

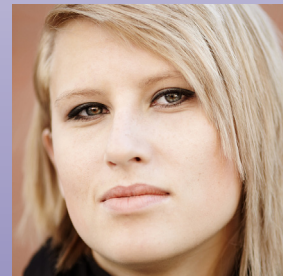
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Immigration and the Canadian Welfare State 2011

by Herbert Grubel and Patrick Grady



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Immigration
and Refugee
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Contents

Summary / v

Highlights / vi

Introduction / 1

1 Taxes paid by immigrants / 4

2 Benefits received / 8

3 Taxation and benefits together / 12

4 Other benefits and costs of immigration / 14

5 Policy recommendations / 23

6 Summary and conclusions / 40

References / 42

About the authors / 47

Acknowledgments / 48

Publishing information / 49

Supporting the Fraser Institute / 50

About the Fraser Institute / 51

Editorial Advisory Board / 52

Summary

This publication provides an estimate of the fiscal burden created by recent immigration into Canada and proposes reforms to existing immigrant selection policies to eliminate the burden. It uses a 2006 Census database to estimate the average incomes and taxes paid on these by immigrants who arrived in Canada over the period from 1987 to 2004. It also estimates other taxes they paid and the value of government services they absorbed.

The study concludes that in the fiscal year 2005/06 the immigrants on average received an excess of \$6,051 in benefits over taxes paid. Depending on assumptions about the number of recent immigrants in Canada, the fiscal burden in that year is estimated to be between \$23.6 billion and \$16.3 billion. These estimates are not changed by the consideration of other alleged benefits brought by immigrants.

To curtail this growing fiscal burden from immigration, the study proposes that temporary work visas be granted to applicants who have a valid offer for employment from employers, in occupations and at pay levels specified by the federal government and determined in cooperation with private-sector employers. Immediate dependents may accompany successful applicants. The temporary visas are renewable and lead to landed immigrant status if certain specified employment criteria are met.

Highlights

Nearly a quarter of a million immigrants have entered Canada annually during the last two decades. The effects that these immigrants have had on economic and social conditions in Canada have been considered by Grubel (2005). He estimated that as a result of the immigrants' low average incomes and the operation of the welfare state with its progressive income taxes and universal social benefits, in 2000 immigrants received from all Canadians an annual net fiscal transfer of \$18.3 billion. The main objective of this study is to improve on Grubel's calculations using previously unavailable official income and tax data referring to immigrants that arrived over a different and longer period. The study used data from the 2006 Census (2006 Census Public Use Microdata File [PUMF]) that contains information on 844,476 individuals. This sample represents 2.7% of the Canadian population and allows making statistically valid generalizations for the entire population.

Calculating the net fiscal cost of recent immigration

In the year 2005¹ the immigrants in the Census database, who arrived in Canada over the period of 18 years from 1987 to 2004, had an average income of \$25,396, on which they paid an average of \$3,438 in income taxes. The comparable figures for all Canadians were \$35,057 for income and \$5,995 for taxes, based on the entire sample of individuals. The data thus implies that, on average, immigrants' incomes were only 72.4% of income earned by all Canadians and that they paid only 57.3% of taxes.

The study also took account of other taxes paid by immigrants and Canadians, such as sales and property taxes. It found that immigrants on average paid \$10,340 while all Canadians paid \$16,501 in income and other taxes. The study also considered the amount received as government benefits by the average immigrant and all Canadians, concluding that immigrants received \$110 less in benefits than all Canadians. The combination of average tax payments and benefits received resulted in the basic finding of the paper: in the 2005/06 fiscal year, the average net fiscal transfer per immigrant came to \$6,051 due to the \$6,161 less taxes paid and \$110 less in benefits received by the average immigrant compared with the averages of all Canadians.

Assuming that an average immigrant pays taxes and receives benefits for 45 years between his or her arrival and end of life, this basic estimate

1 Calendar year 2005 overlaps the 2005/06 fiscal year. Both 2005 and 2005/06 are used in this publication because the census data is for calendar year 2005 and the fiscal data is for fiscal year 2005/06.

implies that each immigrant receives, on average, net benefits worth \$272,295. It also implies that the 3.9 million immigrants who arrived between 1987 and 2004 received, in fiscal year 2005/2006, net benefits worth \$23.6 billion. However, after adjusting the number of immigrants for emigration and mortality, the number of immigrants receiving the net benefits falls to 2.7 million and the estimates of the total net benefits is reduced to the \$16.3 billion.

These figures should be seen in relation to some program spending by the federal government. Thus, in the 2005/06 fiscal year the \$23.6 billion transfer to immigrants equals 4.7% of total program spending of \$503 billion, and comes to 1.18 times the cost of general government services of \$20 billion and 1.79 times spending on the environment of \$13.2 billion. Using the lower estimate of \$16.3 billion for the transfers, they represent 3.2%, 82%, and 123% of the three selected federal government spending figures, respectively.

Other benefits and costs of immigration

The study also examines popular propositions about benefits provided by immigrants for Canadians that are not reflected in the fiscal estimates. The analysis concludes that none of these propositions hold up to close scrutiny.

It is said that the offspring of immigrants will repay Canadians for the fiscal transfers received by their parents and grandparents, but they would do so only if, persistently and on average, they have incomes and pay taxes much above the average of all Canadians. This outcome is unlikely given that the offspring of immigrants in the past eventually have taken on all of the characteristics of the average Canadian.

Immigrants are believed to solve the problems of unfunded liabilities of Canada's social programs. However, according to careful studies by actuaries, immigrants arriving in acceptable numbers cannot do so, simply and mainly because immigrants age and also receive the costly benefits.

Immigrants do fill jobs that Canadians do not want and thus benefit the economy but, in the absence of immigration, these jobs would pay higher wages and would be filled by Canadians or eliminated by the application of labour-saving technology. Under these conditions, poverty in Canada would be reduced substantially.

Immigrants raise aggregate national income but do not in the process increase per-capita incomes of all Canadians. In fact, as the study shows, they lower per-capita incomes after taxes, the most important measure of economic well-being.

Policy proposals

The paper presents a proposal for immigration reform that is aimed at the elimination of the fiscal burden imposed on Canadians through current policies. The principle for reform is that the number and composition of immigrants should be determined largely by market forces within a framework set

and managed by government. Under the proposal, the overall immigration levels could increase, decrease, or remain unchanged, but would most likely decline significantly.

The proposed system for selecting immigrants is based on the model that underlies the present NAFTA rules, which allows the free flow between Canada, Mexico, and the United States of workers who hold valid contracts for employment in the country of immigration and for a specified list of occupations. Under the proposed policy, persons entering Canada with such contracts and their dependants would be eligible to become immigrants in the traditional sense and ultimately to acquire citizenship after remaining employed for a number of years. The role of the government would be to set rules for the qualification of applicants, evaluate their health and security risks, and ensure that employment is maintained and that violators of rules are deported.

The implementation in practice of policies for immigrant selection based on these principles requires a large set of detailed rules, regulations, safeguards and standards, the design of which should be undertaken only after intensive public consultation and input by experts. The paper considers a small number of such rules but is designed mainly to stimulate discussion about the proposed selection principles and the practicality of detailed implementation measures.

Introduction

Nearly a quarter of a million immigrants have entered Canada annually during the last two decades. The effects that these immigrants have had on economic and social conditions in Canada have been considered in a number of papers and conference volumes that have been published by the Fraser Institute (e.g., Grubel, 2005, 2009). In particular, the study by Grubel (2005: 19) analyzed the economic effects of Canadian immigration. He estimated that, as a result of the immigrants' low average incomes and the operation of the welfare state with its progressive income taxes and universal social benefits, immigrant who arrived between 1990 and 2002 received from all Canadians an annual fiscal transfer of \$18.3 billion in 2002. Grubel's study had to use a number of assumptions about magnitudes for which no official data was available and admittedly provided only a rough ballpark estimate.

The present publication replaces some of these assumptions with more comprehensive statistical data from the 2006 Census (Statistics Canada, 2009), thus making the estimates more reliable and precise. Moreover, it includes data for immigrants who arrived after 2002 and during years from 1987 to 1989, for whom data was either not available or not used in the study of 2005. At the outset, the reader should be warned that this paper has a very specific focus and does not analyze a wide range of social and security problems surrounding Canada's present immigration and refugee policies. These issues are discussed in conference volumes edited by Moens and Collacott (2008) and Grubel (2009), which contain chapters by experts working in several social-science disciplines.

Outline

Section 1 presents data on personal income taxes paid by recent immigrants and all Canadians in the sample and gives estimates of the amount of other taxes paid by the two groups. Section 2 considers the difference in the value of government services consumed by immigrants and all Canadians. Section 3 presents the fiscal costs imposed by immigrants by bringing together the estimates calculated in the preceding sections of tax paid and government benefits consumed. Section 4 summarizes arguments about non-fiscal benefits and costs of immigration, which are relevant to assessing the fiscal issues in a broader economic context.

Section 5 presents a proposal for a fundamental reform of the existing immigrant-selection policies, which is derived from our findings on the high fiscal costs of the present selection policies. The policies proposed are not opposed to immigration but rather are intended to replace the judgement of

civil servants on who is to be admitted into Canada with judgements made by private employers in Canada. The final section of the paper gives a summary and some conclusions.

In reading this publication, note that we fully accept the economic logic of the classical, textbook case for free immigration with all of its positive effects on freedom, national income, and global welfare. We recognize, however, that this theoretical case for free immigration is based on the key assumption that governments do not engage in income redistribution by providing cradle-to-grave security through its welfare-state policies. That this is clearly not the case for Canada provides the basis for our considerable and important modification of the classical case for free immigration.¹ As Milton Friedman, who was one of the twentieth century's staunchest advocates for freedom, said: "You cannot simultaneously have free immigration and a welfare state" (Friedman, 1999).

1 For an exposition of the classical case for immigration, see Grubel (1981) and for the benefits of a free international circulation of "brainy" migrants, see Grubel and Scott (1977). A case can be made that immigration into a welfare state forces government to abandon its costly social-welfare programs or at least make it more efficient. This argument is not found in the text-book case for immigration and our analysis and policy recommendations are based on the view that the welfare state will be changed only very marginally, if at all, by the pressures brought upon it by immigration. The desire of the public for the benefits of the welfare state is simply too powerful to allow any significant reductions in social benefits.

1 Taxes paid by immigrants

The basic information we use to estimate the personal income taxes paid by recent immigrants is shown in table 1. This information was derived from the *2006 Census Public Use Microdata File* (PUMF), which was purchased from Statistics Canada (2009). The file contains 844,476 records, presenting data from the 2006 Census on individuals representing 2.7% of the Canadian population. This sample is large enough to permit reliable conclusions to be drawn on the income taxes paid and transfers received by recent cohorts of immigrants.

As can be seen in table 1, the cohort of 64,792 immigrants in the database, who arrived in Canada over the period of 18 years from 1987 to 2004, had, in the year 2005,² an average income of \$25,396, on which they paid an average of \$3,438 in income taxes. The comparable figures for all Canadians were an average income of \$35,057 and income taxes of \$5,995, based on the entire sample of 692,509 individuals age 15 and over for whom income and tax data was available.³ The table also shows the average employment income for the two groups (used in the calculations in table 2). The main differences between income and employment income are that the former includes transfer payments as well as earnings from investments. The data does not allow us to distinguish between these two sources of income earned in addition to that from employment.⁴

The last row of table 1 shows the ratio of the average income of immigrants to the average income of all Canadians: 72.4%; and the ratio of employment income: 81.0%; and the ratio of income taxes paid: 57.3%, which was derived by dividing rows (1) and (2). The income ratios are larger than the tax ratio because the progressivity of the income tax system results in all Canadians with higher incomes paying a proportionately higher amount in taxes than recent immigrants. The ratio for taxes paid of 57.3% is used in the income tax calculations in table 2.

2 Calendar year 2005 overlaps the 2005/06 fiscal year. Both 2005 and 2005/06 are used in this publication because the census data is for calendar year 2005 and the fiscal data is for fiscal year 2005/06.

3 This includes all the individuals in the PUMF sample 15 years of age or older for which data was available. While it is the most appropriate group for the purposes of the current analysis, it is not the most appropriate for meaningful comparisons of income and tax. For that purpose, the sample should be limited to age groups that are most likely to be in the labour force. See Grady, 2010 for this type of analysis for the 25-to-64 year age group.

4 However, the data does show that investment income of immigrants is 41.4% of that earned by Canadians, which goes a long way to explain why the average income and employment income of immigrants is only 72% and 81% of all Canadians, respectively.

Table 1: Income and taxes paid by immigrants and other Canadians in 2005

	Average Income	Average Employment Income	Average Income Tax Paid	Number of Observations in Sample
(1) Immigrants 1987–2004	\$25,396	\$21,267	\$3,438	64,792
(2) All Canadians	\$35,057	\$26,253	\$5,995	692,509
(1) / (2)	72.4%	81.0%	57.3%	

Note: Recent immigrants are compared with all Canadians, which includes themselves, because the government revenue and expenditure data, which must be adjusted, is for all Canadians.

Source: Calculations by authors for recent immigrants and the entire Canadian population done from *Census 2006 PUMF* (Statistics Canada, 2009). Total income is provided by the variable *totinc* in the file, and income tax by the variable *inctax*, both of which are averaged across individuals to calculate averages. All recent immigrants and Canadians reporting income or income tax were included in the sample.

Characteristics of immigrants and income taxes paid

There are four points worth noting about the calculations in table 1. First, the immigrants who arrived in 2005 are excluded from our calculations since they were not necessarily in Canada for the full year and their annual earnings would therefore be biased downward.

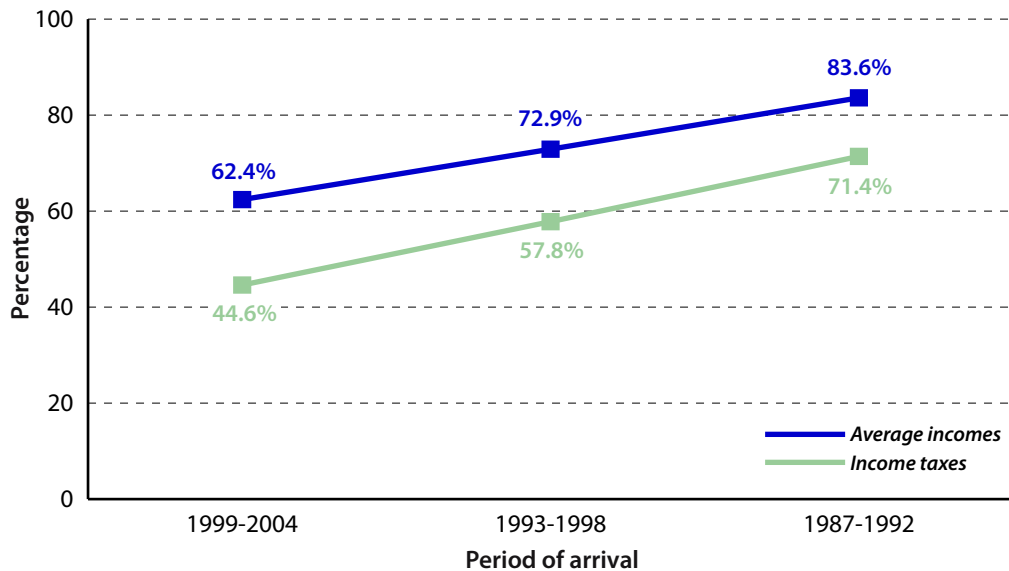
Second, the ratios use the average incomes of all immigrants who arrived between 1987 and 2004, regardless of the fact that they are heterogeneous in a number of ways, just as the sample of all Canadians consists of persons of different age, education and other characteristics.

Third, one of the sources of heterogeneity among immigrants is that they include all classes of immigrants, which have different average levels of income: economic immigrants perform the best, followed by family class or refugees depending on the time horizon (Wanner, 2003; Abbott and Beach, 2009). This fact has interesting implications for other analysis of immigration policies but it is not relevant to our calculations and therefore is not explicitly incorporated. At the same time, however, it does strongly influence our proposals for reforms of the immigrant selection system presented in section 5 below.

Fourth, the heterogeneity of immigrants extends to their different lengths of stay in Canada. Numerous studies have shown that the earnings and incomes of immigrants improve through time as they adapt to, and become integrated into, the Canadian labour market.⁵

5 The increase in earnings of immigrants through time has attracted much attention from researchers: Frenette and Morissette (2003), Worswick (2004), Picot and Sweetman (2005), and Picot (2008). These studies traced the incomes of the same cohort of immigrants through time. While our data is consistent with the findings of these studies, it is worth noting that the results are not strictly comparable since our data reflects the incomes of different cohorts in the year 2005 and not the incomes of the same cohorts through time.

Figure 1: Average income and income tax of recent immigrants as percentage of those of all Canadians, for cohorts arriving 1999–2004, 1993–1998, 1987–1992



Source: Calculations by authors for recent immigrants and the entire Canadian population done from Statistics Canada, *Census 2006 PUMF* (2009). Total income is provided by the variable **totinc** in the file, and income tax by the variable **inctax**, both of which are averaged across individuals to calculate averages. All recent immigrants and Canadians reporting income or income tax were included in the sample.

In figure 1 we document this phenomenon using data in the PUMF file. The graph shows the average income and taxes of immigrants relative to those of all Canadians as a function of the time that immigrants have spent in Canada. For example, the average income of immigrants who arrived during the period from 1999 to 2004 was 62.4% of the average income of all Canadians. For those who arrived during the years from 1987 to 1992, the percentage was 83.6. Thus, our cross-sectional data for different immigration cohorts in 2005 shows the same improvement in the average income of immigrants the longer that the immigrant cohort is in Canada as that revealed by data on cohort performance across time presented in the studies cited in footnote 4.

Other taxes

Government revenues in Canada are raised not only through the personal income taxes just considered but also through a number of other taxes imposed by all levels of government. Table 2 shows the types of taxes in

One of the most interesting and disturbing facts about the incomes of immigrants is found in Picot, Garnett, and Sweetman (2005). They discovered that the average incomes of cohorts have decreased through time and, while the incomes of these cohorts continued the usual pattern of rising as they became more integrated into the labour market, the most recent cohorts have never reached the income ratios attained by cohorts that had arrived earlier.

Table 2: Taxes paid by Canadians and recent immigrants, all levels of government, 2005/06

(1) Type of tax	(2) \$ billions	(3) Percentage of total revenue	(4) Dollars per capita for all Canadians	(5) Tax paid by immigrants as % of all Canadians	(6) Dollars per capita paid by Immigrants	(7) Difference (\$) in per-capita tax, (6) – (4)
Personal income taxes	180,757	34.7	5,720	57	3,260	-2,460
Health & social insurance levies	87,354	16.8	2,764	100	2,764	0
General sales taxes	68,538	13.1	2,169	72	1,562	-607
Corporate income taxes	57,859	11.1	1,831	20	366	-1,465
Property & related taxes	51,417	9.9	1,627	41	667	-960
Other taxes	75,510	14.4	2,390	72	1,721	-669
Total	521,435	100.0	16,501	n.a.	10,340	-6,161

Note: The total taxes paid include those paid by immigrants, so that the average paid by non-recent immigrants shown is biased downward since recent immigrants are known to have below average tax payments.

Source: Statistics Canada, 2010; calculations by authors.

column (1), while column (2) gives the total revenue raised by each type of tax. Column (3) shows the percentage distribution of revenues among the categories. Column (4) translates this total into per-capita amounts, based on the country's estimated population of 31.6 million in 2006. The crucial estimate for our analysis is the per-capita taxes paid by immigrants in each of the types of taxes shown (6). It is unfortunate that this information is not available from publically available sources, nor can it be extracted from the PUMF database.⁶ Therefore, the ratios shown in column (5) are based on assumptions spelled out below, but are deliberately biased in favour of overstating rather than under-stating the amounts paid by immigrants.

Thus, the ratio for *Health and social insurance levies* is assumed to be 100% on the grounds that these taxes are levied on only a maximum level of income that is reached by most immigrants. The ratio for *General sales taxes* is assumed to be 72% on the grounds that the federal value-added tax and provincial sales taxes are levied on consumer expenditures that are related to average income ratios. The ratio for *Corporate income taxes* is assumed to be 30% because recent immigrants are judged likely to hold only small amounts of

6 The information on the different types of taxes paid is absent from the PUMF file because it is not collected. In the case of the personal income tax, the information is obtained through a link between the Census and income-tax data contained in the T1 forms filed with Revenue Canada. This link occurs only for T1 filers who specifically consent on the Census long form.

common stocks that bear the burden of the corporate income tax. In support of this assumption, we note that according to the PUMF data the immigrants' investment income is only 41% of the average of all Canadians and that this probably includes a disproportionate amount of investments other than corporate stocks.⁷ It was assumed that the amounts paid as *Property and related taxes* and *Other taxes* were related to total income.

The last row of table 2 shows the sum of all taxes paid by the average immigrant (\$10,340) and the average of all Canadians including immigrants (\$16,501) in the fiscal year 2006 (ending March 31, 2006 and overlapping with the 2005 calendar year from the Census). These values will be used below in the calculation of the fiscal transfers from other Canadians to recent immigrants.

7 Economic theory suggests that corporate income taxes are passed on to consumers. However, this conclusion is not relevant to the present analysis. Instead, it is legitimate to ask who bears the direct fiscal burden of paying the tax as a result of the ownership of corporations.

2 Benefits received

Government spending is designed to benefit all people living in Canada. However, since one of the objectives of the welfare state is to redistribute income, many spending programs benefit those with low incomes proportionately more than those with high incomes, just as taxes fall more heavily on those with high incomes than on those with low incomes. While the redistributive effects of government spending are clear in the aggregate, there is no statistical information available to allow direct accounting of the degree to which demographic groups like single mothers, the disabled, and immigrants benefit from each. Therefore, the following analysis of the degree to which immigrants benefit from specific spending programs relies on assumptions, which are spelled out and justified for most categories by reference to some fragmentary evidence that exists on the incidence of spending.⁸

Our calculations of the expenditure component of the net fiscal transfer to recent immigrants are presented in table 3. Column (1) lists the different types of spending programs, column (2) total expenditures, and column (3) expenditures per capita for all Canadians based on a population of 31.6 million. The amounts in table 3 represent the spending by all levels of Canadian government, consolidated so as to remove intergovernmental transfers. Program spending excludes debt-service payments of \$44.8 billion, which do not provide current services for Canadians and immigrants and were therefore excluded from our calculations. This exclusion is reasonable on the grounds that, to the extent that the past deficits necessitating the interest payments resulted in the creation of tangible assets like infrastructure and

8 In this context, it is useful to introduce two historic notes. First, at the time the social contract guiding the welfare-state provisions was adopted, the issue of including immigrants was moot because they had records of economic success that prevented their identification as a group needing net fiscal transfers. Therefore, their arrival and existence were not an issue and no statistical records were kept officially to record the benefits they received. The situation is different now. Recently arrived immigrants are a distinct and large group of people who, according to government statistics, have low average incomes and other needs that are covered under the contract. Yet records are still not being kept.

Second, in Canada since 1980 even refugees who are not landed immigrants but are in the process of having their claims assessed for residency are automatically entitled to all the benefits of the country's social program. This condition is the result of the Supreme Court of Canada's "Singh decision" (Singh, 1985), which was based on the court's interpretation of the Charter of Rights and Freedoms. Parliament never took on the task of clarifying the relevant clauses of the Charter to prevent the burden imposed on citizens by this ruling.

Table 3: Benefits received by Canadians and recent immigrants, all levels of government, 2005/06

(1) Type of government expenditure (program spending)	(2) Total expenditure (\$ millions)	(3) Per-capita benefits received (\$)	(4) Benefits received by recent Immigrants (% of other Canadians)	(5) Per-capita benefits received by recent Immigrants (\$)
General government services	20,074	635	100	635
<i>Protection of persons and property</i>	43,299	1,370	72	987
Health	99,531	3,150	100	3,150
Social services	164,568	5,208	100	5,208
<i>Education</i>	84,760	2,682	109	2,924
Recreation and culture	14,268	452	100	452
<i>Labour, employment and immigration</i>	2,480	78	120	94
<i>Housing</i>	4,527	143	110	158
Regional planning and development	2,235	71	100	71
Transportation and communication	24,838	786	100	786
Resource conservation and industrial development	19,760	625	100	625
Environment	13,158	416	100	416
Foreign affairs and international assistance	5,585	177	100	177
Research establishments	1,859	59	100	59
Other expenditures	1,738	55	100	55
Total	502,680	15,907		15,797

Note: Spending categories for which the immigrants are estimated to receive lower or higher benefits are show, e.g.: ***Protection of persons and property.***

Source: Statistics Canada, 2010; calculations by authors.

the maintenance of intangible assets like freedom and the Canadian way of life, they provide benefits that accrue equally to Canadians and immigrants.

The figures in column (4) are central to the calculation of net fiscal costs presented in section 3. They show the percentage assumed to apply to the benefits received on average by recent immigrants relative to the benefits received by all Canadians under each type of program. In most columns, this figure is 100% and reflects the view that recent immigrants benefit as much per-capita as do other Canadians. In some cases, such as in the category *Environment*, the underlying rationale should be obvious. Most readers will agree that all persons in Canada benefit equally from the maintenance

or improvement in the quality of the environment. Most of the other spending categories to which the 100% figure has been applied should be similarly obvious.⁹ Let us now turn to a discussion of the spending categories for which the immigrants are estimated to receive lower or higher benefits.

Protection of persons and property

Here we assume that the benefits from protection are proportional to income. Since the income of immigrants is 72% of that of Canadians, we use this figure here.

Education

Spending on *Education*, for which the percentage is assumed to be 109. This requires some explanation as it results from an analysis of the three main underlying components: *primary and secondary education*, *post-secondary education*, and *special retraining services* (Statistics Canada, 2010). For *primary and secondary education*, it is assumed that recent immigrants obtain a benefit of 150% of the Canadian average. This reflects the fact that, according to the Census, recent immigrants received a per-capita share of child benefits that is 66% higher than the Canadian average, but it also makes some allowance for the fact that the child benefit is income tested inflating this number somewhat. For *post secondary education*, it is assumed that the benefit is only 50% of the average. According to a study of the use of educational services in Canada by Horry and Walker (1994), the children of families with low incomes are less likely to attend institutions of higher learning than the children of families with high incomes. The Census suggests this might be the case as the rate of attendance at school for recent immigrants was only 75% of the Canadian average. As attendance at primary and secondary schools is compulsory, the largest part of this difference must be attributed to difference in attendance at post-secondary institutions. For *special retraining services*, it is assumed that recent immigrants receive 20% more benefits because of their greater need. For the fourth component, *other education*, it was assumed that recent immigrants receive the same average per-capita benefits as all Canadians.

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- 9 The provision of many government services requires the use of large fixed investments and the marginal cost of covering additional persons is near zero. Spending on roads and the environment are good examples. The 250,000 immigrants who arrive every year amount to only a very small addition to the number of people who use Canada's roads and other infrastructure. It can therefore be argued that their arrival does not necessitate new spending in these categories. However, this argument is valid only in the short run. Eventually, as more and more immigrants arrive and add to traffic, the capacity of roads has to be increased to accommodate them. In the present analysis, we look beyond the short-run effects and assume that immigrants add to the need for fixed investment in infrastructure and the agencies administering environmental protection so that the fixed costs increase with the arrival of additional immigrants.

Labour, employment and immigration

Spending on *Labour, employment and immigration* is assumed to benefit immigrants 20% more than other Canadians because they have more dealings with the government on immigration issues related to the family reunification program, the processing of refugee claims, and related issues. The low average incomes of immigrants also lead to the use of more benefits under programs that deal with labour markets and employment.

Housing

Housing is the final category of spending that immigrants are assumed to use more than other Canadians. The assumption is that immigrants benefit by 10% more than other Canadians on the grounds that upon arrival they have temporary access to free or heavily subsidized housing while they settle and find employment. Furthermore, the many low-income immigrant families benefit disproportionately from government programs designed to make housing more affordable, particularly in the urban areas where they tend to settle.

Total benefits

The last row of table 3 shows that the average per-capita amount of benefits received by all Canadians exceeds that received by immigrants by \$110, or \$15,907 minus \$15,797.

3 Taxation and benefits together

The fiscal cost imposed on other Canadians by recent immigrants through provisions of the welfare state can be calculated by using the following formula:

$$FT = (T_a - T_i) + (G_i - G_a),$$

where FT is the average per-capita fiscal transfer to immigrants from all Canadians, T is the average per-capita taxes paid, G is the average per-capita benefit received through program spending, a denotes all Canadians, and i denotes recent immigrants. Using the figures derived in the preceding sections, the fiscal costs are:

$$FT = (\$16,501 - \$10,340) + (\$15,797 - \$15,907) = \$6,161 - \$110 = \$6,051$$

This figure represents the central finding of this study: on average, immigrants coming into the country between 1987 and 2004 received per-capita fiscal transfers from other Canadians worth \$6,051 in the fiscal year 2006.¹⁰

It is important to note, and is evident from the analysis above, that these transfers do not appear explicitly in any government accounts or other official statistics. They are simply the result of the way in which Canada's welfare state operates and the officially documented fact that recent immigrants on average earn much lower incomes than other Canadians.

It is useful to put the figure of \$6,051 for the average, annual, per-capita fiscal transfers from all Canadians to recent immigrants in perspective. First, if the average immigrant pays taxes and receives benefits for 45 years between his or her arrival and end of life, every recent immigrant benefits from transfers worth \$272,295, disregarding all effects of discounting and inflation. Second, during the 18-year period from 1987 to 2004, a total of 3.9 million immigrants arrived in Canada according to the administrative data collected by Citizenship and Immigration Canada (2010). In the fiscal year 2006, they would have imposed a cost of \$23.6 billion on Canadians if none of the immigrants had

10 It is interesting to note that the equivalent figure in Grubel (2005) was \$6,294, suggesting that the more reliable data on immigrants' relative incomes and tax payments did not have a significant impact on the estimate, though it might have been expected that the growth in average income and government spending during the five additional years covered in the present study would have increased this number. But, this should be offset by the fact that using all Canadians instead of other Canadians to calculate the amount of the fiscal transfer tends to understate its amount.

emigrated or died. However, because of emigration and mortality, of those 3.9 million immigrants only 2.7 million still remained in Canada according to the 2006 Census, a representative sample of which is found in the PUMF database used in the basic calculation of costs above.¹¹ The annual fiscal subsidies to these remaining immigrants in 2006 were \$16.3 billion.¹²

To put these figures into perspective, it is useful to consider them in relation to some program spending by the federal government in 2006. The larger of the estimates, \$23.6 billion, is 4.7% of total program spending of \$503 billion, 1.18 times the cost of government services of \$20 billion and 1.79 times the spending on the environment of \$13.2 billion. Using the lower estimate of \$16.3 billion, the transfers were 3.2%, 82% and 123% of the three selected federal government spending figures, respectively.

It is clear that the choice of the number of immigrants receiving fiscal transfers made in the preceding calculations reflects our judgement. We used the number of immigrants who have arrived in 1987 and later because it was after Canada's controls on immigration were eased and the annual inflow of immigrants was allowed to increase substantially. This is the group used in the compilation of the income and taxation statistics shown in table 1 and in the analysis presented in tables 2 and 3.

It would also be quite defensible to use the number of immigrants who arrived over a longer time period, including those who arrived after 2004 (if the data was available) and before 1987. However, the purpose of our analysis is not to come up with the definitive estimate of the fiscal costs, but instead to show that Canada's current immigration policies are generating substantial fiscal transfers from all Canadians to recent immigrants. It is our hope that this will be sufficient to encourage public discussion about the affordability of existing immigration policies and possible reform proposals. And the need for this discussion will only become even more pressing over time as the size of the transfers to immigrants will increase every year with the arrival of additional under-performing cohorts of immigrants.

11 An interesting issue is the extent to which the immigrants leaving Canada returned home or went on to greener pastures, perhaps in the United States. This is important because of its impact on the labour market performance of immigrants. More research is needed on whether Canada is losing some of its most successful immigrants or only those who were unable to adapt to Canada. It would also be of interest to learn how many of these immigrants will return to Canada later in their lives to take advantage of Canada's generous health and welfare system.

12 The number for 2010 would be even higher as approximately another million immigrants (net) entered Canada over the period from 2005 to 2009. If these immigrants and the predecessors continued to underperform in the labour market as seems likely given the disproportionate impact of the recession on immigrants, another \$5.9 billion could be added to the \$16.3 billion, raising the net fiscal benefits to immigrants net of emigrants in 2010 to \$22.2 billion.

4 Other benefits and costs of immigration

Many Canadians with whom we have discussed our estimates of the costs of current immigration policies have suggested that they represent only one part of the equation, neglecting some economic and social benefits immigrants bring to Canadians that are not included in the narrow estimate of fiscal transfers to immigrants. The nature and merit of these benefits were discussed in Grubel (2005) and (2009). For readers not familiar with these publications, we briefly summarize, evaluate, and update the arguments here.

Immigrants and their offspring will eventually repay the fiscal transfers they received

This view is based on the notion that immigrants will repay the transfers they have received once they are fully integrated into the economy and they and their children earn wages that are high enough. Clearly, the truth of this notion depends on how well the new Canadians and their children will do economically in the future. If, in the future, the average incomes of these immigrants only just reach the average income of all Canadians, there will be no repayment of the transfers since as a group they will only pay taxes that match the benefits they receive. Immigrants will repay the transfers only if they eventually earn significantly more than average incomes for a period in their lives long enough to repay the earlier costs incurred on them. Unfortunately, the available empirical evidence suggests that recent immigrants are not even closing the income gap with non-immigrants (Picot and Sweetman, 2005; Picot, 2008), a far cry from earning incomes above average.¹³

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- 13 The statistical evidence on the persistence of immigrants' low average earnings can be considered something of a surprise since Canada has used a points program for selection that puts heavy emphasis on educational attainment and language proficiency and, as a result, has attracted disproportionately many immigrants who are professionals with university education. However, in reality only a relatively small proportion (less than a fifth) of immigrants admitted are actually selected based on points and most are members or the families of skill-class immigrants or family-class immigrants.

Attempts to explain this phenomenon point to the fact that Canadian professional associations often do not accept the educational background of immigrants unless they pass examinations establishing their competence. Many immigrants do not pass these examinations and have to work in lower-paid occupations where the value of their human capital depreciates and they get caught in a low-wage trap that is extremely

The offspring of immigrants are also not likely to repay the fiscal costs their parents have imposed on Canadians. The reason is that, as these offspring tend to integrate fully into Canadian society, their economic characteristics and average incomes tend to become the same as those of all Canadians. They receive on average benefits equal to their average income and tax payments so that they generate no fiscal surpluses.¹⁴ And there is no guarantee that this will happen even for the next generation if they are too disadvantaged from the onset by their parents' low incomes.

Immigrants are needed to solve the problem of unfunded liabilities of social programs

The unfunded liabilities of Canada's social programs are caused by low birth rates and the aging of the population, which were not expected when they were introduced in the years after the Second World War. The argument in favour of more immigrants to solve this problem is deceptively simple and appealing. Young immigrants will pay taxes that can be used to pay for the funds going to the elderly recipients of social program benefits.

Unfortunately, while this simple argument is true in principle, it misses the magnitude of the existing problem, which has been studied by considering the best estimates of future birth and death rates of Canadians and exploring what happens to the age structure of the population and the

difficult to exit. And all of this is being exacerbated by the impact of the recent recession, which has hit new immigrants and other recent entrants to the labour force much harder than more established workers.

Controversies exist over the causes of the failure of highly educated immigrants to land jobs in Canada that are consistent with their qualifications. One of the reasons may be that the professional associations set tests that discriminate against foreign educational attainments. Another may be that the quality of education obtained by the immigrants abroad does not meet Canadian standards or that potential employers do not know the quality of education provided by the degree-granting institutions and are unwilling to take the risk that the quality is low. Yet another possible explanation is that some of the certificates of educational attainment are bogus and that the Canadian officials in charge of disqualifying individuals with such certificates have insufficient resources to do so effectively. Chances are that all of these explanations of the poor economic record of highly skilled immigrants contribute to the phenomenon. There are thus many difficulties that must be overcome in any attempt to correct the situation.

¹⁴ It might also be noted that the issue of repayment of the fiscal burden is complicated by the fact that it is imposed on one generation of Canadians, which would not benefit even if the offspring of the immigrants were to earn above-average incomes. The fiscal surpluses thus generated would go to another generation of Canadians, which may or may not experience a reduction in immigration or the selection of immigrants that have above-average incomes and thus do not impose a fiscal burden on it. This possibility raises issues of the fairness of intergenerational transfers.

resultant dependency ratio (number of retired persons receiving pensions and requiring costly medical care relative to the number of persons working and paying taxes). One study of the issue is by Statistics Canada and comes to the following conclusion:

Even a substantial increase in the number of immigrants could not stop Canada's population aging. For example, if Canada was to admit four times as many immigrants per year, the population's median age would still increase, from the current 38.8 to 44.1 years in 2056. This would mean an average of about one million immigrants per year for the next 50 years. Regardless, the proportion of seniors would increase from the current 12.3% to 22.3% in 2056. (Statistics Canada, 2006: 6)

In another study, Banerjee and Robson (2009) consider what number of immigrants would be required to maintain the current 0.2 dependency ratio (there are 20 retirees who receive benefits from the taxes paid by every 100 workers). In one section of their study, they assume that future immigrants on average are only 22 years old, which is an age that would make them long-term contributors to the funds needed to finance social benefits for retirees. While it may be impossible to find enough immigrants of this age, the assumption provides a powerful insight into the magnitude of the problem of unfunded liabilities caused by the aging population and low birthrate.

Tellingly, Banerjee and Robson's calculations show that to maintain the dependency ratio at 0.2 until 2050, the annual rate of immigration would have to average about 2% of the population (it has been about 0.75% in recent years). This rate of immigration would raise Canada's population to 139 million in 2050 and the number of immigrants would be 1.8 million that year alone. In another calculation, they assume that the selection of immigrants continues to bring in immigrants with the same age characteristics as are produced under the present system. They find that under these assumptions the maintenance of the dependency ratio would result in a population of 235 million in 2050.

These studies clearly indicate that immigration cannot "solve" the problems likely to be caused by the aging of Canada's population. The number of immigrants required would seriously tax the country's ability to absorb them in the economy and society. It would also be very difficult to find the required number of immigrants with the desired skills, education, and age, especially since in traditional source countries fertility is in decline and economic opportunities and incomes are rising rapidly.

It can be argued that, while increased immigration cannot "solve" the problems of population aging and low fertility rates in Canada, it can at least make a contribution. However, as the simulations show, even small reductions in population ageing require greatly increased rates of immigration;

and, as Banerjee and Robson point out, there are other, more efficient ways to decrease the size of unfunded liabilities of the country's social programs. The best of these involves increasing the average age of retirement gradually by just two to three years.

The most obvious solution to the problem lies in an increase in the fertility rate of Canadians to the level of 2.1 children per woman, which is required for long-run stability of the population. Past attempts by governments to increase fertility rates have not been successful, but it is interesting to speculate whether reduced immigration rates would do so. Consider that Canadians of child-bearing age weigh many factors when they decide on the number of children they wish to have. Two of these factors undoubtedly are the cost of housing and concerns about the environment. As noted above, both of these factors are increased by the mass immigration that results from present policies over many years. Therefore, it is possible that reduced immigration would raise the fertility rate of Canadians, and that could lower or even solve the country's problem of unfunded liabilities of social programs.

Immigrants are needed to fill job vacancies

Employers in Canada are strongly in favour of present high rates of immigration because they consider immigrants to be an attractive source of workers to fill the low-paying jobs that Canadians do not seem to want or jobs that require high levels of skills and training that are scarce among Canadians. It is not possible to fault employers for taking this position. They are rightly concerned with the bottom-line of their businesses and they are entitled to lobby for policies to improve it.

However, what is good for business is not necessarily always good for Canadians in general, especially if benefits for business are paid for by the general public through higher taxes, as is the case with immigrants that fill the low-paying jobs and induce fiscal transfers under the provisions of the welfare state. The public is repaid in part for these subsidies by lower production costs that are passed on to consumers through lower prices of goods and services. An empirical study is needed to establish whether taxpayers as consumers benefit or lose in the process, but there is a strong presumption that they lose because government subsidies in any form induce the inefficient use of resources.

Another aspect of the relationship between the need to fill job vacancies and immigration is that immigrants add to the demand for labour because of the purchases they make and demand for infrastructure they create. In this context, it is important to realize that in any dynamic market economy, there are temporary shortages and surpluses of labour, simply because of the existence of business cycles, which have afflicted market economies throughout history, even when the role of governments in the economy was minimal.

In addition, temporary shortages are aggravated by the length of time required to educate and train workers, especially for occupations requiring high levels of skill. The labour shortages can be alleviated by migrants, but present immigration policies fail to vary immigration levels according to conditions in the business cycle and do not repatriate immigrants that are no longer needed during periods of high unemployment. To the contrary, under present policies, immigrants add to unemployment if they arrive when unemployment is high.

The question is, whether in the absence of immigration, Canada would suffer from a permanent shortage of workers. Economic theory suggests that such permanent shortages would not persist. If, for instance, workers in the garbage collection industry, which is sometimes cited as an industry with job vacancies Canadians do not want to fill, cannot be found, employers would raise wage rates until the vacant jobs are filled. Employers would end up with the same rates of profit though, because they would adopt labour saving capital and the producers of the capital would come up with new technologies that would save even more labour and raise the skill level of the job. Their profits would also be maintained as they pass on some of the higher labour costs to the consumers of their services. These higher costs in turn would induce consumers to reduce their need for garbage collection so that in the end, an efficient equilibrium in demand, supply, prices, and wages would be achieved.

A similar process of adjustment as that described for low-skill and low-wage jobs would occur in industries that have vacancies for jobs requiring high levels of education and training. In the absence of immigrant workers, wages would rise and induce more Canadians to get the needed education and training until the shortages are eliminated. And, Canada does have an educational and training system capable of producing the required skilled workers.

It is ironic that, under the present system that fills job vacancies with immigrants, there exists the possibility that immigration does not eliminate labour shortages but perversely worsens them. The reason is that immigrants add to the demand for goods, services, and government infrastructure and other services. No empirical studies of this phenomenon have been made but it is interesting to note that the number of recent immigrants who have settled in Vancouver during the five-year period from 2005 to 2009 is 180,846,¹⁵ or 36,169 per year, which comes to about 3,000 per month. If we assume that the average family size of these immigrants is three, then there are 1,000 families requiring the construction of new dwelling units per month or about 250

15 The numbers used in this paragraph are found in Citizenship and Immigration Canada, 2010: Permanent residents, <<http://www.cic.gc.ca/english/resources/statistics/facts2009/permanent/>>.

every week.¹⁶ Furthermore, these immigrant families add to the demand for spaces in schools, universities, hospitals, transit facilities, airports, roads, and bridges. The construction of all of these facilities requires labour and creates labour shortages that in turn will be filled by even more immigrants that will require more construction, and so on in a never-ending cycle.

Immigrants are needed for economic growth

Immigrants increase the growth of aggregate national income and output, which is often argued to be a desirable end in itself. More sophisticated arguments are that such growth raises Canada's influence in the world and that it results in dynamics that encourage growth by stimulating change and a general belief in progress. In fact, maximizing aggregate national income is a totally inappropriate goal of government immigration policies. The focus should instead be on maximizing immigration's effects on per-capita income and thus living standards.¹⁷ To illustrate this point, it could be noted that few Canadians would prefer to live in China, which has the second highest aggregate national income but still has living standards, measured as per-capita GDP, of less than a tenth of Canada's.

The main finding of this study is that in recent years the low average incomes of immigrants in combination with the provisions of the welfare state have reduced the average per-capita incomes of Canadians. The issue therefore is whether a larger aggregate income offsets these reductions in per-capita income because of the benefits derived from greater influence in world affairs and the beneficial dynamics that feed back on growth itself.

The idea that the average Canadian puts value on the fact that the country has more influence on world affairs has not been tested empirically but, even if this were the case, it is safe to suggest that it is not as important as the level of income. The idea that aggregate economic growth driven

16 In 2009, the number of principal skilled immigrants into Canada was 40,735. They were accompanied by their immediate family of spouses and dependents numbering 55,227. During the same year, 46,921 spouses, dependents, and older children arrived in Canada to join their spouses who earlier had arrived as skilled immigrants. The total number of persons related to the 40,735 skilled immigrants therefore was $40,735 + 55,227 + 46,921 = 142,983$. This number implies an average family size of 3.5 for the 40,735 skilled immigrants.

This calculation is merely illustrative since it does not account for the fact that the family reunification immigrants join skilled immigrants who had arrived in earlier years and that 17,179 parents and grandparents of skilled immigrants and their spouses arrived in 2009 and are likely to have joined their offspring in their dwellings. Available data does not permit these refinements to the calculations to be made.

17 A committee of Britain's Upper House of Parliament criticized the Labour government for misleading the public by justifying its high immigration policies on the grounds that they raise total national income (Green, 2009).

by high population increases leads to higher per-capita income involves the complicated and inconclusive empirical findings of the theory and literature of economic growth.

Moreover, per-capita income is only an imperfect measure of living standards. Non-monetary factors like the pollution and congestion that increase with population growth and have negative effects on living standards also should be taken into account. If these determinants of living standards were properly reflected in measures of living standards, the countries with low population growth could easily have higher real per-capita well-being than those with higher population growth. So for the purposes at hand, suffice it to say that there is no conclusive evidence that a larger Canada would be better and would benefit existing Canadians.

Miscellaneous benefits

A final set of benefits often mentioned in discussions over immigration policies involves non-economic factors. One such idea is that, as citizens of a rich nation of caring individuals, Canadians are ennobled by allowing people from the rest of the world to share the country's economic riches, political stability, and tolerance and by allowing them to escape the misery found in their own countries. While it is not possible to put any dollar value on such feel-good benefits stemming from our current immigration policies, it is legitimate to note that it comes at a considerable fiscal cost and that the same number of poor foreigners could be helped at a much lower cost through traditional foreign-aid programs. Canada's foreign assistance is budgeted at \$5 billion in fiscal year 2010/2011, just over 30% of our estimate of the net fiscal transfer to recent immigrants. These bilateral and international aid programs do not require the relocation of individuals that disrupt their lives, separate families, and bring large costs for taxpayers needed to assist immigrants settling in Canada.

Another benefit from immigration often mentioned is that it enriches the cultural life of Canadians. The value of this feel-good benefit also is impossible to measure but it is legitimate to note that Canadians already enjoy an abundance of ethnic restaurants and festivals and that further increases are likely to bring relatively smaller additional benefits.

A final benefit from immigration often mentioned is that a tolerant multicultural society nourished by immigrants is better than the Eurocentric society that existed before the 1970s. This view is deeply entrenched in the minds of many Canadians and is a source of pride. However, as important research has shown, there are grounds for concern that the multiculturalism existing in Canada carries with it threats to national unity, culture, and security,¹⁸ as well as the fiscal costs documented above.

18 For a full discussion of these issues, see Gallagher, 2009 and Mansur, 2009.

Other costs: effects on poverty

Canadians are concerned about the distribution of income, especially the proportion of families that have incomes below what Statistics Canada defines as the low-incomes cut off (LICO) levels.¹⁹ Unfortunately, under the present immigrant selection system, large proportions of immigrants have incomes that are below the poverty line for prolonged periods after their arrival in Canada. This fact is documented in a study by Statistics Canada (Picot, Lu and Hou, 2009), the results of which are presented in table 4.

The data in this table shows that, based on market income, in 2005 the poverty rate among Canadian-born was 23.2% while it was 32.7% among all immigrants. These figures imply that rate of poverty among immigrants was 60% greater than among Canadian-born. The corresponding figures for income after transfers and before taxes were 13.3% and 21.6%, respectively, indicating that the governments' policies to reduce poverty are having the desired effect. However, the excess of poverty among immigrants under this definition of income remains at 60%.

The table also shows that the share of immigrants among Canadians with low income decreases with the length of time immigrants are in Canada and that after 20 years in the country, immigrants have the same poverty rate as the Canadian-born. This desirable effect is due to the efforts of immigrants to improve their language and other skills needed to be successful in the labour market. However, again there is no guarantee that this will continue to happen in the future at the same pace. Burton and Phipps (2009: 4–5) have found that the position of children coming from low-income families in the income distribution exhibited considerable “stickiness” and that this was exacerbated by their being “non-white” as are the greater majority of recent immigrants. However, it is clear that during the 19 years of above-average poverty rates, these immigrants receive above average amounts of benefits aimed at reducing poverty. The costs of these payments are a component of the fiscal burden estimated above.

Note that these estimates are biased downward since they do not take account of the fact that the immigrants with incomes below the poverty line tend to have low skills. They compete with Canadian-born workers with low skills and depress the wages they earn. As a result, the level of poverty among Canadian-born and the benefits they are provided with are greater than they would be without the competition for jobs stemming from the immigrants.

The fact that poverty rates among immigrants relative to those among the Canadian-born do not continue to decrease after 20 years provides indirect evidence that, after initial periods of learning and labour market

¹⁹ We cannot enter here into a discussion about the shortcomings of the LICO index as a measure of poverty. For a full discussion of different definitions and measurement of poverty, see Sarlo, 1996.

Table 4: Low income-rates, Immigrants and Canadian-born, 2005 (Percent of all income earners)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Canadian-born	All immigrants	5 or less	Years since immigration			20 +
				6–10	11–16	16–20	
Market income							
<i>Percent</i>	23.2	32.7	43.4	35.2	34.3	29.4	28.4
<i>Ratio (3) ... (8)/(2)</i>		1.6	2.7	2.1	1.9	1.6	1.0
After transfers, before taxes							
<i>Percent</i>	13.3	21.6	36.0	28.0	25.8	21.5	13.3
<i>Ratio (3) ... (8)/(2)</i>		1.6	2.7	2.1	1.9	1.6	1.0

Source: Picot, Lu and Hou, 2009.

integration, the economic performance of immigrants generally is the same as that of other Canadians. If indeed this proposition is correct under the most optimistic of assumptions, it follows that on average they pay taxes equal to the benefits they receive, just as all Canadians do. The immigrants, therefore, do not ultimately pay enough taxes to compensate Canadians for the fiscal costs they imposed during the 19 years when their economic performance was below average. And, there is real risk that the continuing deterioration of the performance of recent immigrants in the labour market could result in the end of the convergence that has heretofore characterized the Canadian immigration experience.

5 Policy recommendations

Before turning to our proposals for changes in Canadian immigration policies flowing from the findings just presented, we wish to introduce some ideas that should enter into decisions about changes to immigration policies.

First, most Canadians are happy to live with the welfare state that redistributes income from the rich to the poor, be they the unemployed, the sick, or the elderly. But the transfers to immigrants are altogether different from those to needy Canadians. Until they arrive at our borders, immigrants are foreigners and not part of the Canadian social contract that guides the welfare state provisions. Immigrants are only here because we allow them to come, so that the fiscal burdens they impose can be attributed to our deliberate decision to allow them to become landed immigrants. By the same token, we are free to stop these fiscal burdens on ourselves if we choose to do so either by changing immigration policies or by severely limiting immigrants' access to the benefits of the welfare state.

Second, it is important to consider that Canadians have the right to limit access to the country's social institutions, income, and wealth that they and their ancestors have created. In a sense, Canada is like a private club (Gibson, 2009), whose members have the right to exclude others from sharing in its benefits without proper compensation to existing members. Clubs do not allow non-members just to enter the premises and use the facilities. Nor do they allow individual members to grant the free use of club privileges to outsiders just because it suits them. What is right for clubs in the minds of most Canadians should also be right for Canada.

Third, in a free society like Canada's, individuals decide to maximize their well-being by considering choices they face with regard to their work, spending, investment, and many other issues. One of these choices involves the number of children they wish to raise. Into this decision enter personal preferences, but also considerations about the effect that their children will have on the size of the country's population, congestion, pollution, climate change, and overall quality of life for themselves and the country and world as a whole. The government of Canada should be obligated to respect the population growth that results from the decisions made by Canadians and should not change it without much more public consultation than has ever taken place concerning these consequences of population growth.²⁰

Finally, the precarious fiscal conditions of Canadian governments caused by short-run cyclical deficits and, more important in the long run, by

20 This idea is found and discussed more deeply in Krikorian, 2008.

the unfunded liabilities of social programs, give special urgency to the discussion of immigration policies at the beginning of the second decade of the twenty-first century. Changes in immigration policies can contribute to the alleviation, or possibly even the elimination, of fiscal deficits. Timely steps to curtail further increases in the fiscal burdens imposed by poorly selected immigrants will reduce fiscal pressures on governments and curb the growth of underfunded liabilities of social programs such as health and pensions. The money saved could be used to lower taxes or reduce debt from what they would be otherwise and ultimately to meet the fiscal demands of an aging population.

Changes to immigration policies

Changes in immigration policies have profound and complex effects on the economy, society, and culture. They need to be discussed publicly and widely. Indeed they should ultimately be subjected to a public referendum or become a major issue in regular elections before being enacted by parliament. The changes to Canada's existing immigration policies that we propose are offered as a starting point for such discussions.

As a general and important point, we want to make it clear that our proposed policies are not designed explicitly to reduce or move to zero the level of immigration. They are thus not "anti-immigration." Rather they are aimed solely at eliminating the fiscal burden imposed on Canadians through current policies. As will be seen below, under our proposed policy changes, the number and composition of immigrants will be determined largely by market forces. Overall immigration levels could, in theory, increase, decrease, or remain unchanged. But whatever the new levels may turn out to be, they will prevent further increases in the size of the existing fiscal burden.

The system for selecting immigrants to Canada proposed below represents a radical reform of Canada's existing immigration system. It shares some features with "TN status" used relatively successfully under the NAFTA treaty signed by Canada, Mexico, and the United States. Under it, nationals of one of the signatory countries who possess specified skills and have valid offers of employment are allowed to take up residence in either of the other countries through a grant of "TN status" (which for Mexicans requires a visa). This TN status, which is initially for three years, can be renewed a number of times or even indefinitely. However, it does not lead to permanent residency or "green card" status and thus does not qualify the individual and his or her dependants to become immigrants in the traditional sense and ultimately to acquire citizenship. Holders of temporary work visas or status who become and remain unemployed for a specified time can be required to leave the country.²¹ Our

21 Our proposal is also consistent with recommendations made by Sweetman (2004) and in the OECD's report on Canada's immigration system: "Canadian immigration policy could make greater use of temporary work permits" (2003: 123). Since this report was

proposal also bears some similarities with the existing Temporary Foreign Worker Program (TFWP), which has been expanded to cover growing numbers of highly skilled and educated. But again the TFWP does not include a generally available formal pathway to permanent residency status (the Canada Experience Class, however, does allow TFWs and students to apply for permanent residency status from inside Canada).

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. And, the Temporary Foreign Worker Program would, of course, also be replaced by our proposed new program,²² as would the Provincial Nominee Programs negotiated with most provincial governments.
- 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, and unlike under the TFWP, the foreigners admitted 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:

written with much input from the government of Canada, it probably reflects the views of influential civil servants and politicians.

- 22 The rationale for the existence of other temporary worker programs should also be re-examined. While some, such as the Seasonal Agricultural Worker Program, seem to be working as intended, others like the Live-in Caregiver Program have been subject to abuse. But again a detailed assessment of these programs is beyond the scope of the present paper.

- 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/or 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.²³

Proposals in detail

The following set of recommendations fleshes out the basic ideas just presented. Of course, the “devil is in the details,” and many additional details would need to be worked out in actual legislation.

- 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 Work visas 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 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 to apply for citizenship two years later.

23 This raises the issue of the government’s ability to deport immigrants in Canada on WVs who do not comply with the terms of the visa. The government has been trying to deal with this issue in the case of refugees. Unless some reasonably expeditious way of removing foreigners from the country can be arrived at, it will be extremely difficult, if not impossible, to impose any system of border controls on the inflow of people from abroad. One possibility that has been put forward is the use of the “notwithstanding clause” in the immigration legislation to remove the full range of legal appeals right up to the Supreme Court guaranteed under the Charter of Rights and Freedoms.

- 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 million²⁴ 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 IWV 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 radical aspect of the proposed temporary employment visa program is that it 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 will 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.²⁵ These employers are motivated by their own self-interest to make the right decisions as wrong decisions lead to financial losses and endanger the very existence of the employers' enterprises. These financial losses could be reinforced by penalties for abusing the program, including prohibitions on sponsoring future WVs.

Government employees would, of course, still have to be involved in administering the program and checking to make sure that its requirements were satisfied. In this regard, it is worth noting that their performance in running the Temporary Foreign Worker Program has been less than exemplary according to the Auditor General (2009) and that many of the deficiencies she identified would also have to be remedied to make sure our proposal for WVs would function well and not run into the same problems.

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

25 In this regard, it is worth noting that immigrants are, at present, no longer selected by Citizenship and Immigration based on interviews. It is hard to imagine that any business would similarly hire anyone without an interview.

Some issues

Some discussion is needed around the specific parameters of our proposal before it could be finalized. 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?

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. They can take advantage of new technologies such as the internet, chat, and Skype to facilitate and reduce the costs of the interview process. Immigrants already in Canada represent an important informal link to job candidates abroad and can 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 can function reasonably well across borders. For instance, Pia Orrenius and Daniel Streitfeld conclude that “[t]he TN’s combination of market-based efficiency and minimal red tape makes it a potential model for a type of guest-worker plan and a stepping stone toward a common NAFTA labor market” (2006: 1). The main criticism of the system has been 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.²⁶ Our proposal eliminates most of these problems since the WVs are to be issued by Canadian embassies abroad and specialized private agents must be involved in verifying the validity of job offers and occupational qualifications.

26 Globerman (1999) described the system and evaluated it after it had been operating for a short time. Since the publication of this evaluation, 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.

In fiscal year 2009, the United States granted TN status to 62,690 Canadians and 17,017 Mexicans under the NAFTA treaty, and also to individuals residing in the United States who were presumably nationals of Canada and Mexico (US-DHS, 2010). These facts suggest that foreigners including those residing in Canada and Mexico have been able to find jobs in the United States using the available mechanisms. We may expect similar mechanisms to serve potential employees seeking work contracts in Canada. In addition, the United States has in place a system for admitting under temporary work visas foreigners living in non-NAFTA countries. In the most recent fiscal year 2009, US Government Statistics (US Department of State, 2010) indicate that 110,367 H-1B visas were issued for temporary workers with higher education in certain “specialty occupations” that involve the application of “highly specialized knowledge” (United States Code, 2010).

Our 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 and thereby exacerbating unemployment, as is the practice now.

Investor-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 (2003) 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 applications on claims to funds that they in fact borrowed for that purpose from Canadian sources. Our 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. The details of the conditions for investors obviously need to be fleshed out with the help of experts and input from past foreign investors who entered Canada under the present provisions.

Family-class immigrants

One of the most controversial implications of our proposal is that Canada would no longer admit immigrants who under the present system would qualify under the family class. We 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 programs. Canada’s social, health care, and public pension systems are in financial trouble and cannot afford additional burdens through inappropriate immigration policies.

Under our 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.²⁷

Neither does the rule prevent immigrants in Canada from sending financial support to needy relatives abroad,²⁸ nor from encouraging and helping properly qualified relatives to find employment in Canada. Below we discuss a possible modification of our proposal concerning elderly parents and grandparents of immigrants under which their offspring settled in Canada could buy an annuity for them, which would ensure that their parents would receive an adequate flow of financial resources over their expected lifetimes, and thus allow them to be admitted to Canada.

A further justification for our 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 has been combined with the need to put into escrow a substantial sum to meet the financial needs of the parents and grandparents (Australia, Department of Immigration and Citizenship, 2011a, 2011b).

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- 27 We 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 the benefits from social programs, since not doing so would violate the non-discrimination clause of the Charter of Rights and Freedoms. The specific wording of the decision is: "... 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" (*Singh v. Minister of Employment and Immigration*, 1985: s.7). Suffering can be the consequence of being deprived on the benefits of social security.
- 28 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.

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. We will not attempt in this report to develop specific policies for these contingencies but we are certain that they can be made equitable and consistent with the basic principles that underlie our proposals.

Taxation and eligibility for social benefits

Taxation of holders of temporary WVs and their eligibility for social benefits require detailed analysis. Here is a list of the most important issues and recommendations based on considerations of taxation fairness.

- 1 Holders of WVs and IWVs pay all the same personal income, GST, and sales taxes and social insurance premiums as do Canadian citizens.
- 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 as are available to Canadian taxpayers, including:
 - employment insurance
 - provincial welfare
 - health care
 - public pensions.
- 3 Given the temporary status of the visas held by potential claimants and the regulation under which failure to remain employed results in deportation after three months, the eligibility for employment, welfare, and health care benefits is limited to three months.²⁹
- 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 our proposals are that holders of WVs and IWVs are treated like Canadians and that, on average, contributors to social insurance

²⁹ 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.

programs should receive benefits equal to the 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 public pensions for themselves and their dependants.

Enforcing the rules of the system

We propose that private firms carry out the certification, surveillance, and enforcement rules under a system that is often described as a public-private-partnership (PPP). 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 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 competitive 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 an 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 providing 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 of these private firms 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 all the work of all law-enforcement agencies.

The proposed private-public-partnership 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.

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

We 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.

- 1 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 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.
- 2 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.
- 3 Those holding temporary WVs who were found in violation would 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. Our 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 should not be entitled to question the decisions made by the agencies charged with enforcing the system's rules, provided, of course, that the decisions are indeed consistent with the 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 neighbour 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 (Moen and Collacott, 2008).

The United States currently uses a system for screening and tracking holders of all non-permanent visas that enter its territory from Canada. Our 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. In our view, the proposed system and cooperation with US border authorities can help alleviate American concerns and avoid drastic measures, such as stricter controls on Canadian visitors and imports, that have been proposed by some US politicians and security experts.

Modifications of the proposed system

The new system for selecting immigrants to Canada presented above will evoke opposition from Canadians who think that the level of government involvement should be greater than it is under our proposal. In the following, we anticipate some of the concerns that will give rise to the demand for greater government involvement. We will examine their validity and outline how the government can deal with the concerns while minimizing the loss of the benefits from the system we 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 possible 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 long 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 computers and information technology were expected to be in short supply. The expected shortages never materialized and there is now instead 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 healthcare system. Twenty years later there was 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:

- 1 Cyclically sensitive industries like construction and natural resource extraction can have lower demands for labour than expected and the foreign workers can end up being no longer needed by the time they have arrived in Canada.
- 2 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.
- 3 The overall immigration rate expressed as a percentage of the population or growth in the labour force can become too low, given the government's population targets and other criteria.

Replacing the list by a minimum rate of pay

To deal with the problems arising from the creation and use of the list of occupations and skills, applicants for temporary work visas could instead be required to have employment contracts paying a specified minimum annual salary.³⁰ One such minimum level could be equal to the mean or median income from work earned by Canadians in the region in which the immigrant will be employed. This would eliminate many of the jobs covered by the Temporary Foreign Worker Program, which could be better filled by lower-skilled residents. Since the level of wages increases every year and is different for each province, it may be desirable to build such factors into the legislation specifying the level.

30 An example of the use of a minimum annual salary was provided by the United Kingdom Border Agency (2010) when it established as one of its exceptions to the interim limits it put on non-EU economic migration to the UK last November that only established staff earning more than £40,000 (US\$63,500) per year were allowed to work in the UK for longer than 12 months.

The approach requiring a minimum salary continues to achieve the main goals of the reforms proposed above. 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 from their earnings pay taxes high enough, and demand few enough social services on average, that they do not impose a fiscal burden on Canadians. It also 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 light of changes in the labour market or a desire to reach a specified level of immigration to achieve other economic or social goals, the minimum salary can be adjusted downward to increase the number; or adjusted upward, if the number of immigrants is too large, subject, of course, to the essential proviso that it should not be set so low as to generate a net fiscal burden.

However, setting a minimum salary 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 salary 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 majority vote in Parliament.

Problem with seasonal and cyclical industries

In many seasonal and cyclical industries, such as construction, forestry, and mining, the demand for labour fluctuates greatly. Under our 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, most of the workers admitted could be expected to be in high-wage industries that require high levels of education and skills. These types of workers tend to be much less vulnerable to cyclical downturns. And, while it is true that for many of those migrant workers in more cyclical industries the mandated departure could prove to be difficult, the prospect of this happening would be known when they accepted employment in Canada. Through their very actions they would reveal that they voluntarily prefer such conditions to remaining in their home countries where they might be unemployed or earning much less than they do in Canada. Moreover, remember that

those holding temporary work visas would still be 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 countries of origin. During this period, they would have an ample opportunity to find new jobs, especially if they really wanted 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% of the Canadian labour forces that finds new jobs every year.

Problem with 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 (not to mention the relatives of other previous family-class immigrants or refugees). In 2009, family-class immigrants made up 22.1% of all immigrants who entered Canada that year. Those who were selected by the federal government on the basis of their occupational skills and other characteristics contributing to their economic success accounted for only 16.2%.³¹

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 the economic argument 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 level of economic success will be lowered.

The case against admitting family class immigrants is quite simple. 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

31 This data is taken from Citizenship and Immigration, 2010: Permanent residents, Canada—Permanent residents by category, <<http://www.cic.gc.ca/english/resources/statistics/facts2009/permanent/02.asp>>.

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 decisions have ensured these immigrants receive these benefits as entitlements based on the Charter of Rights and Freedoms.

The official data on immigration shows that the humanitarian argument in favour of family-class immigrants has won and that the economic arguments against it have been ignored. 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.

Families and other financial arrangements

If the elimination of the family class of immigrants implicit in our basic reform proposals presented above is politically impossible, we 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 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 (Australia, Dep't of Immigration and Citizenship, 2011b).

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, including health care. 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.

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

- 1 The proposed policies would not be retroactive. Immigrants who already have their parents and grandparents in Canada would not be affected.

- 2 Future immigrants could meet their traditional family obligations by transferring funds to their families remaining behind. Such remittances 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.
- 3 Future immigrants could meet some of their traditional obligations towards their parents by having them come to Canada as temporary visitors.
- 4 Future immigrants can travel to their native countries to cultivate traditional family ties.

6 Summary and conclusions

Canada's existing immigrant-selection policies during the last 25 years have resulted in an inflow of immigrants that is very high by both historic and international standards. This inflow has significant implications for the economic well-being of Canadians as our population ages that needs to be addressed.

Recent census data used in the study reveals that immigrants who arrived in recent decades have average incomes that are only 72% of the average earned by all Canadians. This fact is important because under Canada's welfare-state regime personal income tax rates are progressive and the immigrants with these low incomes on average pay only a little more than half what all Canadians pay. While these income and tax gaps narrow through time as immigrants adapt to life in Canada and integrate into the labour force, they will remain for at least 20 years and probably more.

The other aspect of Canada's welfare state relevant to the analysis of the fiscal impact of current immigration policies on the economic well-being of Canadians is the universality of all social programs. Using government statistics on types of government spending, some data specific to the amounts consumed by immigrants, and informed assumptions about other types, we conclude that immigrants and all Canadians on average consume roughly the same value of government services. (And this puts aside the issue that recent immigrants are apt to qualify for greater benefits as they age and qualify for income-tested government pensions like OAS and GIS.) Putting together the facts that recent immigrants pay less than average taxes and consume similar values of government services as do all Canadians, we estimate that the fiscal cost imposed by immigrants on all Canadians was about \$6,051 for fiscal year 2005/06.

Depending on assumptions about the number of immigrants receiving this transfer, the total fiscal cost to the government of recent immigrants ranges from \$16.3 billion to \$23.6 billion annually. The precise size of this cost is not so important. What counts is that it is very substantial and can be expected to continue and to grow for as long as the present immigration policies remain in place.

We have evaluated arguments implying that these costs are accompanied by substantial economic benefits to Canadians that are not properly accounted for in our analysis. But we conclude that the benefits in the form of relief from unfunded liabilities of Canada's social programs, the reduction in labour shortages, and others are either non-existent or too small to compensate for the burden immigrants impose. We also note that recent immigrants have contributed to growing poverty as measured by the government's

LICO index. This has important implications for economic and social policy. Poverty can make it more difficult for the children and grandchildren of immigrants to succeed economically and will thus tend to perpetuate itself.

We propose changes in Canada's immigrant selection process that are not anti-immigrant, but are instead aimed at replacing the present failed system with one that uses market forces to select immigrants and thus to determine the level of annual inflows. The basic instrument proposed for the selection of immigrants is reliance on legitimate job offers issued by approved Canadian employers. This private system is to be supervised by the government to ensure those immigrants' earnings are high enough to prevent the imposition of fiscal burdens and that immigrants do not pose a risk to public health and safety.

Now, at the beginning of the second decade of the twenty-first century, with Canada facing large cyclical deficits, we need to have a no-holds-barred public discussion of proposals to reform the immigrant selection procedures. We need to resolve the problem soon because growing structural deficits are expected to emerge over the next few decades as a result of the aging of Canada's population and the unfunded liabilities of Canada's social programs. We cannot afford to add the growing fiscal burdens imposed by poorly selected immigrants to this toxic fiscal brew that is undermining the Canadian welfare state. Canada's immigration system is badly broken and mere tinkering, as the government has been inclined to do, will not be enough to fix it. Nothing less than a totally new approach will do.

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