the first quote from a popular Canadian newspaper in part because it is known for the liberal bias of its content, so its unease is a signal to readers that the results reported are now of concern to a wide range of the Canadian public. The statistics the article cites come from Statistics Canada. The second quote comes from a well-known academic specializing in immigration issues. It shows that Canada's problem is well known abroad, even though in Canada its public discussion has long been stifled by the code of political correctness. The first quote suggests that perhaps this code is beginning to be violated. The present paper is designed to continue this process.

PART I—The Problem: Immigration and the Welfare State

Chapter 1: The Economics of Immigration and the Welfare State

Most Canadians believe that immigration is "good for Canada." Often, at a very personal level, they support liberal immigration policies because their parents or grandparents were immigrants and, if these ancestors could not have come to Canada, they would not be here and enjoying the many benefits that the country offers.

The classical model of the economic effects of immigration strengthens these views about the benefits from liberal immigration.[4] The immigrants clearly benefit, for otherwise they would not have moved to Canada from whatever country and conditions they left. They do not lower the incomes of Canadians already here since the new arrivals tend to earn incomes equal to what they contribute to output.[5]

The Canadian economy and society as a whole gain by what economists call "externalities" due to immigration. Thus, immigrants increase opportunities to trade. To some extent they foster greater specialization of skills and higher productivity that comes with it. Immigrants also increase the size of the market for goods and services, which often results in productivity-enhancing economies of scale. Landowners enjoy increases in the value of their holdings as the immigrants add to the demand for that scarce resource. The diverse cultural backgrounds of the immigrants enrich what is often called the Canadian "cultural mosaic" and overall quality of life.

In the classical model, government operates at the minimum level necessary for the efficient operation of the economy by providing free basic education, internal security, justice services, and protection from foreign threats. In this model, the taxation system relies mostly on revenues from tariffs, and property and sales taxes, so that every immigrant pays taxes more or less in proportion to the consumption of goods and services they buy.

The fiscal burden of liberal immigration

These unambiguously positive results of immigration have become much less so with the development of the welfare state, which uses progressive personal income taxes, and capital gains and business income taxes to equalize income distribution. Almost all new arrivals in Canada have earnings for a number of years that are below their eventual peak earnings. In

4 See Grubel and Scott (1966) for a more detailed exposition of this classical model of the economics of migration, which was applied to the study of the brain drain, an issue of great concern throughout the world in the 1960s and 1970s. The model became knows as the "internationalist model of the brain drain."

5 This statement is based on a widely accepted economic theory known as the marginal productivity theory of wages. However, large-scale immigration of low-skilled workers tends to depress the wages of native workers with such skills. At the same time, such immigration raises the returns to capital and the owners of land. This income redistribution has sometimes been used to argue against large-scale immigration of low-skilled workers, but it appears never to have influenced Canadian immigration policies. In the following analysis the possible income-redistribution caused by the large-scale immigration of low-skilled workers is disregarded since its implications involve largely non-economic and political judgments about the social costs of such income redistribution and my analysis focuses on the effects of immigration on average incomes.

the case of recent immigrants, these peak earnings are below the incomes of comparable other Canadians for the rest of their lives in the country. As a result, under the progressive income tax system, they pay proportionately less taxes than do other Canadians, on average. A very large fraction pays no personal income taxes at all.

The other important aspect of the welfare state is the pervasive program of social benefits, such as welfare for the indigent, free health care for the sick, and pensions for the elderly poor. Immigrants with the lowest incomes are automatically eligible for these costly social benefits. In addition, the welfare state results in much costly expenditure to produce services specifically for recent immigrants.

The low taxes paid by a large number of immigrants and the cost of the social benefits they consume represent a fiscal burden on Canadian taxpayers and lowers their living standards. As a result, there exists a conflict between liberal immigration policies and the viability of the welfare state. This problem simply does not exist under the assumptions underlying the economic case for liberal immigration spelled out above.

Other differences with the classical model

Immigration creates another set of difficulties for the welfare state because immigration interferes with the attainment of several important policy objectives.

One of these objectives is the elimination of poverty. Immigration of individuals that end up with low incomes has made it more difficult to lower poverty rates. In fact, as will be shown below, recently immigration has increased poverty rates that otherwise would have fallen.

Some other assumptions of the classical model no longer hold in the twenty-first century. For instance, there are no more benefits from scale economies in production because flourishing international trade encouraged by low transportation costs and free trade agreements allows countries to reap all available scale economies without needing a domestic market of great size. At the same time, increasing congestion and pollution caused by the population inflated by immigration imposes new costs on the existing population.

The low costs of travel, communication, and the growing homogeneity of cultures around the world have decreased the benefits from cultural diversity in Canada itself. The enrichment of Canadian culture through more immigrants from diverse cultures may well have low marginal benefits, given the already existing diversity.

Benefits of population growth?

A new argument has been developed recently in support of liberal immigration policies, which is not found in the usual formulation of the classical model. This new argument is that population growth in itself provides positive externalities that are different from economies of scale and the benefits from increased opportunities from trade. For example, growth facilitates adjustment as some industries decline and others grow. In a growing population, young and dynamic persons represent a larger proportion than the old so that the entire economy and society is more dynamic.

However, this analysis of gains from a growing population is of questionable validity. It is true that a growing population provides benefits for the existing social benefit system that relies on pay-as-you-go models of payment and under which the young pay taxes to finance the benefits for the older generation. During the transition from high to low population growth, the tax burden on the young grows, and in some forecasts reaches levels so high that they are believed to threaten the very existence of the social programs.

This benefit appears to be especially strong since the fertility rate of native-born Canadians has been

falling since the 1960s. At its present level, the fertility rate threatens to stop all population growth within a few decades and will then cause an absolute decline in Canada's population. Immigration in principle can keep population growth positive, and thus alleviate the costs associated with a stagnating or decreasing population in Canada.

The preceding positive assessment of benefits flowing from a growing population fed by immigration is of questionable value for a number of reasons. First, it is not at all clear that a stagnant or even declining population causes economic problems. What counts for human welfare is the level of per capita income, which is not threatened by reduced population growth. A reduced population growth may in fact raise per capita income.

A declining population will mean an adjustment in the mix of goods and services that the economy produces. The demand for some occupations, such as construction, will shrink, while the demand for other occupations, such as health care and recreation, will increase. But since the demographic changes develop slowly, the adjustment problems will be small, especially if they are foreseen properly by the private sector, and if governments do not interfere with them through the use of inappropriate policies.

Second, studies have shown that the maintenance of the present ratio of working-to-retired persons requires annual immigration rates equal to three percent of the population in most advanced economies. Such immigration rates are likely to result in serious problems with absorption and adjustment that are certain to encounter strong political opposition. Therefore, immigration is not likely to be a politically acceptable solution to the problem of unfunded liabilities of Canada's public pension and health care systems.

Third, using immigrants to overcome the problem of the aging population postpones rather than solves the basic problem. Experience has shown that soon after their arrival in Canada, immigrants who come from countries with traditionally large families reduce their fertility to the low levels of the Canadian-born population.

Classical incentives for migrating

The classical model of migration on which the views in favour of liberal immigration policies rest also considers the motives of individuals to move to another country. The positive driving forces behind the migration decision are expected higher incomes, greater freedom, security and social conditions, and similar considerations, all modified by uncertainties about their level and speed of attainment. These benefits are reduced by the expected cost and risk of travel, often the need to learn another language, the loss of support in case of economic and health problems from families and friends, the loss of familiarity with social and cultural customs, and so on. Only when benefits exceed costs is the decision made to go ahead and migrate.

During the nineteenth century and before, the estimates of benefits and costs, properly adjusted for risk, resulted in low and relatively stable rates of emigration except under certain unusual conditions, when emigration rates soared. Such conditions historically have been economic recessions, war, domestic political instability, persecution, famine and similar developments that saw waves of emigration from Ireland, Britain, Germany, Poland, and other mainly European countries. During that century, Canada received a certain share of the migrants from these countries and the result was a fairly steady flow at rates that created no serious adjustment problems, given the endogenous growth of the Canadian population.

On occasion, Canadian policies in pursuit of economic goals created special incentives to immigrants. For example, in the late 1800s, the building of the transcontinental railroad created a demand for construction labour, much of it coming from China and Japan. Also during that time, the prospect of free

land for settlement granted by the builders of the railroad resulted in the immigration of many settlers. People from the Ukraine and Poland dominated this wave of immigrants. During the late 1960s and early 1970s, Canada granted income tax concessions lasting two years to professors from abroad. The policy was designed to foster the size and quality of Canadian universities and reduce the dependence of Canadians who wanted to pursue graduate degrees on the United States, the United Kingdom, and France.

The new incentives

During the last half of the twentieth century and into the present, the migration incentives changed dramatically. Labour incomes in Canada were higher than in the developing countries of Asia, Africa, and Latin America by a much bigger margin than had existed in history when largely Europeans settled Canada. The cost of transportation and the risks associated with it dropped dramatically. The establishment of a wide and generous social security net and progressive income taxation further increased the income gains from immigration to Canada. At the same time, the government removed the previously existing rules that favoured immigrants from Europe and the United States on ethnic and cultural grounds.

As a result of these developments, the incentives to migrate to Canada from Asia, Africa, and other developing countries have become stronger than they have ever been in the past. At the same time, the supply of potential immigrants is virtually limitless, given the size of the population in these developing countries, in particular India and China, relative to Canada's and the country's absorption capacity.

The recent over-supply of immigrants has produced the need and opportunity to select only immigrants who can be expected to make a positive economic contribution and who are not likely to impose burdens on Canadian taxpayers. The analysis below shows that unfortunately, the selection process that the government of Canada is using has failed to work properly. The average incomes of immigrants in recent decades have been below those of earlier cohorts of immigrants by so much that they impose a heavy burden on Canadian taxpayers.

The main objective of the following chapter is to present statistics that document the poor economic performance of recent immigrants.

Chapter 2: The Economic Performance of Recent Immigrants

This chapter presents statistical evidence on the relatively poor economic performance of recent immigrants, drawing mainly on the detailed analysis done by reputable economists working in universities and for the government of Canada, who in turn have relied mostly on data taken directly from publicly available data produced by government statistical offices.

The most important of these data come from censuses, which are taken every 10 years in the first year of each decade. Many of the studies reviewed here use samples of 5 percent of the population that contain detailed answers to questions on income and basic demographic characteristics of individuals and families. Some statistics draw on smaller censuses that take place very 10 years in the middle of every decade.

It is important to note that the statistics used in this section involve *averages* of groups of immigrants in comparison with averages of groups of other Canadians. The use of such averages in drawing generalizations about groups of individuals and in developing policies is often criticized. A typical issue raised is that there exist persons known to the critic, possibly referring to his or her own conditions, who have done better than the average.

Such observations, while undoubtedly true, do not invalidate the calculation of the average. Nor do they invalidate the use of group averages in the design of policies. Small samples and especially highly selective samples drawn from knowledge of a few individuals cannot serve as a rational basis for government policies.

Table 1: Earnings of Immigrant Men as a Percent of Earnings of Canadian-born Men

Years since Immigrants' Arrival	Census of 1980	Census of 1990	Census of 2000
1	72	63	63
5	92	77	77
10	100	90	80

Source: Worswick (2004), which cites Statistics Canada Census Date Release of March 11, 2003.

Earnings of recent immigrants and other Canadians

Table 1 summarizes the most basic set of information on the economic performance of recent immigrants. It shows the average earnings of immigrant men as a percentage of the average earnings of Canadian-born men in the first, fifth, and tenth year after the arrival of the immigrants in Canada for the three years 1980, 1990, and 2000.

The first important fact revealed by the data is that the immigrants' earnings become more equal to those of native-born Canadians the longer the immigrants have been in Canada. This phenomenon is explained by the fact that the immigrants have perfected their knowledge of English or French, become familiar with labour market conditions, adapted their skills to local demands, and established a record of work and personal qualities to back their search for better employment.

For example, the second column of the table shows the results from the 1980 census. In that census, the average earnings of immigrant men who had been in Canada for one year were found to be 72 percent that of Canadian-born men. These earnings ratios rose to 92 and 100 percent for immigrants in Canada 5 and 10 years respectively. The other columns show the same progression of immigrants' relative incomes as a function of the time they have been in Canada.

The second, and for the present purposes most important fact revealed by the data in table 1, is that the percentage earnings of immigrant men relative

to those of Canadian men for every one of the three lengths of stay in Canada have fallen through time. Consider the bottom row concerning immigrants in Canada for 10 years. In the 1980 census, their earnings were equal to those of Canadians. In 1990 the 10-year immigrant men had reached 90 percent of the earnings of their Canadian counterparts. Crucially, by 2000, the figure had fallen to 80 percent. Gaps of 20 percent in the mean income of immigrants means that numerically a large proportion of them have incomes below the average income of the rest.

See appendix A for additional data on the economic performance of immigrants belonging to different demographic groups. These groupings involve men and women in different age groups and with different levels of education, comparing 1980 with 2000 census data. For example, the appendix table shows that between 1980 and 2000 the average real income of Canadian men with university degrees aged 16 to 64 rose 10 percent while the incomes of recent immigrants with the same characteristics *fell* 13 percent. In the class of Canadian-born women with the same educational attainment and age, the increase was 11 percent, while that of recent immigrant women rose only 6 percent.[6]

Reitz (2005) adds to this information with a new compilation of earnings of men aged 25-54 with university degrees. Table 1 of his paper shows that in the year 2000, the 176,500 immigrants with university degrees who had arrived during the decade 1990-1999 had average earnings of $41,663. In that year, the 989,800 Canadian-born men of the same age and education earned an average of $66,520. These figures imply immigrant earnings at only 63 percent of those of the Canadian born.[7] This figure is not comparable to the 80 percent figure used extensively in chapter 3 and which focuses on earnings of immigrants 10 years after their arrival in Canada and having adapted to the labour market.

Immigrant earnings after ten years

An important question for the analysis of incomes of immigrants over time concerns the appropriateness of limiting the income data to those who have been in Canada for 10 years. Frenette and Morissette (2003), who work for Statistics Canada, address this question in their paper revealingly titled, *Will They Ever Converge? Earnings of Immigrant and Canadian-born Workers Over the Last Two Decades*. They conclude:

> Our primary goal in this study has been to examine what outcomes would be necessary for today's recent immigrants to achieve earnings parity with Canadian-born workers. Our results suggest… their earnings will have to grow at an "abnormally" high rate in the coming years in order to converge with Canadian-born earnings. (p. 19)

The authors did not offer any guess about the probability that such "abnormally" high rates of convergence are likely to occur, but the wording chosen suggests that this probability is very low. For immigrant cohorts before the 1970s, 10 years was enough to learn the language and otherwise adjust to Canada sufficiently to have earnings equal to or even slightly exceeding those of Canadians. This fact suggests that the relatively low earnings of the recent cohorts after

6 The data also show that in a few categories, such as men aged 25-29 with a high school education or less, the recently arrived immigrants suffered smaller real income decreases than did the Canadian-born workers. However, generally, the data in this table are consistent with the proposition that immigrants in recent decades have been earning increasingly less relative to Canadians.

7 In his study, Reitz focuses on the loss of national income allegedly due to the under-utilization of the human capital of immigrants and on the hardships encountered by the underemployed immigrants. He suggests a number of policy initiatives that the government of Canada should undertake to deal with this problem. He does not suggest any changes to the immigrant selection process to stop the continuation of the problem in the future.

10 years in Canada are due to factors other than the need to learn the language and adjust to labour market conditions. The second part of this study reviews more evidence relevant to this issue.

Immigrants and low income statistics

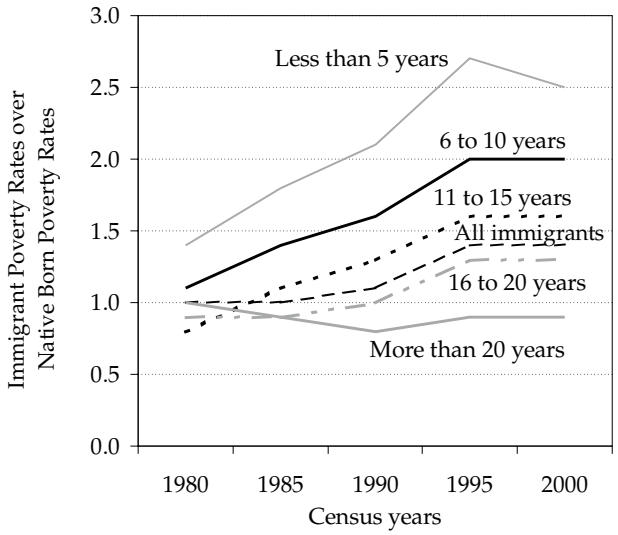
Statistics Canada defines families with incomes below the Low Income Cutoff point (LICO) as those that spend more than 58.5 percent of their income on food, shelter, and clothing. Canadian governments put much effort into policies designed to reduce the number of individuals that have LICO incomes, and thus to increase the equality of disposable incomes in the country.

There has been much public discussion about the fact that the LICO measure does not reflect the level of poverty in Canada[8] but that it is a reflection of income inequality before taxes and subsidies. Nevertheless, many Canadians attach much importance to the LICO statistics, so it is useful to consider how immigrant families perform by this measure and in comparison with Canadian-born families.

Figure 1 presents the relevant data. The horizontal axis shows the census years that generated these statistics.[9] The vertical axis shows the proportion of immigrants with LICO incomes divided by the proportion of native-born Canadians with such incomes.

To understand the meaning of the lines shown in the graph, consider the point on the top line for the year 2000. The basic numbers underlying the point in the graph were as follows: 35.8 percent of the immigrant families had incomes below LICO while 14.3 percent of the Canadian-born families did. Dividing 35.8 by 14.3 equals 2.5, the number shown in the graph.

Figure 1: Low Income Rates by Immigration Status



Source: Picot and Hou (2003), table 1, p. 23.

In other words, in the year 2000, immigrant families who had been in Canada for less than 5 years were 2.5 times as likely to have incomes below LICO than were Canadian families. The top line traces this index for immigrants who have been in Canada for less than five years over all censuses. This line has been on a steady upward trend from the 1980 census onward, with only a slight decline from the peak in 1995 to the latest census of 2000.

The other lines shown in the graph are for groups of immigrants that have been in Canada for different lengths of time. Most interesting for our analysis is the bottom line: immigrants who have been in Canada for more than 20 years. These immigrant families tabulated in the 1980 census had come to Canada in 1960 or before. The incidence of LICO income for these families was equal to that of Canadian families in 1980 but *less* than that in the following censuses.

8 See Sarlo (1996) for a comprehensive analysis of the issue and a genuine measure of poverty.

9 The data for the 9 years between the major censuses are based on smaller samples.

The statistics in figure 1 can be used to infer the time when the crucial relationships began to change. Consider the line tracing the immigrants in Canada between 16 and 20 years. As can be seen, this line is below one in the 1980 and 1985 censuses and equal to one in the 1990 census. This means that immigrants with these favourable LICO conditions had arrived in the years 1960-64 (and were measured in the 1980 census) and arrived in the years 1965-69 (and were measured in the 1990 census). Those who arrived over the 5 years following 1969 in the 1990 census had the same poverty rates as Canadians. However, as the line in figure 1 shows, those who arrived after 1975 had a higher incidence of poverty at the time of the 1995 and 2000 censuses.

The line tracing those who have been in Canada 11 to 15 years also shows that those surveyed in the 1980 census, and therefore identified as having arrived during the period 1965-69, have lower poverty rates than other Canadians. Those surveyed in the 1985 census and who had arrived in 1970-74 had poverty rates equal to those of Canadians. Only arrivals after 1975 and surveyed in the censuses of 1990-2000 had higher rates of poverty than Canadians.

Chapter 3: The Fiscal and Other Burdens on Canadians

Akbari (1989) examined the question of whether or not immigrants impose a fiscal burden on other Canadians. He used a micro database from Statistics Canada to measure the amount of taxes paid, and subsidies and services received, by immigrants. He concluded, "The immigrants on average are a source of public fund transfers to non-immigrants." DeVoretz and Pivnenko (2004) reached much the same conclusion when they used a similar micro database but concentrated on conditions in Canada's large cities.

The results of these two studies are driven by a consideration attributed to Julian Simon, the well-known economist who successfully challenged many popular views on population growth, the environment, and natural resource depletion. The consideration is that immigrants arrive in Canada at an age when they require no more government spending on education. For the rest of their lives in Canada, they pay taxes and draw on government services like other Canadians. Using this proposition, the authors estimate that the present value of the government services absorbed and taxes paid over the lifetimes by immigrants are less than those of other Canadians.

This conclusion is based on a model of intergenerational education financing that is basically flawed. Every generation of adults pays for the cost of educating their children. Adult immigrants bring along their children, and these children put a burden on the public education system, even though the immigrants themselves do not. If these Canadian-educated children of immigrants were to emigrate later in their lives, other Canadians would not lose since the emigrants take along the responsibility of paying for their own children's education in their new country of residence.

Calculations of the present value of lifetime taxes paid and services consumed by immigrants in comparison with other Canadians depends their respective earnings profiles: the median, mean, and percentile distribution of incomes. The estimates presented below show the existence of substantial transfers from other Canadians to immigrants that are due to the fact that immigrants in recent years have had lower incomes than other Canadians. As a result, the progressive personal income tax system, as well as other taxes that are related to income, requires the average immigrant to pay fewer taxes than do other Canadians, while both groups absorb roughly the same value of government services.

The Model

The simple model underlying my calculations is:

$$FT = (To - Tc) - (Go - Gc) \qquad (1)$$

where FT is the average per capita fiscal transfer,

T is average per capita taxes paid,

G is average per capita expenditures on programs (that is, excluding payments on the debt),

c denotes the immigrant cohort, and

o denotes the group "other Canadians."

The basic calculations made in this study use tax and spending data for the year 2000 for "other Canadians" and for the cohort of immigrants who arrived in 1990 and therefore had been in Canada for 10 years in 2000. Their number is taken from the official website of the Department of Citizenship and Immigration Canada and includes all categories of immigrants, including refugees admitted that year.

The incomes and taxes of the group referred to as "other Canadians" are equal to the numbers of all Canadians found in published sources. For the purposes of the present analysis I assume that removal of the incomes and taxes of the immigrant cohort does not significantly affect these values on the grounds that the total number of Canadians in 2000 was 31.5

million and the 1990 immigrant cohort numbered only 216,000.

If FT > 0, the fiscal transfers on balance go from the other Canadians to the immigrant cohort. If FT < 0, the transfers go from the immigrants to other Canadians.

The aggregate dollar value of the transfers attributed to the immigrant cohort in the year 2000 is estimated by multiplying the per capita tax and spending values by the number of immigrants in the 1990 cohort.

In the following I calculate the amount of taxes paid and government services received by the average immigrant in the 1990 cohort and compare these averages with the corresponding averages of other Canadians. The next section considers the fiscal transfers for that same cohort over its life in Canada and speculates about the total costs for a number of immigrant cohorts. The chapter concludes with the review of some studies that consider ways in which immigrants impose non-monetary costs on Canadians.

Records on taxation

The following analysis rests heavily on the fact documented above that the mean income of immigrant men in the 1990 cohort was 20 percent below that of other Canadian men in the year 2000.[10]

Data on personal income taxes paid by Canadians found in Veldhuis (2003) are available on the basis of income deciles, showing among other information what percentage of all personal income is paid by the bottom half of all tax filers and by those in the top ten percent of the distribution. This information is used to estimate the taxes paid by the average immigrant and the average Canadian.

Table 2: Level and Percent of Personal Income Taxes Paid by Top Decile of Income Tax Filers in 2000

Income of group	Percent of all taxes paid
Over $250,000	15.8
$150-250,000	7.1
$100-150,000	9.4
$80-100,000	8.4
$66-80,000	9.3

Source: Fraser Institute *Tax Facts 13* (2003).

The median income of Canadian tax filers in 2000 was $22,500. The median income of immigrants is assumed to be only 10 percent lower than that, or $20,200. The assumption that the median of the immigrant cohort was only 10 percent rather than 20 percent lower—as is the case with the means of the two groups—is based on two facts. First, all income distributions have a lower limit of zero and no limit on the upper end (which is the reason why all income distributions show a lower median than mean). Second, the 1990 immigrant cohort has few, if any tax filers, in the top decile.

The latter assumption is crucial to the following analysis. It is based on the little-known data shown in table 2 about the top ten percent of all tax filers in Canada:

In other words, the top decile of income earners in Canada—those that had over $66,000 of taxable income—paid 50 percent of all taxes. Those with earnings above $100,000 paid 33.3 percent.

We know that the incomes of people in the upper end of the distribution in Canada are due to the success of individuals who have climbed career ladders

10 Ideally, information about taxes paid by immigrants should be obtained from micro data available from Revenue Canada. These data include demographic information about taxpayers' place of birth or how long immigrants have been in Canada, along with a wide range of other information. I do not have the capability or resources needed to make use of these data and invite other economists to do so.

in the professions and business for a long time, and are due to the ownership of property, some of which is inherited. Given these facts, it is very likely that few, if any, of the 1990 immigrant cohort who entered Canada as skilled immigrants had incomes at that level ten years later.

This assumption needs to be examined in light of the fact that in that 1990 cohort were immigrants that were admitted as "Investors, Entrepreneurs, and Self-employed." In that class, the investors obtained visas only if they had at least $400,000 to put into the Canadian capital market. The entrepreneurs had to have at least $300,000 to invest. The self-employed did not have to own investible capital, but instead had to have a demonstrated record of successful self-employment abroad.

The immigrants in this class were few in number—only 1.3 percent of all immigrants and 5.7 percent of the "Skilled Workers" class. (See Chapter 8 for more details.) I think it unlikely that few of them, if any, have turned their investments into taxable incomes above $66,000 in 2000.

Based on these considerations, I make the following assumption: The immigrant cohort of 1990 has no income earners in the top 10 percent of the Canadian distribution of income. Below I present a brief analysis considering the sensitivity of my key results to changes in this assumption.[11]

Income and taxes paid

The following combines the preceding assumptions about the median level of income of the 1990 immigrant cohort and the absence of any of the cohort in the top decile with *Tax Facts 13*, a Fraser Institute study on the taxes paid by Canadians across income deciles. Consider first the data on all Canadians:

- Tax filers with an income at or below $20,200 paid 3 percent of all taxes.
- Tax filers with incomes between $20,200 and that group's median of $22,500 paid 4.5 percent of all taxes.
- Tax filers between the median and the ninth decile paid 38.2 percent of all taxes.
- Tax filers in the top decile pay 50 percent of all taxes.

The taxes paid by the immigrant cohort are:

- The lower half of the distribution consisting of 50 percent of all filers: 3 percent;
- The group between the immigrant and all Canadian medians, consisting of 10 percent of all filers: 4.5 percent;
- The group between the median of all Canadians and the top of their ninth percentile, consisting of 40 percent of all filers: 38.2 percent.

The weighted average of these rates for the 3 different groups comes to 21.3 percent. In other words, whereas other Canadians had incomes at levels that required the payment of taxes that added up to 100 percent of all taxes collected, the immigrant cohort had members with levels of incomes that required tax payments that would have been equal to only 21.3 percent of all taxes collected if the number of immigrants had been as large as that of the other Canadians. Put yet differently, the 1990 immigrant cohort in 2000 on average paid taxes at rates equal to only 21.3 percent of those paid by other Canadians.

It bears repeating that the causes of this gap in average tax rates paid are simple and straightforward. First, the immigrants have low mean and median incomes and under the progressive personal income tax system used in Canada, the personal income tax rates this group faces are very low. The half of the immigrants with higher incomes are concentrated in deciles of the distribution that are subject to rates of taxation at levels that produce only 38.2 percent of all tax revenues. By assumption, the immigrants have no filers in the top decile of the dis-

11 Mark Mullins suggested this sensitivity analysis.

Table 3: Tax Revenues in Canada, All Levels of Government, 2000

Type of taxes	Billions of dollars	Percent of total	Dollars per capita for all Canadians	Immigrant payments as percent of other Canadians	Dollars per capita for immigrants
Personal income taxes	143.1	37.2	4,543	21.3	968
General sales taxes	55.5	14.4	1,762	80.0	1,410
Health and social insurance levies	40.3	10.5	1,279	80.0	1,023
Property and related taxes	41.1	10.7	1,305	40.0	522
Corporate income taxes	43.3	11.2	1,375	10.0	138
Other taxes	61.6	16.0	1,956	80.0	1,565
Total	384.9	100.0	12,220	n.a.	4,706

Source: Statistics Canada, supplied by Niels Veldhuis of The Fraser Institute (for columns 2

tribution, which pays over one half of all taxes paid by other Canadians.

How sensitive are these results are to the assumption that none of the immigrant cohort had incomes in the top 10 percent of tax filers? Suppose 2 percent of the cohort were in this decile, the percent of those in the sixth to ninth decile would be reduced to 38 percent. The weighted average taxes paid by the immigrants under these assumptions would be 30.6 percent of the average paid by Canadians.

Another analogous calculation shows that if immigrants count 5 percent (or half the rate enjoyed by other Canadians) of their numbers in the top decile, the cohort pays taxes at 44.4 percent of the taxes paid by other Canadians.

Dollar values

Table 3 shows the amount of taxes paid by all Canadians in the year 2000 according to different types of taxation. As the table shows, they paid $143.1 billion in personal income taxes.

Given Canada's population of 31.5 million in 2000, the average income taxes paid were $4,543 for each man, woman, and child. Assuming that the proportion of men, women, and children was the same among all Canadians and the immigrant cohort, the average immigrant paid only $968, which is 21.3 percent of the amount paid by other Canadians.

Personal income taxes account for only about 37.2 percent of all tax revenues raised by Canadian governments. Table 3 shows the amount of other taxes paid by all Canadians in the year 2000. In column 5 I show what I believe to be a defensible proportion of the taxes paid by the immigrants relative to those paid by other Canadians. These percentages are justified on the following grounds:

- *Sales taxes*: Sales taxes paid are proportional to spending, which in turn is determined by income. With average immigrant incomes in the relevant cohort at 80 percent of the average of other Canadians, it seems reasonable to assume that the immigrants pay 80 percent of the sales taxes paid by other Canadians.
- *Health and social insurance levies*: These taxes also tend to be proportional to income and therefore the immigrants' relative payments are assumed to be 80 percent.
- *Property and related taxes*: On the assumption that the 1990 immigrant cohort on average has property much below that of the average other

Table 4: Value of Government Spending on Families in 1990, by Income Deciles (dollars)

1	2	3	4	5	6	7	8	9	10
16,405	21,786	22,466	23,546	23,422	23,937	25,380	26,868	28,390	30,761

Source: Horry and Walker.

Canadians, I assume that the percentage of the taxes paid is 40 percent.

- *Corporate income taxes*: I assume that on average these recent immigrants hold very few equities and thus pay only 10 percent of the taxes paid by other Canadians.
- *Other taxes, consisting of natural resource royalties, payroll taxes, profits of government-owned liquor distribution systems, and others*: These taxes are paid largely in proportion to income and are assumed to be 80 percent.

The bottom line of column 4 shows that in 2000 other Canadians on average paid $12,220 through all types of taxes. The bottom line of column 5 shows that the corresponding number for members of the 1990 immigrant cohort is $4,706, or 39 percent of the sum paid by other Canadians.

It is worth remembering that this difference is due to the known large difference in average incomes of the two groups, the assumed absence of immigrants in the upper income classes, and their relatively low holdings of property.

Government spending

The Fraser Institute publication *Government Spending Facts* (Horry and Walker, 1994) contains information on the value of government services received by all Canadian families by income deciles. The study is based on a micro database supplied by Revenue Canada, which covers 44,500 individuals and allows estimates to be made of the different types of spending going to each decile. Reasonable assumptions were made to infer the benefits received from public goods like defense and the environment. The data are for the year 1990 and are the latest available. They are presented in table 4.

The table shows that high-income families in Canada receive more benefits from government programs than do low-income families. This somewhat surprising result is due to the fact that high-income families tend to be older and have more children benefiting from education expenditures than do families with low incomes. Further, these families consume more health care services as they have children and they live in cities where health care is more readily available than in rural areas (Horry and Walker, 1994, p.154). People with low incomes tend to be young and without children and consume relatively fewer educational and health care benefits.

The following analysis uses the information about the median incomes of the 2000 cohort of immigrants discussed in the preceding discussion of tax payments. It also employs the assumption used in that context that no immigrants are found in the top decile of that distribution. Appendix B shows the detailed calculations and assumptions used.

The bottom line is that in 2000, the immigrant cohort on average received fewer benefits from government spending than did other Canadians. The precise figures for the benefits received by the two groups are: $10,288 for the immigrant cohort and $11,508 for other Canadians. The difference in favour of other Canadians is 10.6 percent.

The aggregate transfers

We now have the numbers to put into equation 1:

$$FT = (12,220 - 4,706) - (11,508 - 10,288) =$$
$$7,514 - 1,220 = 6,294$$

In words, the equation states that fiscal transfers between other Canadians and the immigrant cohort per capita are:

- through greater tax payments by other Canadians: $7,514
- through smaller government spending on immigrants: - $1,220

On balance, transfers from other Canadians to the average immigrant in the 1990 cohort were $6,294 in 2000.

This basic number can be used in a number of calculations designed to put the value of the transfers into useful perspective.

First, there were 216,396 immigrants who came to Canada in 1990. Multiplying this number by the fiscal transfers of $6,294 comes to $1.36 billion. In other words, the fiscal transfers to all of the immigrants in the 1990 cohort in the year 2000 were valued at $1.36 billion.

What follows are some speculative thoughts about the fiscal transfers other Canadians may be expected to make to the 1990 cohort over the lifetime of that cohort. In making these speculations, I assume that the 80 percent gap in income remains for the full life of the members of the cohort on the grounds that the average incomes of that immigrant cohort were 63 percent of those of other Canadians in the first year after their arrival. This percentage increased every year, reached 77 percent in the fifth year, and 80 percent in the tenth. I assume that the gap will narrow somewhat thereafter by an amount and for a time long enough so that the gap remains at 80 percent over the immigrants' full lifetimes of 45 years in Canada (i.e., assuming they were aged 30 upon arrival and have a life expectancy of 75).

Abstracting from all discounting and compounding, growth in per capita incomes, changes in government spending, etc., the transfers from other Canadians to the average immigrant from the 1990 cohort over his or her 45 years in Canada comes to $282,800 ($6,294 times 45). For the entire cohort this adds up to a total of $61.2 billion.

Now consider the value of the transfers received in the year 2002 by all immigrants who had arrived in the 13 years from 1990 to 2002. Table 5 shows the annual numbers, which total 2.9 million.

Assume that each of these immigrants received a transfer of $6,294 in 2002, which is the value of the transfers per immigrant calculated above for the 1990 cohort. Multiplication of the number of immigrants (2.9 million) by $6,294 results in the estimate that the total bill for the transfers was $18.3 billion.

To put this number into perspective, consider that program spending by the federal government in 2000/2001 was $116 billion. This means that the fiscal transfers to immigrants that year

Table 5: Annual Immigration to Canada

Year	Number of immigrants
1990	216,396
1991	232,744
1992	254,817
1993	256,741
1994	224,364
1995	212,859
1996	226,039
1997	216,014
1998	174,159
1999	189,922
2000	227,346
2001	250,484
2002	229,091

Source: Citizenship and Immigration Canada.

- came to about 16 percent of that federal spending
- were more than what the federal government spent on health care
- were almost twice as much as the federal government spent on defence

In the absence of these transfers to immigrants, federal income and other taxes could have been reduced substantially.

Biases in the calculations

There is no doubt that the calculations just presented are based on a number of assumptions that are open to question. Some of these assumptions may have inflated the estimate of transfers upward. Some may have caused them to be too low. Only further, more detailed research can establish the extent to which these biases may have distorted my calculations. However, this much is clear: unless some key assumptions are grossly out of line and have biased upward my estimates of transfers significantly, my calculation indicates that the present policies used in selecting immigrants and determining annual inflows are imposing a substantial cost on other Canadians.

Following is a list of assumptions that provide clear bias. While I do know the direction of the bias, I do not know value of it.

1. The assumption used in the last calculation that the transfers were $6,294 per immigrant is biased downward since a large proportion of the 2.9 million immigrants were in cohorts that had not reached incomes equal to 80 percent of other Canadians and that were used to estimate the $6,294 figure.
2. The estimates of government spending used in the calculations fail to take account of spending aimed explicitly at immigrants since they are not fully reflected in The Fraser Institute calculations on spending. Most important are special social services, the costs of which are born by provincial governments, and aimed at helping them getting settled and integrated. An expensive part of this program of settlement aid involves teaching English as a second language.

   To compensate the provinces for these costs, which they have to occur as a result of immigration decisions reached by the federal government, in 2004 Ontario was paid $3,400 for each of the 134,000 new immigrants who arrived in the province, for a total of $457 million. It is not clear to what extent this payment covered the extra costs imposed on Ontario, but the sum gives a rough indication of the costs to Canadian taxpayers. Neither this sum, nor the funds paid to other provinces are reflected in the calculations above.
3. Wente (2004) and Sweetman (2004), using census data, found that low-income immigrants tend to be concentrated in several large communities at the fringe of the city of Toronto. According to these authors, some of these enclaves suffer from above average social ills such as homicide, gang violence, and property crime, some of which spill over into the urban areas surrounding the enclaves. Dealing with these social ills through law enforcement is an added cost imposed on Canadians.[12]

It is worth noting that my estimates of the lifetime costs of immigrants are somewhat higher than those made by Camarota (2001) for the United States. He found that Mexican immigrants in the United States, on average, have incomes much below those of US-born citizens.[13] He then considers the extra government spending required by these immigrants and concludes that the average Mexican immigrant imposes a net US$55,200 lifetime burden on other taxpayers.

Effects on Canada's low-income earners

The preceding estimates of costs imposed on other Canadians by recent immigrants are limited to taxation and government spending, though, there are a number of other ways in which immigrants impose costs.

Thus, the numbers of Canadian immigrants in recent decades has been anything but marginal, as is assumed in the classical model of immigration presented in chapter 2. Instead, the number of immigrants is so large that they have affected the distribution of income and reduced the effectiveness of government policies to make it more equal.

Considering that most immigrants work in low-paying jobs—at least for some years after their arrival and in spite of nominally high educational attainments—they depress the wages of Canadian workers by competing with them for low-paying jobs. At the same time, they increase the income and wealth of the owners of land, factories, houses, and highly-skilled labour. Unfortunately, there are no estimates of the magnitude of this effect of immigrants on the distribution of income in Canada, but given Canadians' concerns with the equalization of income, there is no doubt that immigration has reduced the effectiveness of all efforts to achieve greater income equality.

Some relevant data exist for the United States, which allow insights into the quantitative effect of immigration on the distribution of income in that country. Borjas (2004)[14], a respected labour market economist teaching at Harvard, produced the data. He found that in the United States

> By increasing the supply of labour between 1980 and 2000, immigration reduced the average annual earnings of native-born men by an estimated $1,700 or roughly 4 percent. Among natives without a high school education, who roughly correspond to the poorest tenth of the workforce, the estimated impact was even larger, reducing their wages by 7.4 percent (page 1).

The wages of low-skilled workers in Canada probably are depressed even more than those in the United States through the immigration of foreign workers with low skills because the Canadian rate of immigration as a percent of the labour force has been considerably higher than that of the United States. On the other hand, this effect may be reduced to some degree by the high proportion of family class immigrants in Canada, many of which have no labour force attachment or work for only a short time after their arrival. The effect may also be smaller because the large number of illegal immigrants from Mexico influences the United States data. Most of these illegal immigrants are unskilled and obviously did not pass the kind of system Canada uses for selecting skilled immigrants.

David and Weinstein (2005) used the basic Borjas methodology and introduced some other effects of immigrants on prices and incomes to estimate the cost of US immigration on the incomes of

12 Wente argues that these data have not been given the public attention they deserve because of a climate of political correctness prevailing in Canada and the fear that any such publicity will cause its authors to be called racist. However, census data are reliable, objective information and I believe it to be important for the design of Canada's immigration policies that such data be put before the public and the implication for the welfare of Canadians and the fiscal burden they are bearing be spelled out.

13 Camarota (2001) provides detailed information about relevant differences between the US-born citizens and Mexican immigrants. For example, while 27.9 percent of US-born citizens live in or near poverty, 65.6 of all Mexican immigrants and 54.7 percent of Mexicans with at least 20 years residence in the United States live in such poverty. Mexicans were four times as likely as natives to be without health insurance and twice as likely to use major US welfare programs.

14 This article is based on the more scholarly paper Borjas (2003).

US-born workers. The two most relevant conclusions in the present context are:

- In 2002, the net loss to US natives from immigration was $68 billion.
- This $68 billion annual loss represents a $14 billion increase just since 1998. As the size of the immigrant population has continued to increase, so has the loss.

Effects on the "War on Poverty"

Canada's social and taxation programs for many years have been aimed at reducing the proportion of Canadians living below LICO (the low-income cut-off). The media and social activists often present these policy aims dramatically by referring to the number of children in Canada living in families with LICO incomes, who are therefore raised in what some groups call "child poverty."

It is not necessary to enter here into discussions about the desirability of the "War on Poverty" and whether or not it helps the poor, the merit of the LICO measure as an indicator of poverty rather than a measure of income equality, or the fact that a large proportion of individuals move into and out of the LICO conditions every year. Relevant to the current analysis is that the attainment of the Canadian government's goal to reduce poverty has been slowed by immigration.

Thus, using data published by Statistics Canada, Sweetman (2004) found that over the 1990s, Vancouver's low income cut-off (LICO) among native-born *decreased* 1.7 percentage points.[15] However, the many immigrants with low incomes added 4.7 percentage points to the LICO rate. As a result, during the 1990s Vancouver's overall LICO rate *increased* by 3.0 percentage points.

Economic theory is clear on the proposition that while non-marginal immigration of labour depresses the wage rates of labour in the receiving country, it raises the income of the owners of land and capital in that country. The modern theory of capital distinguishes between real capital like land, buildings and machinery and human capital, which is embodied in the highly educated and due to both formal schooling and work experience. This increase in the return to capital is caused by the greater demand for it as employers equip the new immigrants with the same amount of machinery used by other Canadians in the respective industries in which they work. While this effect on the incomes of the owners of land and capital compensates for the lower incomes of labour competing with the immigrants in measures of aggregate income, it further worsens income inequality. Since the equalization of disposable income is a major goal of the Canadian welfare state, this effect aggravates the conflict between immigration and the goals of the welfare state.

Are these taxpayers' costs transitory?

It is well known that in the past, the children of poor immigrants have been especially successful in moving out of poverty by obtaining higher levels of schooling and training than the children of poor, native Canadians. As a result of this process, the effect of immigration on poverty rates in the past has tended to be only transitory.

Unfortunately, these beneficial outcomes appear to exist no longer. Borjas and Sueyoshi (1997) report the following finding for the United States:

> There exist sizeable differences in the incidence and duration of welfare spells across ethnic groups, and these differences tend to

15 The Borjas results suggest that this decrease would have been even larger in the absence of the wage-depressing effect of competition from immigrants.

> persist across generations. Using the *National Longitudinal Surveys of Youth*, we find that children raised in welfare households are themselves more likely to become welfare recipients for longer durations. We also show that growing up in an ethnic environment characterized by welfare dependency has a significant effect on both the incidence and duration of welfare spells. About 80 percent of the difference in welfare participation rates between two ethnic groups in the parental generation is transmitted to the children. (Abstract)

It may well be that the more pervasive social welfare programs and an educational system financed differently in Canada will prevent the development of the conditions found by Borjas and Sueyoshi, but since there is no empirical evidence, this outcome is merely a possibility.

The rate at which poverty is passed on between generations also depends on the speed with which immigrants integrate into Canadian society and their children join the economic mainstream. Duffy (2004) notes a disturbing development relevant to this issue, which was revealed by recent censuses: "... most poor families are now far more concentrated in low-income neighborhoods… (which) tend to be dominated by immigrants and visible minorities… It could be that immigrants clustered in Toronto and Vancouver compete against each other, limiting job opportunities, driving down wages and inflating real estate, essentially creating an artificial barrier to their own success" (page A.06).

I would add the following considerations to Duffy's analysis. Canada's social programs are also a barrier to the success of immigrants living in the enclaves because most of the social benefits available to them there are lost when they leave the enclaves and earn higher incomes. Thus, many of today's immigrants face very high marginal implicit taxes on income, which represent disincentives to escape poverty for themselves and their children that did not exist before the welfare state was created.

Chapter 4: Canada is not Alone

Canada is not alone in facing serious fiscal burdens as a result of immigration and the existence of the welfare state. One European point of view of the problem was expressed by Martin Paldam (2004) in the *European Journal of Political Economy*.[16] This editorial is of particular relevance to Canadians who have long admired the success of the social welfare policies, the progressive income taxation, equality of income, and general tolerance of the Nordic countries: Norway, Sweden, Finland, and Denmark.

> "The large wave of immigration from the poor LDCs to the rich DCs has been a profound shock to the Nordic welfare system and to the moral self-satisfaction of the Nordic peoples.
>
> "Peter Nannestad's (2004)… key message is that it is the very institutions of the Nordic welfare state that convert the immigrant into a long-term welfare recipient—and hence into an extra burden… The institutions of the Nordic welfare state are incompatible with mass immigration of the kind experienced during the last two decades.
>
> "In addition, the institutions of the welfare states and the traditions of protection of the weak cause adverse selection of immigrants, so that most are unskilled—some even illiterate—and speak no language that is understood by the natives of the Nordic countries. Those with strong marketable skills and knowledge of English and French prefer to go elsewhere. Adverse selection reinforces the incompatibility problem.
>
> "It is not easy to solve these problems, especially in view of the great popularity of the welfare state. *If the Nordic peoples stand firm on all the principles of their welfare states, then immigration has to be stopped*, and this appears to be the solution that is being increasingly implemented.
>
> "Consequently, the hitherto tolerant and thoroughly globalized Nordic countries are building higher and higher dikes at their borders, not against goods and services, but against people from poor countries. Heavy bureaucracies are being built to control immigration. The Nordic countries are developing into particularly heavy bastions in Fortress Europe, protecting the wealth and the institutions against the invasion of poor people." (p. 749. Emphasis added)

The problem has also been seen in a broader philosophical and political context. Sandall (2004) reviews a paper by David Goodhart, "Discomfort of Strangers," which first appeared in the February 2004 issue of the journal *Prospect* and has been reprinted in *The Guardian*. Goodhart suggests that the political left faces:

> "a 'progressive dilemma,' which says that citizens will accept high levels of taxation if they think the recipients are people like themselves. But if values become extremely diverse in a diversified population, then it

16 The first part of the editorial presents facts about the success of the welfare state in the Nordic countries. The article also contains some references to the special problems created by immigrants of the Muslim faith, who choose to live in ghettos and pursue a lifestyle that is inconsistent with the values of the Nordic peoples and that prevents their integration into the economy and society.

Paldam's views are also expressed in a paper (Paldam and Chand, 2004), which goes into some detail about the problem and possible solutions. The authors deplore the fact that restrictions that have recently been placed on immigration to the Nordic countries impose serious costs on the economy. They recommend as the main alternative policies that limit access to social benefits of the welfare state to immigrants for a number of years. As will be seen below, this solution is not possible in Canada since the Supreme Court has decided that such policy is inconsistent with the Charter of Rights and Freedoms.

becomes more difficult to sustain the legitimacy of a universal risk-pooling welfare state." (p. 1)

"If welfare states demand that we pay into a common fund on which we can all draw at times of need, it is important that we feel that most people have made the same effort to be self-supporting and will not take advantage." (p. 3)

"A generous welfare state is not compatible with open borders and possibly not even with US-style mass immigration." (p. 4)

Caldwell (2005) researched conditions in Sweden:

"Sweden has suddenly become as heavily populated by minorities as any country in Europe. Of 9 million Swedes, roughly 1,080,000 are foreign-born. The percentage of foreign-born is roughly equivalent to the highest percentage of immigrants the United States ever had in its history…

"Modern Sweden has built its sense of identity on two pillars: its generous welfare state and its status as what Social Democrats used to proudly call a "moral superpower."… Indications are that the latter achievement is in the process of destroying the former.

"A review of a book by Alesina and Glaeser (2004) on social policy in Europe and the United States published in *The Economist* concludes with sentiments that echo those found in the preceding quotations: "The recent evolution of Europe as a destination of mass migration… will test the durability of the European welfare state." (March 11, 2004, p. 78).

If recent immigration trends continue in Canada and costs keep escalating, questions of the sort raised by the preceding quotes will become increasingly relevant in Canada. At that time, Canadians will be able to take some comfort knowing that many other countries have encountered the problems caused by immigration into a country with generous social programs. Canadians will not be alone in their attempt to deal with the dilemma of compassionate immigration policies endangering the very existence of compassionate domestic social programs.

However, the choices Canada will face may not be as stark as those Paldam presents in the quotation above. Canada will not have to either give up the welfare state or stop immigration. As an alternative, it can adopt a policy for immigrant selection, which will assure that they do not become a fiscal burden. Such a policy is outlined in Part III below.

Chapter 5: The Immigrant Selection Process Described

The first part of this study records the statistical evidence on the poor average economic performance of immigrants who have entered Canada during the last 25 years and on the fiscal burdens these immigrants impose on Canadian taxpayers. Given that Canada uses a system for the selection of immigrants that was explicitly designed to admit only individuals that on average do not impose such fiscal burdens, it must be true that this system does not function properly.

Chapters 6 and 7 review the present state of research on the reasons why the current immigrant selection process has resulted in such a poor outcome in recent years. However, before turning to this analysis, readers need to know some fundamental facts about the current selection system Canada uses, many of which the general public is not aware. This knowledge may also give some insight into causes of the current problems, and problems with immigration policies generally. These general problems are not considered in the next two chapters that review more narrowly defined scholarly studies.

Table 6: Canadian Immigration by Entry Category, 2002

Immigrant Class	Level	Percent
Family Class	65,277	28.5
Immediate Family	42,775	18.7
Parents and Grandparents	22,502	9.8
Economic Immigrants	138,528	60.5
Skilled Workers	123,379	53.9
Principal Applicants	53,448	23.3
Spouses and Dependants	69.931	30.5
Business Immigrants	11,041	4.8
Principle Applicants	3,047	1.3
Entrepreneurs	1,177	0.5
Investors	1,235	0.5
Self-employed	635	0.3
Spouses and Dependants	7,994	3.5
Provincial/Territorial Nominees	2,127	0.9
Live-in Caregivers	1,981	0.9
Other Immigrants[1]	164	0.1
Refugees	25.122	11.0
Government Sponsored	7,504	3.3
Privately Sponsored	3,055	1.3
Landed in Canada	10,544	4.6
Dependants Abroad[2]	4,019	1.8
Total	229,091	100.0

Source: OECD, 2003, Citizenship and Immigration Canada.
Notes:
[1]Includes post-determination refugee claimants, Deferred removal orders, and Retirees.
[2]Dependants of a refugee landed in Canada who lives abroad.

The basic facts

The most basic facts about Canada's immigrant selection system are reflected in table 6. The last line of this table shows that in 2002 there were 229,000 immigrants. This number is equivalent to about .72 percent of Canada's population that year—about 32 million people. This percentage figure is the highest of all Western countries.

As shown in table 6, Canada admits immigrants in four main classes: Family class, Economic immigrants, Refugees, and Other immigrants. Each class has a number of sub-categories. For example, in the family class there are the immediate family and parents and grandparents. This taxonomy is based on the different selection criteria applied to each class.

Economic immigrants

The class of economic immigrants is the cornerstone of the system and best reflects the intent of its designers, which was to allow entry into Canada only immigrants likely to make positive contributions to the economy and to pay taxes commensurate with their claims on social benefits. Canada has a good global reputation for this aspect of the system.

In practice, economic immigrants are chosen on the basis of a point system. It assigns up to 25 points for applicants' educational attainment, up to 24 points for their ability to speak English or French, up to 10 points for age that is favourable to a long labour force attachment, up to 10 points for having a job waiting in Canada and up to 6 points for what is referred to as adaptability.[17] The maximum total points obtainable are 100. Since September 2003, only 67 points are needed to obtain a visa, down from 75 points needed previously.[18]

These points are assigned by immigration officials at Canadian embassies and other missions, who work on the basis of guidelines issued by the government and rely on hard documents like graduation certificates and records of employment. At the same time, as the description of the system suggests, much personal judgment is also required. In addition, immigrants must pass tests administered by embassy personnel that establish that they do not impose an unreasonable burden on Canada's publicly financed, universal health care system[19] and they do not represent a threat to internal and external security.

The applicants who pass the points test are recorded as "principal applicants." As table 6 indicates, these principal applicants make up only 23.3 percent of all immigrants. Yet the same table also shows that economic immigrants account for 60.5 percent of the total. The latter figure is often used to suggest that Canada's immigrant selection system is successful in allowing into Canada only immigrants with characteristics considered officially to lead to economic success.

However, the use of this latter statistic is highly misleading since it is based on the inclusion of spouses and dependent children who are automatically allowed to accompany the principal economic immigrants when they come to Canada. In 2002, these family members represented 30.5 percent of all immigrants.

The official reason for including these dependants in the economic class is that if they were not allowed to accompany the principal applicant, the pool of potential economic immigrants would be much smaller and it might be difficult to attract a desirable number of immigrants with the desired economic qualifications. However, this proposition has never been tested. Meanwhile, reporting these spouses and dependent children as economic immigrants very much misleads Canadians who are concerned about the fiscal costs of existing immigration policies.[20]

Under the class of economic immigrants we also find business immigrants, which in turn consist of entrepreneurs, investors, and self-employed persons. Business immigrants are given immigration visas on the basis of the documented ownership of funds for investment in Canada and a record of past successes in entrepreneurship or self-employment.

17 The information on the point system can be found on the website of the Immigration Department in Ottawa (*www.cic.gc.ca*).

18 According to Worswick (2004, p. 3), the justification for this change is official concern over the fact that the higher number excludes too many strong applicants.

19 Since January 2002 the health examination includes a test for AIDS. According to the federal immigration department, in 2003, 677 foreigners who qualified for visas tested positive for the disease. Of these, 87 percent were granted immigrant visas presumably on the judgment that they would not impose an unreasonable burden on the Canadian health care system. The information is from Friscolanti (2004).

Table 6 shows that the principals in the business immigrant class in 2002 represented 1.3 percent of all immigrants. This number is quantitatively not significant, but as in the case of skilled workers, the total in the business immigrant class is shown to be 4.8 percent, with the difference explained by the inclusion of spouses and dependent children.

One other subcategory of economic immigrants is noteworthy: "live-in caregivers." These individuals are employed by disabled Canadians in need of personal care in their home and by parents who are financially able to afford full-time help with care for their children at home. This class of immigrants represented only .9 percent of all immigrants in 2002.[21] However, these immigrants tend to bring to Canada a substantial number of additional immigrants because after they have been in their jobs for two years, they are granted status as landed immigrants. At that point, their spouses and dependent children may join them as immigrants without having to pass the points tests that would qualify them as economic immigrants. Their numbers appear in the Family Class of immigrants, to which we now turn.

Family class

Table 6 shows that in 2002 the family class represented 28.5 percent of the total number of immigrants, which is greater than the 23.3 percent of principal applicants under the economic immigrant category.[22] Two-thirds of the family immigrants are categorized as immediate family and one third as parents and grandparents of immigrants already in Canada.

The composition of the subgroup "Parents and grandparents" is obvious from the descriptive title. However, it is not as clear who is in the "immediate family" subgroup. Apparently, people in this group are the siblings of immigrants to Canada who may or may not be accompanied by their parents entering as sponsored parents.[23]

The immigration of parents and grandparents is subject to the requirement that their relatives in Canada "sponsor" them for a period of 10 years. This sponsorship involves the written pledge to look after the financial need of the family immigrants so that they do not become a burden on Canadian taxpayers. The sponsors and sponsored also have to sign an agreement confirming these conditions.

The government justifies the existence of the family class on humanitarian grounds. Families from the Indian subcontinent and other Asian countries especially tend to be tightly knit units, the breakup of which is alleged to impose undue hardships on their members. The family class may also be justified on the practical though unproven grounds that without the opportunity for family reunification in Canada, the pool of qualified potential economic immigrants

20 In this context it is interesting to note that the government is not very open about the true number of genuine economic immigrants, the principal applicants. Thus, the breakdown between principal applicants and dependants is not to be found in the main table giving the numbers of immigrants in 2003 (on page 15 of the legislatively mandated *Annual Report to Parliament on Immigration 2004*, available at *www.cic.gov.ca*). Neither does it appear in any other table or part of the text. As the data are published by the OECD and are used here, the information does exist.

It is also worth noting that the practice of combining dependants and principal applicants in the single category started only in 1999. Before then, the annual reports of the federal immigration department showed as categories of equal rank "Skilled workers—principal applicants" and "Skilled workers—dependants."

21 The statistics for the 2003 show that the number of caregivers has risen to 1.5 percent of the total.

22 Data for 2003 show that in that year, the proportion of family class immigrants rose to 31.1 percent, while the percentage of principal economic immigrants fell to 20.5 percent.

23 I say apparently because in spite of strong efforts to obtain reliable information from informed individuals, I have not been able to come up with a satisfactory explanation for this category that is backed by appropriate references to legislation or data collection.

would be smaller and might endanger the ability to select the target annual number of economic immigrants with desirable characteristics.

There are four main problems associated with the selection of immigrants in the family class.[24]

First, most parents of economic immigrants are unlikely to become active participants in the labour force for any length of time because of their advanced age and often poor ability to speak and learn English. They did not have to pass the point system and therefore are unlikely to have many of the characteristics of successful economic immigrants. These parents and grandparents are unlikely to pay few if any income taxes, yet are entitled to all of Canada's social programs for the rest of their lives. Given their age, many of them put high costs on the health care system if their sponsoring children are unwilling or unable to meet their obligations and pay for these costs privately. As discussed below, this reneging on sponsorship commitments takes place very often.

Second, while initially economic immigrants could sponsor their parents and grandparents only if they were at least 65 years old, this restriction no longer exists. An important consequence of this policy is that many of the parents of economic immigrants now entering Canada are of an age when they still have relatively young children. Under the existing law, once the parents are in Canada, these young children (as long as they are unmarried) can also become immigrants without having to pass the points test applied to economic immigrants.

Third, Collacott (2002) notes that these children, once in Canada, can and do get married to spouses overseas who in turn can immigrate as family class members. As landed immigrants or citizens in turn, these spouses can and do sponsor their parents and the unmarried dependent children of their parents still abroad. Having accomplished this objective, the parents often return to their homelands. This process can involve lengthy chains. None of the immigrants entering Canada through this system have passed the points test to qualify as economic immigrants.

The existence of this system and its implication for the integrity of the basic immigrant selection process has been noted by the government of Canada Auditor-General's Report (1982), which used the term "couriers" to describe the role played by parents in this chain.

It should not come as a surprise that Canadian immigrants from India, China, and other Asian countries have strong desires to have their parents and grandparents joining them in Canada. The Canadian welfare and health care benefits are much greater than those in these developing countries and the parents and grandparents have a correspondingly higher living standard in their old age in Canada.[25] There are also the benefits parents and grandparents bring to their young immigrant families in Canada in the form of household help, especially providing care for children and passing on cultural and religious values. The latter benefit may be the main determinant of what is often referred to as a cultural tradition of close family ties in the culture of these immigrants.

Fourth, there is the problem that a substantial proportion of all sponsorship commitments go

24 Fraser Institute Senior Fellow Martin Collacott has supplied me with most of the information presented in this section. Collacott developed an appreciation of the issues while working as Canadian ambassador to a number of developing countries in Asia and the Middle East, which provided him with much practical experience.

25 These incentives to bring relatives to Canada were much weaker during the postwar years when most immigrants came to Canada from Europe, which had generous social security benefits for their parents left behind. Such social security benefits are either non-existent or very meager in Asian countries, from which most recent immigrants have come. These facts explain why family class immigrants have become a much greater proportion of all immigrants since the 1980s.

unfulfilled for at least a part of the time when the sponsors are committed to looking after the needs of the immigrants. As a result, significant numbers of sponsored immigrants become a public burden. The federal government does not publish official figures on the magnitude of this problem. The provincial governments, which bear the costs of reneged sponsorship commitments, have the data but do not publish them.

However, there is some information on the magnitude of these costs to provinces. Tom Blackwell (2004) interviewed provincial government officials in Ontario, British Columbia, and Quebec and reported the following:

> Canada accepts about 71,000 family-class immigrants a year who are sponsored by a relative already living here. In most cases those family members must commit to support the new arrivals financially for 10 years. The relationships break down in about 10 percent of cases, often because spouses or family members have a falling out, and the immigrants sometimes end up on social assistance. Ontario has 7,500 such welfare recipients, Ms. Pupatello said [Sandra Pupatello is Ontario's Social Services Minister] … Newcomers who are supposed to be supported by their family members account for about $70 million a year in social assistance payments.
>
> British Columbia started contacting sponsors in May to make repayments of welfare money that has totaled $45 million since 1999, said Anne McKinnon, a spokeswoman for the province's Ministry of Human Resources. Collection efforts have so far gathered more than $3 million, she said.
>
> But many of the sponsors targeted are the poorest of immigrants, who earn minimum wage and yet have received bills that average about $50,000, said Charan Gill of the Progressive Intercultural Community Services Society in Surrey, BC.
>
> "Quebec has been going after sponsors for social assistance money for a few years now and recovered $7.5 million in 2003-04," said Claude Morin, a spokesman for the Ministry of Employment, Social Solidarity and Family. "About $95-million is outstanding," he said.

More generally, and in the light of the preceding analysis, it should be noted that some of the problems with family class immigrants are reflected in government statistics. The family class relative to the skilled class of immigrants on average has 20 percent lower incomes and a higher incidence of unemployment and need for social assistance benefits. These statistics also show that the family class of immigrants receives social assistance payments that, as a percentage of all such payments, have been increasing through time. [26]

Refugees

The third major category of immigrants consists of refugees. The government of Canada, which selects them in refugee camps abroad, sponsors some of them. In 2002 this group made up 3.3 percent of all immigrants. Private agencies also sponsored refugees in numbers equal to 1.3 percent of the total.

Most contentious are individuals who land in Canada and are successful in claiming they are refugees. In 2002 they represented 4.6 percent of all immigrants, or equal to about 20 percent of the principal economic immigrants.

Refugees represented 11 percent of all immigrants to Canada in 2002. This figure includes dependants of refugees who live abroad, totaling a surprising 1.8 percent of all immigrants.[27] There are no official statistics on the number of spouses and

26 For more details and sources see Collacott, 2002, p. 21.

children allowed to enter Canada after the refugees have been granted asylum and landed immigrant status.[28]

The problems associated with refugees becoming immigrants in Canada will not be addressed by the proposals presented below for a reform of the immigrant selection process. Possible reforms to the process of dealing with refugee claimants requires a separate study, especially since Canada's options are limited by binding international conventions.[29]

27 It is curious that, in effect, Canada has a substantial number of permanent immigrants who live abroad and often have never set foot on Canadian soil and may never do so.

28 Presumably, these spouses and children are counted in the figures for family class immigrants. This is not a logically consistent statistical treatment of immediate family members of landed immigrants since in the case of skilled workers, they are counted in the total of skilled workers.

29 Martin Collacott will soon publish a new study of Canada's refugee policies through The Fraser Institute.

Chapter 6: Issues with Education and Bypassing the Points Test

The present chapter turns explicitly to the task of reporting what academics and government researchers have found to be the causes of the recent deterioration in the economic performance of immigrants. The research into this question is still in progress and has not produced definitive answers. For this reason, the discussion in this section reflects the current state of knowledge and is more suggestive than conclusive.

In considering the existing literature on the subject, I have concluded that the following three causes are the most important and I discuss them here: the declining returns to educational attainment and work experience of recent immigrants; the large number of immigrants that by-pass the points test; and the high rates of immigration that do not vary with labour market conditions in Canada. The latter cause is discussed in the next chapter.

Educational attainment and work experience

Waslander (2004) used sophisticated econometric analysis and official data to consider the reasons for the declining earnings of recent immigrants. He sets the stage by noting: "In 1980, a male immigrant who had landed in Canada in 1976, 1977 or 1978—two to four years earlier—earned $25,000 on average; by 1995, a male immigrant who had landed two to four year earlier made only $13,000" (p. 335).

Waslander's research used income data from Statistics Canada related to Canada's large cities. The explanation for the lower earnings of the more recent immigrants is, in his words: "… the changing ethnic make-up of the new immigrants had a substantial negative effect on their earnings. Part of the decline in earnings of new immigrants can be attributed to a drop in the returns to foreign education and work experience" (p. 371).

One explanation of this decline in returns to foreign education and work experience is probably related to the quality of the educational attainment the immigrants reach in their native countries. The changing geographic origin of immigrants is documented in the OECD (2003) publication and reproduced here in table 7.

The data show clearly that Europe and the United States have become an ever-decreasing source of immigrants and that the rest of the world, especially Asia, have become the main source. This change is due to a significant decrease in the supply of potential immigrants from Europe where peace, economic prosperity, and slow population growth have reduced incentives to come to Canada after the 1960s. In addition, Canada's immigration policy, which had explicitly favoured Europeans for a long time, became neutral with respect to applicants' ethnic backgrounds during the 1970s and relied solely on merit as measured by the point system described above.

The increased share of immigrants from Asia was accompanied by an important change in the

Table 7: Source Countries of the Foreign Born Population in 2001 (percent of all foreign-born)

Period of Immigration	Europe and the United States	Rest of the World (ROW)	Asia (included in ROW figure)
Before 1961	99	1	—
1961-70	78	22	14
1971-80	43	57	33
1981-90	31	69	49
1991-2001	17	83	57

Source: OECD (2003), p. 112, which gives Statistics Canada as its source.

educational attainment of all immigrants. In 1981, about 11 percent of recent immigrants held bachelor's degrees or higher. In 1996, this figure had *risen* to about 25 percent.[30] Since historically in Canada and other market economies income is an increasing function of educational attainment, the observed decrease in average earnings of immigrants with an average higher level of education constitutes a real and important puzzle.

The economic problems faced by recent immigrants with high levels of education have given rise to the stereotype of taxi drivers in Canada who are foreign-trained science graduates, PhDs, engineers, and lawyers. This stereotype is not far off the mark. Recently, the Consul General for India in Vancouver told me that the inability to find jobs commensurate with their formal education is one of the main complaints immigrants from India have voiced with him. Promises allegedly made by Canadian officials issuing immigrant visas to the highly educated simply are not being kept.[31]

Rigorous statistical analysis supports the more casual evidence on the mismatch of work and skills of highly educated immigrants. The Industry Canada study by Picot and Hou (2003) contains the following chapter headings suggestive of their findings: "Among recent immigrants, having a degree did not prevent the rise in the probability of being in low-income" (p. 13) and "The gap in the low-income rate between Canadian born and recent immigrants increased most for the highly educated" (p. 13).

Perhaps most revealing, Picot and Hou found "Among engineering and applied science graduates recent immigrants had low-income rates 4.6 times their Canadian-born counterparts in 1990 but by 2000 this had risen to 7.0, the highest *relative* rate among any discipline" (2003, p. 14, emphasis in the original).

Having established the fact that recent immigrants with high levels of education suffered from unexpectedly low levels of economic success, Picot and Hou turn to the questions of why this is the case and why the ethnic composition of the immigrants matters. They reviewed academic studies that attempted to answer the questions. They did not come up with any firm conclusions but produced the following partial list of suggested causes, which together with the lack of supporting evidence on their relative significance leaves readers with much opportunity to find support for their own hypotheses.

1. The quality of many foreign educational institutions is unknown to Canadian employers and they are not willing or find it too costly to ascertain.
2. The nature and quality of the education at foreign educational institutions are known but are of lower quality or different from those needed by employers in Canada.
3. The economic immigrants suffer as a result of racial discrimination.
4. Professional associations of physicians, pharmacists, engineers, lawyers, and teachers at all levels in Canada have strict eligibility requirements, which normally exclude foreign education certificates and training.

The problem noted in the first point is being addressed by a study sponsored by Canadian universities, which is examining the quality of foreign educational attainments as criteria for admission to Canadian institutions of higher learning. These findings will be published and should help alleviate the present gap in knowledge of potential employers.

The third point induces me to make the following skeptical comment: discrimination has existed both before and after the recent greater emphasis on education as an admissions criterion. Yet in earlier

30 See OECD (2003) for the definitions used in the derivation of these figures. The original source for the OECD figures is Zhao *et al.*, 2000.

31 For this reason, he personally welcomed the proposal for reform of the process for the selection of immigrants presented above.

times, discrimination did not produce the same poor economic performance, in spite of the fact that laws against discrimination did not exist or were much weaker that they are now.

On the fourth point, professional licensing requirements can be met by taking additional studies and training in Canada. The problem is that the process tends to be costly and time-consuming and many foreign professionals in these fields are unable or unwilling to get the necessary extra education. Studies are under way to determine whether professional organizations should be forced to lower their licensing requirements.[32]

While there is no conclusive evidence on the causes of the decline in earnings of recent immigrants and the highly educated in particular, some studies have reached definite conclusions of their own and use them to make policy recommendations. Among them is Worswick (2004) who suggests that the emphasis on education and work experience in the selection of economic immigrants is misplaced. This view is also expressed in the OECD (2003) report on Canadian immigration.[33]

While I believe that all of the factors Picot and Hou give contribute somewhat to the reduced economic returns to higher education of immigrants to Canada, the most important cause in my view is their second point in the list above: Low average quality of certified education, combined with a lack of information available to potential employers about the true quality of each institution of higher learning.

The reasons for the low quality of education is clearest in the case of India, which over the last 50 years has created large numbers of universities following the conventional wisdom of economists at the time that "the road to development is paved with universities."[34] Because of the size of this often poorly financed effort in India, the *average* quality of the education provided by these institutions has been and still remains rather low.

This view of the average quality of Indian institutions of higher learning is consistent with the fact that many of them offer education of a quality equal to that of universities in the West. But since Canadian employers do not have the knowledge to distinguish between the qualities of education offered by individual institutions, they treat graduates from all in the same way.

In the case of immigration from China, it is useful to remember that institutions of higher learning in that country have long been isolated from the world community of scholars and have been used as much to serve the governing regime's purposes, as they have to pass on education of the sort needed to

32 This is not the place to discuss this controversial issue in any detail. Suffice it to say that there has been much discussion among economists about this problem with some arguing that society would be served better if professional associations were not permitted to issue licenses to practice. These economists argue that in the absence of such licensing the public would be protected by the need of individual professionals to protect their reputations. Notwithstanding this argument, it is highly unlikely that Canadians would be satisfied by legislation that removed the ability of professional organizations to set standards for certification and employment. Even modification of such standards to assure an increased supply of foreign professionals is highly uncertain. What politician or bureaucratic agency will want to be the target of public indignation if doctors trained abroad and admitted to practice by government decree were involved in a disproportionate number of malpractice suits in the wake of the deaths or disabilities of patients? Much the same argument applies to all of the other medical professions, engineers, lawyers, and even teachers at all levels.

33 The policy conclusion reached in the OECD study is that the selection process put less emphasis on education and more on the existence of offers for work in Canada. This recommendation is pushed to its logical conclusion in the recommendations I made above.

34 India's recent economic boom, which has been based largely on the use of highly educated workers, in a sense proves the validity of this theorem, but the country's longer history also shows that education is a necessary but not a sufficient condition. Education can produce high productivity and incomes only if the economic system allows its efficient and incentive-driven use. These conditions did not exist for most of the last half of the last century, when planning rather than markets was used to determine economic activity.

succeed in Canada. As in the case of India, there are many universities in China that have continued with the country's tradition of providing students with an excellent education of timeless value. The problems are again that Canadian employers do not know the names of these institutions and rationally are cautious about evaluating the qualities of graduates from all Chinese universities.

Immigrants by-passing the points test

The lower average earnings of immigrants in recent years are also and additionally affected by the fact that in comparison with the immediate postwar years, more immigrants have entered Canada as members of the family class and without having to pass the country's point system. The reasons for this development are explained in the preceding chapter, which described and examined critically the immigrant selection process that Canada uses.

The way in which family class immigrants lower the economic performance of the average of all immigrants is quite simple and straightforward. Family class immigrants do not pass the points criteria designed to weed out those unlikely to succeed in the Canadian labour market. As a result, the family class immigrants often have low levels of education and relevant work experience, and importantly, do not speak one of the official languages. The parents and grandparents of immigrants are especially prone to having such characteristics, which leads to economic underperformance because of their age and reduced adaptability in general.

Immigrants entering Canada as entrepreneurs and investors are also implicated to some degree in the deterioration of the average incomes of all recent immigrants. These individuals are not subjected to most of the tests that yield qualifying points. Instead, they are admitted on the basis of an allegedly proven ability and on their likelihood of starting and operating new businesses and investing money in existing enterprises.

To the best of my knowledge, there are no official audits, follow-ups, and therefore government statistics on the actual activities of these immigrants. However, Francis (2002) gives many stories about immigrant entrepreneurs that meet initial government criteria by buying corner groceries, operating them for a limited time with low wage labour from their own country, and then reselling the same business to another immigrant entrepreneur.

Thereafter, the entrepreneurs can enter the Canadian labour market like other immigrants. The funds that they brought to Canada may help them with the purchase of a home, but many have trouble in the labour market because often they do not have the characteristics needed to pass the points test applied to economic immigrants. There is strong presumption that if they could have passed that system, they would have used it instead of the entrepreneur or investment route for obtaining the immigrant visa.

The live-in caregivers, almost all of them women working as nannies, typically have low educational achievements and their work experience does not qualify them for high paying jobs. Many remain working as nannies and continue to earn low wages even after their temporary work visas have been converted to landed immigrant visas following their two years' presence in Canada. As such, they have almost certainly contributed to the low average earnings of all immigrants, though their overall contribution to the phenomenon is relatively small since they represented only about .9 percent of all immigrants in 2002.[35]

However, once these caregivers have become landed immigrants, they are entitled to have their spouses and children join them in Canada. The

35 During the years 1996-2000, caregivers made up an average of 1.6 percent of the total. In 2003 the figure was 1.5 percent.

spouses of these caregivers obviously do not have to pass any points tests and are likely to have low levels of education and work experience. It is therefore likely that the caregiver program in its totality has had a notable effect on the low incomes earned by recent immigrants.[36]

The importance of the problems caused by the caregiver program is increased by evidence of its use for the systematic bypassing of the point system. Thus, Clough (2004) reports that five clerks responsible for administering the program in the Vancouver office revealed that the applications for admission under this program are scrutinized only superficially so that some individuals in Vancouver have been able bring into Canada as many as 10 nannies each within a period of two to three years. In 2003 alone, 4,313 caregivers came to Canada and made Vancouver their most popular destination.

36 Presumably, the government knows the number of these spouses and children of these caregivers and they are counted in the category of family immigrants. They should be shown as part of immigrants attributable to the caregiver criteria, to retain consistent treatment with the spouses and children of economic immigrants.

Chapter 7: Immigrants and Absorption Capacity

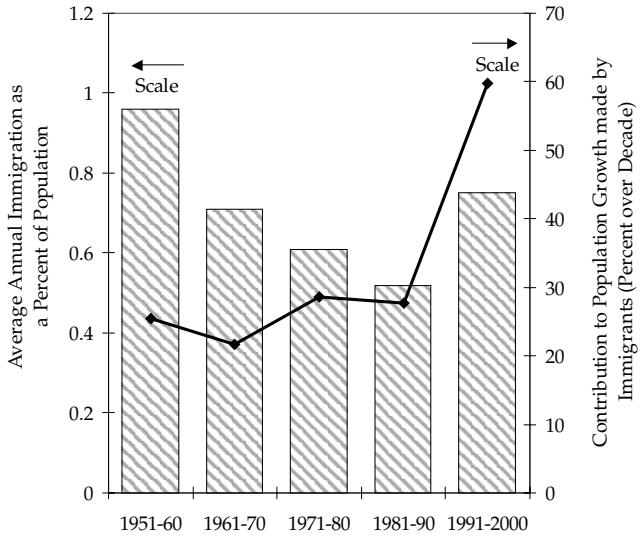
The rate at which immigrants enter Canada directly influences their economic success. The higher this rate, the lower is the speed and ease with which they can be absorbed into the economy and the more likely it is that the immigrants have to live in enclaves that reduce their ability to enter the mainstream of Canadian life, learn English or French and obtain good jobs.

The immigration rate can be measured by considering the number of immigrants as a percent of the population. The bars in figure 2 show this index for the decades from the 1950s to the 1990s, with the scale given on the left.[37]

As figure 2 shows, in the 1950s the average annual inflows of immigrants represented one percent of the population. This heavy immigration came from Europe, which at the time was still recovering from the damage done by the Second World War. It also coincided with a rapid expansion of the Canadian economy, which was driven by consumer spending and investment that made up for the shortages of the war years and the lack of income during the Great Depression. As a result, demand for labour boomed and the absorption of the new immigrants went smoothly. If anything, since most of the new immigrants entering the labour market were skilled craftsmen or highly educated professionals with degrees from European institutes of higher learning with known reputations, they helped increase overall productivity and further stimulated the economic expansion.

Figure 2 also shows that the rate of immigration fell steadily in the 1960s, '70s and 1980s. It reached an average low of slightly over .5 percent in the 1980s. During the four years 1983-86, it averaged only .3 percent, when the absolute numbers of immigrants were below 100,000 annually. This decline suited the slower and more normal long-run economic growth of the Canadian economy and there were no serious adjustment problems in labour markets and for the immigrants.

Figure 2: Immigration and Population Growth



Source: Beaujot (2004), table 1.

However, as figure 2 shows, during the 1990s the average annual rate of immigration rose sharply to over .7 percentage points. This rise took place even though during that decade the Canadian economy experienced serious problems with unemployment, government deficits, high levels of debt, and historically low economic growth and productivity gains.

37 These figures do not reflect emigration from Canada, which has been substantial during these many years. For example, in during the 1980s immigration was 1,381,000 and emigration 400,000, which resulted in a figure of 981,000 net immigration. During the 1990s the gross figure of 2,229,000 was reduced by 407,000 emigrants, leaving a net immigration figure of 1,822,000.

The combination of high rates of immigration during the 1990s and slow economic growth affected not only the immigrants who had arrived during that period; it also lowered the incomes of those who had arrived in the 1980s and who competed for much the same jobs as the later arrivals.

These facts about the rates of immigration during the postwar years alone can explain why the economic performance of immigrants during the 1980s and 1990s was as unfavourable as the data above indicate. An additional factor contributes to this phenomenon: the extraordinarily large proportion that the immigrants represent as a percentage of the overall growth in the labour force, which is also shown in figure 2.

In figure 2, the points connected through a line with the scale on the right measure the contribution that immigrants made to the growth in population during the relevant decade. As the figure shows, from the 1950s through the 1980s, immigrants made up about 25 to 28 percent of the population growth. During the 1990s, this figure shot up to 60 percent.[38]

The high immigration rates during the 1990s created a large number of new ethnic enclaves, which officially are "census regions," where immigrants from a certain ethnic background make up more than 30 percent of the total population. According to Feng and Picot (2004), in 1981, Canada had 6 such enclaves. By 2001, that number had risen to 254.

Such ethnic enclaves are attractive in some respects to recent immigrants as they facilitate life for those who do not speak English. They offer low cost—if crowded—housing, private charity, a convivial social life and work in low wage service industries like retailing and restaurants that serve the residents of the enclave.[39] Some inhabitants typically leave the enclaves once they have learned English or French and are able to find well paying jobs outside. Others follow their children who, through schooling, have learned English or French, have adapted to Canadian conditions, and are comfortable and successful in the economy and society outside the enclaves.

However, a range of government policies has slowed these processes. Strict and costly regulations concerning the operation of retail businesses, restaurants, and the provision of personal services constrain the ability of new immigrants to put to work their often strong entrepreneurial spirits. High minimum wages prevent immigrants in the enclaves with low productivity levels from finding employment in the normal economy, slowing the pace at which they gain work skills needed for full integration into the economy. At the same time, access by immigrants to benefits under Canada's social insurance programs has reduced incentives to find work outside the enclaves and has made more attractive work in the underground economy that flourishes in the enclaves.

Other technological and economic trends have affected the rate at which new immigrants can be absorbed. Farming, once a labour-intensive business, now uses high technology and considerably fewer workers than in the past. Opportunities for work in retail establishments have similarly been limited by not only the minimum wages already noted, but also by the spread of large retail chains that enjoy economies in purchasing and distribution. These retail

38 This level had never been reached before in Canadian history. Data for earlier decades not shown in this graph indicate that the second highest contribution to population growth was in 1901-10, when it was 44.1 percent and driven by government policies that lured European immigrants with promises of agricultural land grants in order to settle the prairies and the West. It has to be remembered that the fiscal burden on Canadians during these times was very much smaller than it is today, since social assistance was provided almost completely by private organizations. At the same time, the granting of ownership to parcels of agricultural land did not involve money and taxes, but was accomplished by a transfer of titles on paper.

39 See Wente (2004) for a journalistic description of conditions in these enclaves.

chains and the low prices they charge to consumers have made it much more difficult for immigrants to create and operate retail stores successfully.

The government regulations and technological trends just discussed suggest that the ability of the Canadian economy to absorb high inflows of immigrants is lower than it was in the past. Therefore, it is especially unfortunate for both the immigrants and Canadian taxpayers that the rate of immigration in the 1990s was so high relative to that in earlier postwar decades.

Cyclical factors

The problems created by the high immigration rates during the 1990s were aggravated by the fact already noted briefly, that during this period economic growth was slow and unemployment was high. Both Sweetman (2004) and Green and Green (2004) address this issue. The following quote is from the latter:

> The history of Canada's immigration policy has been defined by an ongoing battle between proponents of using immigration for long term (economic growth and demographic) goals and proponents of using it for short-term (current labour market) goals. In the past, a concern with the "absorptive capacity" of the economy has affected immigration levels, with alternating periods of large inflows targeted at specific economic goals and periods of drastic cutbacks in numbers during economic downturns. By abandoning the concept of absorptive capacity, as traditionally defined, Canada's current immigration policy is dramatically different from historical norms. This is signaled most clearly by the failure to cut back the number of immigrants during the labour market difficulties of the 1990s… (p. 102)

Sweetman (2004) reports that the government made immigration insensitive to cyclical variations in the demand for labour on the grounds that actual business conditions are difficult to forecast and changes in the immigration rates on which they are based take place with lags sufficiently large to lose much of the countercyclical benefits. This proposition may well be correct, but the low incomes of recent immigrants suggest that making the immigration rate insensitive to cyclical conditions has its own costs both for the immigrants suffering from low incomes and for Canadian taxpayers who have to provide the social benefits to which immigrants with low incomes are entitled.

However, the quantitative importance of the lack of cyclical variation of immigration rates is insufficient to fully explain the observed lower average incomes of recent immigrants. Picot and Hou (2003) considered the ratio of immigrants' and Canadian-born workers' incomes in years when the economy was at its cyclical peak. They found that even during these years, the performance of recent immigrants was below that of immigrants who had arrived in earlier times, which points to the relevance of the other explanations advanced above, such as the poorer quality of the immigrants' educational attainment and other characteristics of immigrants from Asian countries.

Green (2003) in the conclusion of his paper notes:

> Immigrants filled the west at the turn of the last century, filled the demographic gaps of the 1950s, and in the 1960s, helped the country adjust quickly to a more sophisticated economy. These economic rationales, I would suggest, have largely disappeared. We have no empty land, the major structural changes have taken place, and we now have an educational infrastructure in place that can meet our needs for skilled workers. *The rationale for admitting immigrants in the future will be more social and humanitarian than economic*. (p. 42, emphasis mine)

Green gives a detailed account of the different economic rationales that lay behind the immigration policies during the periods he identified. The drive west at the turn of the nineteenth century is part of Canadian folklore. The demographic damage done by the depression of the 1930s and the Second World War was alleviated after the war by immigration from Europe, where poor living conditions in the continent devastated by war permitted the selection of the best and brightest wanting a better life in Canada.

In an attempt to lower the dependence of the Canadian economy and educational system on foreign-educated university teachers, during the 1960s the Canadian government subsidized the expansion and upgrading of universities by establishing graduate programs in many fields. This program led to an influx of many university teachers who were attracted by initial income tax holidays and then remained in the country.[40]

A comparison with Australia

A study by Richardson and Lester (2004) compared the labour market outcomes of immigration policies in Australia and Canada. They found that the deterioration in the economic performance of recent immigrants in Canada did not take place in Australia. They reviewed Australian and Canadian research on labour market outcomes for immigrants to find an explanation for this phenomenon. The main findings of their study are reproduced entirely as Appendix B below.

The explanations for the differences in the economic performance of recent Australian and Canadian immigrants are not due to differences in overall economic conditions, as might be expected. Economic growth in the two countries has been very similar over the relevant time period.

The differences in the economic performance of immigrants in the two countries are instead due to differences in the criteria used in assessing potential migrants and in the standards used in this assessment. Australian rules require potential immigrants to document their economic prospects *before* they even apply for immigration papers. They must be more proficient than Canadian candidates in speaking English and they have to be younger, especially if they apply as members of immigrants' families. Access to social security benefits is much more restrictive in Australia than Canada, which reduces the number of immigrants requiring them and thus pulling down average incomes.

The report constitutes a powerful indictment of Canadian policies and readers are encouraged to read Appendix B. Interestingly, the immigration authorities in Canada have not made nor promoted a study like Richardson and Lester's, though such a study would seem desirable given the similar history of the two countries—especially their historic reliance on immigration for development, but also because the Canadian system has produced such inferior outcomes. In the same vein, Canadian academics also have failed to take up the issue.

Richardson and Lester's study may be interpreted to imply that the problem of the poor average economic performance of recent Canadian immigrants can be solved by some adjustments of admissions criteria and the use of tougher administrative procedures. This approach to reducing the cost on Canadian taxpayers is certainly preferable over doing nothing. It could be applied with relative ease requiring only changes in administrative procedures fully within the discretion of existing legislation. No divisive new legislation would be required.

The disadvantage of this approach is that it puts too much reliance on the discretion of civil servants

40 I took advantage of this offer, leaving a tenured position at the Wharton School at the University of Pennsylvania to teach at Simon Fraser University in 1972, where I have remained ever since.

and on the instructions they receive from their political masters. As discussed above, these instructions would more often than not serve the interests of the governing party than the broad general interest of all Canadians. For this reason, the more fundamental reforms proposed below are preferable because they put much more reliance on market forces and reduce the influence of civil servants and politicians on the immigrant selection process.

In sum

As noted at the beginning of the present part of this study, the reasons for the lower incomes of recent immigrant cohorts in Canada are not fully understood. They continue to be investigated by scholars with the help of new data as they are made available by Statistics Canada.

The information available in the literature in 2004 leads me to believe that eventually consensus will be reached that all of the influences discussed above—the increased reliance on education of low and uncertain value, the large number of immigrants in the family class, the high annual inflow rates of immigrants, and the lack of responsiveness to cyclical conditions—are responsible for most of the observed problems.

The great advantage of the reforms to the immigrant selection system proposed in the next part is that all of these sources of problems will be addressed through one, sweeping change. Those who hold employment contracts for work in Canada in selected occupations or at specified minimum rates of pay will be selected completely without any civil servant having to know the quality of their educational certificates, their knowledge of English or French, or any other qualities of immigrants that determine economic success. Applicants with demographic characteristics that are highly correlated with poor economic performance will not be able to enter Canada as immigrants. The number of immigrants will not tax the absorptive capacity of the labour market or aggravate unemployment during periods of slow economic growth. It is time that the government of Canada gives serious consideration to the proposed reform.

PART III: Towards a New Immigrant Selection System

Chapter 8: The Basic Proposal

The system for selecting immigrants to Canada proposed below closely resembles that used successfully under the NAFTA treaty signed by Canada, Mexico, and the United States. Under this system, foreigners who possess specified skills and have a valid offer for employment are allowed to take up residence in the country through a temporary work visa. This work visa can be renewed a number of times and eventually qualifies the individual and his or her dependants to become immigrants in the traditional sense and ultimately acquire citizenship. Holders of temporary work visas that become and remain unemployed for a specified time are required to leave the country.[41]

The following specific proposals contain time lines and other discrete criteria that in most cases are made provisionally and need to be discussed widely before they are ready to be embodied in legislation. Readers should keep this fact in mind and focus on the merit of the general objectives of and principles underlying the proposed policies.

1. Entry into Canada for settlement is granted only to foreigners who have a valid offer for employment in Canada in occupations specified in a list created by the federal government with the assistance of private sector employers. All the grounds for granting immigrant visas presently in place are to be discontinued, except those applicable to refugee claimants, which are largely set by international treaty obligations and will not be discussed here.
2. Applicants with valid job offers will receive temporary work visas for themselves and visitors' visas for their dependants. The work visas will be valid for two years or as long as the foreigners remain employed and they can be extended for two more years. The loss of employment is cause for deportation after a grace period of three months to find a new job.
3. After the end of four years, the foreigners can become landed immigrants with all the rights and obligations accorded this type of visa presently. Landed immigrants become eligible to apply for full citizenship two years after they achieve this status.

The role of government

The government's role in the operation of the proposed temporary work visa system is limited to:

1. Specifying occupations for which temporary work visas are issued.
2. Excluding applicants likely to become a burden on the public health care system and a threat to national security.
3. Setting up and supervising a privately-run system for the collection of information about the residence and work status of holders of temporary work visas.
4. Ensuring that those holding work visas follow the prescribed rules and enforcing rules for deportation.

41 My proposal is also consistent with recommendations made by Sweetman (2004) and in the OECD (2003) report on Canada's immigration system: "Canadian immigration policy could make greater use of temporary work permits…"(p. 123). Since this report was written with much input from the government of Canada, it probably reflects the fact that influential civil servants and politicians share the view.

Proposals in detail

The following set of recommendations fleshes out the basic ideas just presented. Of course, the "devils are in the details," and many additional details need to be worked out in actual legislation.

Work visas

1. The issuance of temporary work visas (WVs) for entry into Canada requires documentation proving that the applicant has a legitimate job offer from an employer in Canada and that the offer is for work specified in a list compiled and kept current by the government.
2. WVs will be issued by a Canadian embassy abroad for citizens of all countries other than the United States, who can obtain the visa at border points of entry.
3. The work visa is valid for two years. It can be renewed for an unlimited number of times, for two years each time, upon the presentation of evidence of continued employment.
4. After four years in Canada and continued employment, the holders of WVs can obtain permanent immigrant visas. Landed immigrants will be eligible for citizenship two years later.
5. The spouses and dependents of the holders of WVs may enter Canada under a program of family work visas (FWVs), which allow them to accept employment.
6. The holders of WVs who lose their jobs must find new employment within three months or leave Canada, unless the spouse is employed under the FWV provision.
7. Investors and entrepreneurs who can document that they own at least $1 million[42] that they want to invest in Canada are eligible for investor work visas (IWVs) valid for two years, renewable biannually and allowing conversion into immigrant visas after four years. Renewal of the IWVs requires documentation that investments worth at least $1 million have been made in Canada and that the investor has filed Canadian income tax returns. Failure to provide evidence of an investment means that the investor is required to leave Canada within three months of the determination.

The proposed temporary employment visa program is designed to eliminate the existing need for government employees to make judgments about the eligibility of applicants for immigrant visas that are based on documents of questionable value that the applicants submit. It also eliminates the need for government employees to make judgments about whether an applicant has the personal characteristics to succeed economically in Canada.

Instead, Canadian employers make these judgments before they issue employment contracts, having properly evaluated the suitability of the immigrants' education, work experience, and language skills for success in the job. These employers are motivated by their own self-interest to make the right decisions. Wrong decisions lead to financial losses and endanger the very existence of the employers' enterprises.

Some issues

Some discussion is needed around the specific parameters of my proposal before it is enacted. For example, is the requirement that the loss of a job and failure to find a new one leads to repatriation after only three months too harsh and does it need to be longer? Will the high cost of travel make it difficult to have personal interviews with prospective employers and will potential foreign workers be able to use the informal labour market on which Canadian citizens rely considerably to find most of their jobs?

42 This figure needs to be indexed to inflation to assure that the real value of the investment continues to serve its purpose.

Discussion of these issues will undoubtedly bring up the fact that private enterprise already has an effective global network for tapping into the international market for highly skilled and professional workers. There are conventions, informal contacts through professional associations, and old school ties. Under the proposed system, firms in specific industries facing shortages of workers with required skills can band together in hiring headhunters to find and evaluate potential candidates abroad. Immigrants already in Canada represent an important informal link to job candidates abroad and will be used increasingly. The large numbers of foreigners who study in Canada's institutions of higher learning are ready candidates for WV permits.

The experience with temporary work visas under the NAFTA treaty shows that labour markets function reasonably well across borders.[43] The main criticism of the system is that it is administered somewhat inconsistently, mainly because it gives too much discretion to US border officials to verify the employment contracts and qualifications of the applicant for the specific occupations and professions on the government list. My proposal eliminates most of these problems not only since the WVs are to be issued by Canadian embassies abroad, but by the provision that specialized private agents must be involved in verifying the validity of job offers and occupational qualifications.

There is more evidence that the proposed system can operate successfully. For instance, the United States issues TN visas under the NAFTA treaty but in addition has in place a system for admitting foreigners under temporary work visas living in non-NAFTA countries. Statistics published by Globerman (1999, tables 2 and 4) show that in 1996 about 25,000 such temporary work visas were issued under a number of different programs: 4,192 H1-B; 7,037 intra-company transfers; 11,471 temporary business visitors; 2,620 treaty traders and investors. In the same year—1996—26,987 TN visas were issued to Canadians under the NAFTA treaty. These facts suggest that foreigners residing outside of Canada and Mexico have been able to find jobs in the United States through whatever mechanisms are available to them. We may expect these same mechanisms to serve potential employees seeking work contracts in Canada.

The proposed system has one other important advantage over the present system. The annual inflow of immigrants will rise and fall with overall economic conditions during recessions and booms rather than allowing immigrants to enter Canada at annual rates insensitive to economic conditions, as is the practice now.

Investor and family class immigrants

Immigrants admitted to Canada under the investor-immigrant program have a poor record of meeting the objectives of the program, as is documented by Collacott (2002) and Francis (2002). There is strong evidence that the immigrants rarely spend their funds on projects providing employment for Canadians and that some have based their applica-

43 After a short period in existence, Globerman (1999) described the system and evaluated it. Since its publication, Globerman has obtained much information about the operational difficulties associated with the process. Suffice it to note that lawyers now offer their services to individuals who have job offers but are rejected by civil servants at the border for a variety of reasons, including inadequate documentation proving that the applicant has the educational and occupational qualifications to fill the job.

DeVoretz (2003) has shown that the rate of approval of applications differs greatly among different US points of entry and through time. These differences are attributed to the relatively loose criteria for determining whether a job offer is valid and educational qualifications acceptable, which leaves much discretion to individual staff at the border.

tions on claims to funds which they in fact borrowed for that purpose from Canadian sources.

My proposals would eliminate these and other shortcomings by requiring that the renewals of IWVs would be conditional upon the submission of documents showing how the money has been invested and that the owner has filed personal and business income tax returns. More than almost any other part of my policy proposals, the details of the conditions for investors need to be fleshed out with the help of experts and input from past foreign investors who entered Canada under the present provisions.

One of the most controversial implications of my proposal is that Canada would no longer admit immigrants that under the present system would qualify as family class immigrants. I justify this new policy on the grounds laid out in considerable detail earlier in this study—the demographic characteristics of these immigrants make them unlikely to be economically successful in Canada, yet make them likely to make heavy use of the country's social program benefits. Canada's social, health care, and public pension systems are in financial trouble and cannot afford additional burdens through inappropriate immigration policies.

Under my proposal, people who come to Canada with temporary WVs will have done so with the full knowledge that they cannot sponsor for immigration relatives other than their spouses and dependent children. If family ties are critical for these people, they have the choice of not coming to Canada on a temporary WV. The lack of the opportunity to sponsor family members does not prevent those same family members from coming to Canada for temporary visits. It only precludes them from automatically qualifying for social benefits after their arrival, just as is the case with other temporary visitors from abroad.[44]

Neither does the rule prevent immigrants in Canada from sending financial support to needy relatives abroad[45] nor from encouraging and helping properly qualified relatives to find employment in Canada. Below I discuss a possible modification of my proposal concerning elderly parents and grandparents of immigrants under which their offspring settled in Canada would be required to buy an annuity for them, which would ensure that their parents would receive an adequate flow of financial resources over their expected lifetimes.

A further justification for my proposed policy is that ironically, it can help maintain the coherence of traditional families abroad since it would help prevent parents and grandparents from leaving behind other members of their extended families, especially large numbers of children and grandchildren, to join one or a few of their offspring in Canada. This has been the rationale used by Australia, under whose policy the parents and grandparents of economic immigrants are admitted only if at least half of their children are in Australia (or at least more are in Australia than in any other country). This requirement

44 I believe that such a set of regulations would not interfere with the judgment reached in the of the Supreme Court's Singh decision, which specified that all Canadian residents are automatically entitled to social program benefits, since not doing so would violate the non-discrimination clause of the Charter of Rights and Freedoms. The decision can be found at *www.lexum.umontreal.ca/cac-scc/en/pub/1985/vol1/html/1985scr1_0177.html*. The relevant text is found on page 3 "... the Charter guarantees everyone… the right to life, liberty, security of the person… The term "everyone" includes everyone physically present in Canada… The term "security of the person" encompasses freedom from… suffering." Suffering can be the consequence of being deprived on the benefits of social security.

45 It should be noted that in many countries, the amount of goods and services that can be purchased with a Canadian dollar is worth much more than what such a dollar would buy for needy family members in Canada, so that in effect, the limited financial resources of Canadian immigrant families are likely to do more good for their extended families if the funds are sent abroad rather than used in Canada.

has been combined with the need to put into escrow a substantial sum to meet the financial needs of the parents and grandparents.

The status of the dependants of those holding temporary WVs in Canada needs to be set out clearly and include a wide range of contingencies, as in cases when the holder of the temporary work visa dies, is divorced, or is jailed for crimes or terrorist activities. There are issues surrounding the status of children when they reach the age of maturity. I will not attempt in this report to develop specific policies for these contingencies, but I am certain that they can be made equitable and consistent with the basic principles that underlie my proposals.

Taxation and eligibility for social benefits

One important set of special issues surrounding the holders of temporary WVs that requires more detailed analysis involves taxation and eligibility for social program benefits. Here is a sample of the most important issues and recommendations based on considerations of taxation fairness.

1. Holders of WVs and IWVs pay all personal income, GST, and sales taxes and social insurance premiums as Canadian citizens do.
2. Because of these tax payments, the holders of these visas are rightfully and automatically entitled to receive the same public health care and general welfare benefits that are available to Canadian taxpayers. Specifically, they are entitled to
   - employment insurance
   - provincial welfare
   - health care
   - pensions
3. Given the temporary status of the visas held by potential claimants and the existing regulation under which failure to remain employed results in deportation after 3 months, the eligibility for employment, welfare, and health care benefits is limited to 3 months.[46]
4. The holders of WVs or FWVs contribute to the Canada Pension Plan (CPP and OAS) and acquire corresponding entitlements upon retirement in Canada or abroad.

Explanation of recommendations

The principles underlying my proposals are that holders of WVs and IWVs are treated like Canadians and that on average, contributors to social insurance programs should receive benefits equal to the average value of their contributions. The temporary visa holders pay taxes and therefore are entitled to receive, according to their needs, public education, health care, welfare, employment insurance benefits, and pensions for themselves and their dependants.

Enforcing the rules of the system

I propose that private firms carry out the certification, surveillance, and enforcement rules under a system that is often described as a public-private-partnership. The government would set out precisely the responsibilities and work to be carried out by the private firms and specify the amount of money it would pay for this work. Firms would be selected through a competitive process whereby they would offer payment to the government for the right to do the work under the specified conditions for output and compensation.

Private firms would be paid specified fees for certifying that employment contracts submitted to Canadian embassies are valid, economically sound, and offer work in specified occupations and professions. The government would recover the money

46 Special rules have to be worked out to deal with situations where the spouse of a person in Canada under a temporary WV holds a job and pays taxes while employed under the FWV provisions. This and many other contingencies cannot be discussed here.

paid to the private firms by imposing charges on applicants for temporary visas and their employers. The level of fees paid and charges made would be determined through the competition process the private firms would undertake to secure the work. For example, if the pay offered for the specified work were too low, no private firms would bid for it. The government would then raise the pay (and the fees on the immigrants and firms hiring them), until in equilibrium when the fees paid to the private firms would result in small positive bids for the right to carry on the operations required by the government.

Under this process in equilibrium, fees imposed on the visa applicants and their Canadian employers would be efficient and fair since they would cover the cost of the services they receive. The private firms producing the services would have to remain efficient since the right to carry out the business would be reaffirmed periodically through open bidding in competition with other private firms interested in the business.

One aspect of the work these private firms would do would be to inform law enforcement authorities when individuals and employers had violated the rules under which they hold WVs and employ foreigners. The extra workload imposed on the law enforcement agencies to enforce the new immigration system would require extra financial resources from the government. The government would provide the funds from general revenues, as is the case with the work of all law enforcement agencies.

Explanation of recommendations

The proposed private-public-partnership arrangements for the delivery of traditional government services have worked well where they have been put into place and where the government has spelled out clearly what the private firms are expected to do in return for the payments they receive. Competition among firms wanting such contracts provides incentives on the operating firms to meet all service requirements, especially since competitors not in the system have strong incentives to watch over the fulfillment of the government-imposed obligations.[47]

The conditions imposed on the private firms by the government will specify the degree of diligence required to establish the genuineness of employment contracts, the maximum length allowed for the issue of such certificates, how current the information on residence and employment status of temporary visa holders has to be, and many other aspects of the services needed to make the proposed system work. Penalties would be imposed on the private firms if they do not meet the specified requirements on the basis of scales agreed upon in the contract with the government.

Policing the system

I propose including the following rules in the legislation regulating the system of temporary work visas. These rules are aimed at reducing what is almost certainly going to be the most important and difficult problem: the disappearance into the underground of those holding temporary WVs if they quit or lose their jobs and cannot find new ones within the stipulated three months.

- Within one month after arriving in Canada, the holders of WVs must register with the proposed enforcement agencies, providing information about their place of residence and ways to contact them. This information

47 Mark Mullins pointed out to me that in practice, most private-public-partnerships do not result in such bidding and an iterative process that leads to the elimination of economic rents. In response I note that the threat of competitive bidding for the business provides a strong incentive to operate efficiently. The idea of potential entry has been used to develop the modern theory of industrial organization and monopoly policy. Potential entry in this analysis is seen as providing strong restraints on the ability of firms with monopoly and oligopoly power to exploit consumers.

must be kept current. Fines would be imposed on the enforcement agencies if clerical errors or any other forms of negligence lead to non-compliance with the government rules. Those deliberately flaunting the rules would be deported.

- Employers of temporary foreign workers must notify the authorities immediately when any of their workers is laid off, or within one week if any worker has failed to show up for work. Substantial fines would be payable for non-compliance.
- Those holding temporary WVs who are found in violation have no right to apply for status as refugees, use the courts to launch appeals against the enforcement agency's decision, or delay deportation.

The proposed institutions and law enforcement provisions are likely to receive much criticism from human rights advocates on moral grounds and from immigration lawyers claiming that the laws are unfair and should not apply to their clients. My response to such criticism is that the government of Canada has the right to set and enforce rules governing immigration. When applicants accept the visas allowing them entry into Canada, they also accept simultaneously the obligations and consequences of this status. The candidates enter into this contract voluntarily and they therefore are not entitled morally or on any other grounds to question the decisions made by the agencies charged with enforcing the system's rules.

The proposed system and its enforcement mechanism may reduce not only the poor average economic performance of recent immigrants and the high burden on taxpayers outlined above, but would also be useful in improving diplomatic relations with the United States.

As is well known, our neighbor to the south is very concerned with reducing the threat of terror attacks from abroad. Canada's current immigration policy and visitor tracking system is considered inadequate in the fight against terrorism, especially given the relative ease with which people and goods move into the United States through official border checkpoints and across the otherwise unguarded border.

The United States is currently implementing a system for screening and tracking holders of all non-permanent visas who enter its territory from Canada. My proposed system can readily be integrated into that of the United States at relatively low cost and respond in part to that country's expectations of Canadian help in fighting terrorism. The proposed system and cooperation with US border authorities can help to alleviate American concerns and help to avoid drastic measures that have been proposed by some US politicians and security experts, including imposing stricter controls on Canadian visitors and imports.

Chapter 9: Modifications of the Proposed System

The proposed new system for selecting immigrants to Canada presented in the preceding chapter will evoke opposition from Canadians who think that the level of government involvement should be greater than it is under my proposal. In the following I anticipate some of the concerns that will give rise to the demand for greater government involvement. I will examine their validity and outline how the government can deal with the concerns while minimizing the loss of the benefits from the system I propose.

Problems with the list of occupations

The preparation of the list of occupations and professions that are eligible for temporary work visas is subject to several potential problems.

The list may be made to serve the interests of certain industries and occupations rather than the public. This outcome can arise through lobbying and political influence peddling by the affected interests. We could easily have a situation where a government agency is captured by those who are regulated and made to serve their interests through decisions that restrict competition and protect other economic benefits.

More generally, it has proven to be very difficult to identify pending shortages of skills and occupations in the longer run and to use government incentives to alleviate them. By the time workers are induced to learn skills in short supply and have actually acquired them, the shortages often have disappeared.

In fact, past government policies have often aggravated temporary skills shortages and surpluses. For example, not so long ago, skills related to the operation of computers were expected to be in short supply. The expected shortages never materialized. Instead, there is now a glut of workers with such skills. In the 1980s, Canadian medical school enrolments were reduced significantly in an effort to cut the cost of the public health care system. Twenty years later there is a serious shortage of physicians.

Even with the best of intentions and intelligence, the following problems are likely to arise from the proposed selection process run by a government agency:

- Cyclically sensitive industries like construction and natural resource extraction can have lower demands for labour and the foreign workers are no longer needed by the time they have arrived in Canada.
- Administrative lags in the preparation of the list and actions based on it at embassies abroad leave strong demand for skilled workers unfilled for some time to the detriment of the economy.
- The overall immigration rate expressed as a percent of the population or growth in the labour force can become too low, given the government's targets for population growth and other criteria.

Replacing the list by a minimum rate of pay

To deal with the problems associated with the creation and use of the list of occupations and skills, consideration should be given to the use, instead, of the requirement that the applicants for temporary work visas have employment contracts paying a specified minimum annual wage. One such minimum level could be equal to the average income from work earned by all Canadians (about $28,000 in 2003). Since the level increases every year and is different for each province, it may desirable to build such factors into the legislation specifying the level.

This minimum pay approach continues to achieve the main goals of the reforms proposed in

the preceding chapter. It retains the protection of low-income earners that Canadian social policies are designed to help. It also protects taxpayers because workers with the stipulated income pay taxes high enough, and demand few enough social services on average, that they do not impose a fiscal burden on Canadians.

The minimum pay approach has an important advantage over the system using lists of approved occupations and professions. If, at the given rate of pay, the number of immigrants is too few in the light of labour market developments or the desire to reach a specified level of immigration for the achievement of other economic or social goals, the level can be adjusted downward to increase the number and vice versa if the number of immigrants is too large.

However, the minimum pay system also has its disadvantages and risks. For one, setting the rate of pay is subject to political influence, which opens the door to special interest groups influencing it for their own benefit. But this problem is not as great as is the selection of occupations and professions for the list because it involves only one parameter. This fact makes the process easy to understand and likely to attract the critical scrutiny of the media and public.

Moreover, it may be possible to legislate the setting of the minimum pay by making it a specified percentage of the average income of Canadians and modifications prompted by the deviation of actual immigration levels from a set target. To protect these functions from the risk of being manipulated for short-run political gains, it is possible to require that all changes can be made only after approval by a 75 percent majority vote in Parliament.

Problem with seasonal and cyclical industries

In the context of my basic proposal presented in the preceding chapter, the issue has been raised that in many seasonal and cyclical industries, such as construction, forestry, and mining, the demand for labour fluctuates greatly. Under my proposal, many foreign workers would come to Canada during the boom phase of a cycle. What will happen to them when the boom turns into a recession? Will they become a burden on our social programs?

First, while the mandated departure may prove difficult for some of the migrants, the prospect of this happening would be known when they accepted employment in Canada. These workers will receive treatment similar to migrant agricultural labourers from Mexico, who work in Canada bringing in harvests and who return to Mexico when the work ends. Through their very actions they reveal that they voluntarily prefer such conditions to remaining in Mexico where they might be unemployed or earning much less than they do in Canada.

It may not be fair to compare the employment conditions of seasonal Mexican workers with those of people coming from far-away Europe, India, or China. However, remember that those holding temporary work visas are entitled to employment insurance benefits and to stay in Canada for three months (or possibly more, depending on the length of time put into the legislation) before having to return to their native countries. During this period, they have ample opportunity to find new jobs, especially if they really want to remain in Canada. They may be expected to show very high levels of wage flexibility, regional mobility, and willingness to learn new skills. Their eagerness to work should enable them to join the 20 percent of the Canadian labour forces that finds new jobs every year.

Family class immigrants

One of the most emotional issues in Canadian immigration policy has always involved immigrants in the family class. Those who fall under the laws guiding admission in this class are the siblings, parents, and grandparents of people who have come to Canada as so-called economic immigrants and their spouses. In 2002, family-class immigrants made up 28.5 percent of

all immigrants who entered Canada that year. Those who were selected on the basis of their occupational skills and other characteristics contributing to their economic success accounted for only 23.3 percent.

The argument in favour of allowing large numbers of family members to join their relatives in Canada is basically humanitarian. The cultivation of family ties and providing parents with financial support is an important part of the culture for many immigrants, especially those who in recent years have increasingly come from Asia. The departure of some of the family's members with the best economic prospects in their home countries leaves those remaining behind worse off and often suffering from poverty and poor social services.

There is also an economic argument, which suggests that unless Canada allows the immigration of these family members, the pool of economic immigrants will be significantly reduced. As a result, less stringent economic criteria will have to be applied to attract the desired number of all immigrants, so their average economic success will be lowered.

The case against admitting family class immigrants is quite simple. The siblings often do not possess the qualities needed to become economic immigrants and are thus likely to become a burden on Canadian taxpayers. Otherwise, they could have entered Canada as economic immigrants on their own merit.

Parents and grandparents of necessity often become a burden on Canadian taxpayers. These people normally have only few years left to work and pay taxes before they leave the labour force and consume the large amounts of health care and other social services that Canada provides for the elderly. The Supreme Court of Canada's Singh decision has ensured these immigrants receive these benefits as entitlements based on the Charter of Rights and Freedoms.

In the light of the economic arguments against and the humanitarian argument in favour of family class immigrants, the official data on immigration show that the humanitarian argument has won. Using family status to select immigrants has become a cornerstone of Canada's policy. The proposed new system for selecting immigrants eliminates this policy. It is easy to predict that many political battles will be fought over the merit of this aspect of the proposed new system, should the government ever consider it seriously.

Families and other financial arrangements

If the elimination of the family class of immigrants implicit in my basic reform proposals presented in the preceding chapter is politically impossible, I offer the following two alternative methods for reducing the taxpayers' burden.

The first of these is used in Australia, where immigrants must post a bond with a financial institution. The money in this fund can be used if and when the parents of immigrants in Australia require financial assistance, which otherwise the country's social programs would provide. Unfortunately, this system has built-in perverse incentives: if the money is spent early and generously and runs out, the immigrants can rely on the existing social programs to support them.

A second method would require immigrants in Canada to purchase annuities, possibly with the help of funds provided by their parents and grandparents. These annuities would pay out annual benefits sufficient to take care of the normal needs of the parents over their expected lifetimes. The government would have to specify annual levels of payments to match normal needs. Private insurance companies will set the price of the annuities on the basis of actuarial estimates of life expectancies. As in the case of all such life annuities, savings to the insurance companies arising from deaths before the average life expectancy are matched by the extra costs of beneficiaries that live longer than the expected time.

While the use of annuities to pay for the needs of sponsored parents and grandparents has not been

tried anywhere, it addresses the basic problem directly and effectively. It certainly warrants further study.

I am uncertain about the outcome of the political calculus, but it might help if the discussion of the issues considered the following facts:

- The proposed policies are not retroactive. Immigrants who already have their parents and grandparents in Canada will not be affected.
- Future immigrants can meet their traditional family obligations by transferring funds to their families remaining behind. Such funds tend to provide their families with the ability to buy more goods and services than they could obtain if the same money was given to them and spent in Canada.
- Future immigrants can meet some of their traditional obligations towards their parents by having them come to Canada as temporary visitors.
- Future immigrants can travel to their native countries to cultivate traditional family ties.

Chapter 10: Obstacles to Reform of Immigration Policy

Several years ago, academics and government researchers discovered and published the facts presented in Part I about the relatively poor performance of immigrants who arrived in Canada over the last 25 years and who have imposed significant burdens on taxpayers. In spite of the existence of this basic and important knowledge, it has not penetrated the public consciousness. The media have ignored it and politicians are disinterested.

What underlies this lack of interest and public debate? One explanation involves the history of immigration policy in Canada since the 1970s, which Green and Green (2004) describe. The legislation on which Canada's current immigration policy is based has an unusual property. The Minister of Immigration can make changes to it without consulting with Parliament—simply by issuing new regulations. As a result, many of the important changes that have taken place in immigration policy over the last three decades have done so without new laws being passed or debated by Parliament. As a result, there has been none of the media attention and public education that such legislation would have brought.

How did it transpire that Canada's immigration policies are being decided with virtually no input from Parliament? The enabling legislation giving so much discretion to civil servants and politicians was passed at a time when Canada was engaged in a political process designed to define the country's cultural identity, with the professed goal of Prime Minister Elliot Trudeau and his government being to make Canada's culture different from that of the United States.

Official multiculturalism

In the field of immigration policies, the Trudeau government made the decision that Canada should be a multicultural country and not the "melting pot" that the United States is. This policy also was motivated by the need and demands of Quebec, which has always been concerned with preserving its French language and culture. To ensure this policy's success, the Canadian government provides financial aid to organizations dedicated to preserving immigrants' cultures whereas in the United States there are no such subsidies. Immigrants in that country must use their own resources in efforts to preserve their cultural identities. The only requirement is that children in the United States must be taught school in English. This policy is the same as that in Canada, except that French is used in Quebec.

At the outset, the new multicultural policy was not very popular and the government launched a program of indoctrination that was unprecedented in peacetime history. Much money was spent on massive public relations programs that explained its ethical and moral superiority over the American melting pot model, even though for a long time the melting pot model also had dominated public thinking in Canada. Until the 1970s immigrants were expected to become Canadians, even if in their private lives they continued to remain proud of their native countries and cultivated past ties with them.

The multicultural program also included public financing of self-appointed watchdogs, which were to call public attention to any individuals or organizations that criticized multicultural and immigration policies. The standard approach these watchdogs used has been and remains to suggest that anyone criticizing immigration policy must be motivated by racist sentiments since any reduction in immigration would affect visible minorities from Asia, Africa and South America. The media tends to report such criticism widely and acts as if it subscribes to the "zero tolerance" strategy against the expression of racist sentiments: anyone accused of it of necessity is guilty.

The government policy aimed at entrenching multi-culturalism in Canada has been very successful and has kept discussions about immigration policy in the realm of the politically incorrect. This fact serves well the interest of parties in power, whatever political stripe they are. They can continue to change immigration policies without public scrutiny by simple Orders in Council in ways that appeal to immigrants and induce them to vote for the party. They can also choose to disregard any efforts by analysts to bring about changes in policies that would reduce taxpayers' costs but that are not liked by immigrants.

Public choice theory

The reasons for this state of affairs is clear from public choice theory, which is associated with the names of Nobel-laureate James Buchanan and Gordon Tullock (1962), William Niskanen (1971) and Mancur Olson (1965; 1982). Milton Friedman once asserted that the existence of the public choice phenomenon is the Achilles heel of democracy.[48]

Public choice theory may be summarized as follows in the context of immigration policies: The current policies were designed to benefit recent immigrants who desire to have friends and family join them in Canada. The party that provides the immigrants with these benefits is rewarded with electoral and financial support. That same party faces few if any costs since by and large, the non-immigrant community either does not know about the cost of these policies, or they have been indoctrinated into believing that the costs are small relative to the humanitarian and cultural benefits of multiculturalism. The costs are small for each individual and accumulate slowly so that voters rationally ignore them in their voting decisions.

This public choice model is especially relevant for immigration policies since immigrants tend to be concentrated in some important electoral districts in Canada's major cities: Toronto, Montreal, and Vancouver. The theory is supported empirically by the fact that immigrant voters in nearly all of these districts in all elections since 1993 reliably delivered Liberal MPs to Ottawa with comfortable majorities, even when adjacent urban ridings voted differently.

At the same time, the cost and other problems associated with immigration policy are not an issue in the small towns and rural areas of Canada where contacts with immigrants are rare and they have no effect on the demand for social services. Canadians in these parts of Canada have been especially receptive targets of the government's campaign advertising the merits of multiculturalism and the creation of a society free of racism.

In addition, many rural areas of Canada that have few immigrants face declining populations; they see large-scale immigration as a possible solution to this problem, in spite of the fact that immigrants very rarely settle outside the large cities. As a result of these conditions, policy issues other than immigration determine the voting results in Canada's small towns and rural areas, which altogether send a large number of MPs to Ottawa.

Other opposition to change

The immigration policies bring votes and financial support to the government not only from the immigrants, and their families and friends. There are other groups in Canadian society that benefit from immigration and reward politicians correspondingly.

48 Not everyone holds this view. Some economists argue, for example, that competition among special interest groups tends to protect the public and creates an optimum outcome in the marketplace for votes in favour of collective policies. See Wittman (1996), which contains more references to publications taking this point if view, the implication of which are considered below.

1. There are the bureaucrats who enjoy income and prestige that are greater the higher are the levels of immigration and their responsibilities for granting visas and related work in Ottawa and foreign embassies.
2. There is the entire, so-called "immigration industry" that consists of lawyers (often paid out of legal aid funds provided by the government), and political appointees to quasi-judicial boards that deal with refugee claims and similar issues, whose incomes and careers prosper more, the larger is the number of immigrants they serve.
3. Non-governmental agencies (NGOs), often considered part of the immigration industry, receive public funding to assist in settling immigrants, and providing language and other services. They, too, have a vested interest in maintaining large and growing levels of immigration.
4. Industries that depend heavily on the employment of low-skilled workers favour high levels of immigration because it increases the supply of such workers and keeps down their wages.
5. An important group of supporters of high immigration levels is made up of individuals and firms that profit from the immigrants' needs for housing and infrastructure. These beneficiaries include landowners, who enjoy the increased scarcity value of real estate, and developers and builders of housing and infrastructure and their employees, who benefit from the increased demand for their products and services.

In conclusion

The proposed changes to Canada's immigration policies are fully consistent with basic Canadian values and are thus likely to encounter less opposition than they would otherwise. The most important aspect of the proposed policies in this respect is that they are free from racial or ethnic biases. The market forces that result in employment contracts to foreigners will be driven by the famous bottom line: "What will hiring this person do for our profits?"

Employers who discriminate on racial or ethnic grounds will lose out to competitors who select employees only on the basis of their skills and what they contribute to the bottom line. In the recent past, almost all examples of massive discrimination on racial grounds (as in South Africa, the US south, and Germany) were initiated and maintained by governments. Competition in the labour market and among employers is one of the most effective ways to assure non-discrimination and the prosperity of visible minorities.[49]

The objective of my proposed policy changes is simple and clear. It is to eliminate the current, high costs to taxpayers incurred as a result of the immigrant selection process. The proposed policies will welcome all who qualify by holding valid job-offers for approved occupations or pay regardless of ethnic or racial backgrounds.

The history of the Canada-US Free Trade Agreement and the North American Free Trade Agreement gives some hope that the political power of beneficiaries from an existing system can be overcome by a coalition of interests that benefits from its change. Essential to the political success of these treaties was the education of enough Canadians that free trade would benefit them personally. Perhaps it will also be possible to educate Canadians that moving to a market-oriented immigrant selection process will benefit them personally and in their capacity as taxpayers while preserving the most basic Canadian values they cherish.

49 One of the most articulate proponents of this position on the role of free markets in preventing discrimination is Thomas Sowell (1993). His book *Is Reality Optional?* is a collection of essays written for the general public, which are backed by his pathbreaking empirical studies found in more scholarly publications.

Appencix A: Mean earnings of Recent Immigrant and Canadian-born Workers by Sex, Age, and Education[1,2]

	All education levels			High school or less			College			University		
	1980 ($)	2000 ($)	1980 to 2000 (growth in %)	1980 ($)	2000 ($)	1980 to 2000 (growth in %)	1980 ($)	2000 ($)	1980 to 2000 (growth in %)	1980 ($)	2000 ($)	1980 to 2000 (growth in %)
Men, Canadian-born												
Age 16 to 64	45,600	48,600	7	40,300	38,900	-4	45,400	46,700	3	69,100	76,000	10
Age 25 to 29	39,800	35,700	-10	37,200	31,400	-16	40,600	36,100	-11	45,800	44,300	-3
Age 30 to 5	51,300	52,600	3	45,000	42,500	-5	50,100	49,500	-1	74,800	79,300	6
Recent immigrants[3]												
Age 16 to 64	40,600	37,900	-7	31,800	26,400	-17	40,900	34,400	-16	55,300	48,300	-13
Age 25 to 29	36,100	33,400	-7	31,300	26,800	-14	37,800	30,000	-21	42,300	43,400	3
Age 30 to 5	45,400	40,300	-11	35,400	28,000	-21	44,400	36,000	-19	57,700	49,000	-15
Women, Canadian-born												
Age 16 to 64	28,800	34,400	19	24,800	27,600	11	30,100	32,800	9	45,200	50,000	11
Age 25 to 29	29,600	29,200	-1	25,900	23,700	-9	30,000	27,000	-10	38,000	36,400	-4
Age 30 to 54	31,700	37,000	17	26,500	29,600	12	33,000	34,900	6	51,400	54,200	6
Recent immigrants[3]												
Age 16 to 64	23,800	26,800	13	20,300	20,000	-2	24,600	25,000	1	32,700	34,700	6
Age 25 to 29	24,300	25,200	3	21,400	19,600	-8	24,400	23,700	-3	30,800	32,000	4
Age 30 to 54	25,300	28,400	13	21,000	21,100	1	26,100	25,900	-1	34,400	35,500	3

[1]Measured in 2000 constant dollars.
[2]In any given year, the sample consists of individuals who worked at least 40 weeks (mainly full-time, or 30 hours or more per week), and with positive earnings.
[3]Recent immigrants are those who arrived in the last five years.
Source: *Earnings of Immigrant Workers and Canadian Workers.* Available at *www.statcan.ca/Daily/English/031008/d031008a.htm*

Appendix B

The following are the main conclusions exactly as printed on pages 2-3 of the following study:

A Comparison of Australian and Canadian Immigration Policies and Labour Market Outcomes

Report to the Department of Immigration and Multicultural and Indigenous Affairs, Prepared by The National Institute of Labour Studies, Flinders University—September 2004, authored by Professor Sue Richardson and Laurence Lester

The Role of Economic Conditions

Comparison of recent data suggests there is little evidence that the explanation for the better labour market performance of migrants to Australia in comparison to Canada was stronger economic growth in Australia. In fact, the data indicates that although Australia's economic growth was stronger than Canada's growth in the early 1990s this did not continue beyond the mid-1990s—growth since about 1996 has been equally strong in both countries.

Policy Environment

Australia and Canada have a similar rationale for encouraging or 'discouraging' particular migrants. Both countries aim to improve their economic prospects by encouraging the inflow of human capital (increasing the proportion of skilled migrants) and at the same time support a moderate level of family reunion.

One distinct difference arises because of the government level at which the responsibility for immigration rests. In Canada, federal and provincial governments share responsibility for immigration. In contrast, migration to Australia is a federal responsibility. One consequence of this is that the process for recognition of migrant qualifications in Canada is more cumbersome than in Australia.

Selection Criteria and Migrant Characteristics

An evaluation of the complex systems by which Australia and Canada assess applications to migrate suggests that potential migrants to Australia must fulfill a more demanding set of requirements than those intending to migrate to Canada. This is particularly so for skilled migrants. All else being equal, it follows that migrants who fulfill more stringent requirements with regard to age, qualifications, past employment, or language ability are more likely to be successful in gaining employment.

Differences in migrant characteristics or attributes, particularly due to differences in the points test applied to skilled migrants, appear to provide an important part of the explanation for the superior employment outcomes of migrants to Australia. The following summary of influential migrant characteristics and attributes suggests that these factors are likely to continue, at least in the near future.

Assessment of Qualifications—There is a major difference in the processes for assessing qualifications of potential skilled migrants between Australia and Canada. This has increasing importance as the emphasis of migration policy has changed toward attracting a larger number and proportion of skilled migrants. It is an area in which Australia is delivering superior outcomes.

Whereas skilled migrants to Australia must have their qualifications formally assessed before they apply to migrate, this is not the case for Canada. Although Canada has an early assessment process, it is advisory only. Moreover, in Australia the assessment has force in all states and territories in contrast to Canada where formal acceptance of a qualification in one province does not necessarily mean acceptance

in another and multiple acceptances must be sought if the migrant intends to move within Canada.

Access to Social Security—The possible self-selection of migrants due to differing access to social security (including unemployment) benefits may contribute to differing labour market outcomes between Canada and Australia.

As well as deterring those potential migrants who are uncertain about their ability to find work quickly, the two year wait period for non-Humanitarian migrants to Australia to access social security probably also results in greater effort being made by those who do come to obtain employment. This is in contrast to Canada, where migrants generally have immediate access to social security benefits.

Official Language Proficiency—Migrants to Australia tend to have greater official language proficiency, partly because of its mandatory English language requirement for skill stream migrants.

This is often combined with greater cultural familiarity due to the pattern of country of origin. Australia still has strong inflows of migrants from English speaking countries—the United Kingdom and South Africa are the first and fourth largest source countries for Australia's Migration Program.

India, a nation with a very strong English language heritage is the second largest source country. The prominence of the UK as a working holiday destination for many young Australians (and visa-versa) may be one reason why the spouse component of the family stream also contains a significant number of young people from the UK.

Prime Age—Because Australia has an upper age limit for skilled migrants, a larger proportion of migrants to Australia are in the prime working age of 25-44. There is also a lower proportion of older people among Family migrants.

Non-Visaed Inflow—The data indicate that the net inflow of non-permanent workers to Canada adds a greater proportion to the labour force than non-permanent workers to Australia. This suggests that permanent offshore-visaed migrants to Canada face more competition in the labour market from 'other arrivals' than do migrants to Australia, perhaps contributing to the less successful employment outcomes of visaed migrants to Canada. This may be counterbalanced to some extent by the relatively large proportion of permanent arrivals to Australia from New Zealand.

Two factors do favour Canada but they are not sufficient to offset Australia's advantages:

A Higher Labour Force Participation Rate—A higher migrant participation rate could suggest a higher employment rate, but in Canada's case the higher migrant participation rate is associated with a higher unemployment rate.

A Higher Proportion of Skilled Migrants (or "economic migrants" as they are known in Canada)—All other things equal, the higher proportion of skilled migrants to Canada would suggest a higher rate of labour market success relative to Australia. But the higher proportion of dependents in this class may reduce that tendency.

—Herbert Grubel

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