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**Article**

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# Labour Migration

*Herbert Grubel*

## Canadian Immigration Policies: Blueprint for Europe?

The European Community and its member countries are searching for solutions to the problems caused by the ongoing flood of migrants from abroad. One solution widely discussed involves the adoption of the system used by Canada to determine the number and characteristics of migrants admitted (Slater 2015 and Meardi et al. 2016). When considering the adoption of the Canadian model, policymakers need to know that while it promises many benefits in theory, in practice it is seriously flawed and may not serve Europe well.

The model has the following basic features. The government annually submits an immigration target for the year to parliament, which is routinely approved without debate. In 2017 the target was 300,000, up from 280,000 the year before and 240,000 on average during the years 2006-2016. It is slated to rise to 350,000 by the year 2020. Since the mid-1980s, the target has been set to ensure that immigrants represent around .75% of the existing population.

The immigrants are selected by Canadian officials from a large pool of applicants and are granted visas after assignment to four different categories (see Government of Canada (1)), the largest of which represents “Economic immigrants”, who are mainly skilled workers, but also includes their accompanying spouses, partners and children, investors, the self-employed, carers and entrepreneurs. Economic immigrants account for 58% of the total number of immigrants.

The second class are the “Family class immigrants”, one quarter of which are parents and grandparents and three quarters are the spouses, partners and children of immigrants who had not accompanied their spouses when they first settled in Canada. They account for 28% of the total, while “Refugees” (also known as Refugee Claimants) make up 13% and “Others” 1% of the total.

Economic migrants are selected via a points system (Immigration Canada (2)) that assigns a maximum of 25 point for the level of education, 24 points for language proficiency in English or French, 21 points for work experience and 10 points each for age, arranged employment and adaptability. To be admitted, economic migrants need to have at least 67 out of 100

possible points and, like all immigrants, must meet health and security requirements. A small number of economic immigrants are admitted without use of the points system by provincial governments to meet special local needs.

Recently, this system was modified (Semotiuk 2016) via the creation of a class of applicants with “Canadian work experience”, which, in turn, was modified by the introduction of the class qualifying for “Express Entry”. The main goal of these modifications was to enable a large number of foreign students who have completed a university education in Canada to receive immigrant visas more easily and quickly since they have demonstrated their knowledge of English or French and likelihood of economic success through their educational achievements.

Applicants in the investor class (Government of Canada (3)) do not have to pass the points test and up until 2014 they were admitted if they could show that they have business experience, a net worth of at least CAD 1.6 million and will invest at least CAD 800,000 in Canada. A new programme (Canada Visa (No date)) requires that they have a net worth of at least CAD 10 million and the funds to invest CAD 2 million for 15 years in the Immigrant Investor Venture Capital Fund.

Parents and grandparents are granted immigrant visas if their offspring who are already in Canada commit to cover their living and medical care costs, and if the annual quota allocated by Parliament is not exhausted.

Canada’s handling of its international obligation for the admittance of refugees (Historica Canada (No date)) should be of particular interest to Europeans. Canada supports refugees escaping the turmoil of civil wars and unrest indirectly through financial grants to international agencies that operate refugee camps abroad. One reason for this policy is that “It takes from USD 25,000 – USD 40,000 to settle a refugee in a third country, whereas the costs of protecting and caring for a refugee in a camp are a fraction of that amount.” (Bissett 2015). The other reason is that these types of refugees will and should return to their home countries, where they have strong ties, after the end of hostilities. It is believed that if they settle in Canada, they are likely to remain and will be lost to their native countries’ reconstruction efforts.

Refugees who flee persecution, torture and the threat of death and reside in international camps are interviewed by Canadian officials who travel to these camps. Under the 2017 plan, immigration visas are granted to 40,000 of the neediest of them. Refugees



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asking for acceptance at Canada's airports have been very small in number relative to those resettled from camps abroad because of effective agreements with airlines to prevent potential claimants from boarding without a visa.

Canada has no problems protecting its borders from illegal immigration of the sort that plagues Europe. Canada's long coast lines are difficult to reach by small boats from overseas and past experience shows that large ships will be turned away, meaning that none have attempted access for many years. Agreements with international airlines have been used successfully to restrict the arrival of asylum seekers at Canada's airports.

Canada's land border is, in principle, protected from the inflow of asylum seekers by the Safe Third Country Agreement with United States (Government of Canada (4)) under which refugee claimants can be turned back on the grounds that they are leaving a safe country and are shopping for access to more generous social assistance programs. Canada's government is proud of its policy of selecting immigrants regardless of their ethnic, racial or religious backgrounds.

#### WHAT LESSONS CAN EUROPE LEARN?

Which aspects of the Canadian model could be used in the design of a rational and publicly acceptable policy for the European Union and its members?

The Canadian model teaches no lessons that could help in dealing with Europe's pressing problem of how to more effectively protect its borders from asylum seekers, how to deal with the perceived threat to its religious and cultural institutions or practices, and how to protect the public from terrorism.

The main appeal of the Canadian model to European policymakers stems from its presumed success in selecting immigrants who benefit their countries by raising the income of their populations, tax revenues and contributions to social insurance programmes.

The first effect is the subject of much disagreement among economists. Conventional price theory suggests that immigrants' pay equals their marginal contribution to output, and as they use their income to buy an equal amount of goods and services, the incomes of native workers are unchanged. Some economists argue that native workers benefit because immigrants offer them the opportunity to trade and complement them at work and raise their productivity. The value of these effects is very difficult to estimate, but at best is very small relative to the fiscal burden caused by Canadian immigrants in recent decades.

The main cause of this fiscal burden is that Canadian immigrants who arrived after 1986, had average incomes in 2005 equal to only 70% and pay income taxes equal to only 54% of the average paid by other Canadians, but they absorbed the same amount of government services as other Canadians in the form of free healthcare, educational and social programmes

and through spending on the protection of persons, property, the environment and the many other spending programmes characteristic of modern industrial countries. This information on the performance of recent immigrants is provided by Statistics Canada and is used by Grady and Grubel (2009) to consider their implication for government policy.

The difference between the taxes paid and benefits received by the average recent immigrant has been estimated in the Grady-Grubel study to total around CAD 6,000 per year. Considering the total number of immigrants in 2013, this difference implies that they imposed a fiscal burden of about CAD 30 billion on other Canadians that year. This burden increases with the arrival of rising numbers of immigrants.

The CAD 30 billion represents around five times what Canadian governments spend on foreign aid and foreign affairs and equals 70% of what they spend on the military and the protection of persons and property.

The idea that immigrants can prevent the pending insolvency of unfunded public pension programme is illusory. Immigrants reduce unfunded liabilities while they are young, but increase them once they retire. Computer simulations show that immigrants can only reduce unfunded liabilities if their numbers increase continuously to offset this ageing effect. For immigrants to offer a solution to the problem of unfunded liabilities, annual inflows would soon reach unsustainable levels (Banerjee and Robson 2009).

#### WHAT EXPLAINS THE MODEL'S FAILURES?

One explanation for the system's poor economic performance is that in 2015 only around 30% of all immigrants, the so-called principal applicants passed the points test. The other 70% consist of their spouses and children, parents and grandparents, and refugees whose economic prospects were not assessed.

Investors, who might be expected to have high incomes and pay high taxes, fail on both grounds because many of them invest their money in housing, rather than productivity-enhancing business capital and continue to live in their native countries and pay income taxes only there. Their spouses and children live in the houses they have purchased and live on non-taxable transfers from the investor, while they use Canada's free health, education and other social programmes.

Due to these problems, the system described above was changed in 2014, meaning that investors now face far stiffer requirements to qualify for a visa, which has led to a dramatic reduction in number of investor immigrants and the damaging practices described.

Another explanation for the poor economic performance of recent immigrants is that the quality of their education and skills required by the Canadian government (Government of Canada (5)) does not actually meet Canadian standards because the foreign institutions of higher learning responsible for documenting

the immigrants' educational attainment levels themselves have lower standards.

For example, Canadian employers with immigrants who have an engineering degree from an Asian university often only use it to prepare engineering drawings, rather than to design buildings and bridges. Another example involves immigrants with certificates qualifying them to work as medical doctors. Most of them are unfamiliar with Canadian institutions, practices and pharmaceutical products and take a long time to pass Canadian examinations that qualify them to practice medicine in the country.

The poor economic performance of immigrants admitted on the basis of their high selection points is exacerbated by the fact that some may have used forged certificates of educational and language attainments (Green 2009). No reliable estimates exist of the magnitude of this problem, but the internet offers many business addresses for the purchase of fake certificates (Diploma Company (no date)).

Labour market discrimination has been cited as an explanation for the low incomes of recent immigrants. Such discrimination may exist, but its importance is diminished by the fact that for some time many businesses in Canada have been run by immigrants who, according to the work of Nobel laureate Gary Becker (summarised by Murphy 2015) may be expected to hire underpaid immigrant workers to maximise their profits, but who raise the wages of the workers suffering from discrimination by other Canadian employers in the process.

#### **OTHER PROBLEMS WITH THE CANADIAN MODEL**

Canada's immigration model has had some other effects that do not increase the well-being of the general population. Thus, as data on incomes show, immigrants have increased the supply of low-skilled and low-paid workers, many of which filled jobs that Canadians are unwilling to accept at existing wage levels. This fact is praised widely, but it also has an important down-side.

These immigrants depressed the wages of all low-skilled workers and increased the incomes of employers and professionals. Aydemir and Borjas (2007) conclude that immigration decreased the earnings of Canadian high school dropouts relative to the earnings of workers with at least a college diploma by at least 12%. The inequality of Canada's income distribution has increased significantly as a result.

The hiring of low-skilled and low-wage immigrants has had an additional negative effect. It reduced the incentives of employers to invest in labour-saving capital and technology. Such investment would have raised the productivity and wages of Canadian workers and made them more willing to accept the jobs that they had previously shunned as underpaid. These benefits could have been attained while the profits of employers remained unchanged.

#### **ABSORPTIVE CAPACITY AND PARLIAMENT**

Parliament setting the annual number of immigrants has not worked well for Canadians, as there are important indications that it exceeds the country's economic and social absorptive capacity.

Most of the immigrants have settled in Montreal (14%), Toronto (40%) and Vancouver (15%) to join communities of people from their home countries (Metro Vancouver (no date)). Virtually none have settled in Canada's vast, thinly populated areas because they are not well-suited for human habitation and have been losing jobs and residents since farming has become increasingly mechanized.

Every week around 250 immigrant families have been adding to the demand for housing in the Greater Vancouver area and 400 in Toronto (Government of Canada (2), Statistics Canada 2017). This additional demand has contributed significantly to the increase in the cost of housing in these two cities, which is viewed by many to have reached a crisis level. Speculators, who are often blamed for these price increases, are merely anticipating their continuation and move forward in time the expected future excess demand for housing. Price increases are largely caused by high influxes of immigrants as a result.

Importantly, these sizeable additions to the population in these major cities have also taxed the capacity of the cities' road, water, sanitary, transit, recreational, medical and educational facilities to the extent that traffic congestion, wait-times for medical treatment and access to public recreational opportunity facilities are imposing massive economic costs and inconveniences on the population.

Advocates of the present level of immigration argue that all of the costs described above would disappear if the supply of transportation infrastructure, housing, hospitals, schools etc. kept up with demand. These advocates blame governments' inadequate funding and excessive regulations for the existing problems (Lammam and MacIntyre 2017). This proposition is valid, but misses the point that the political system has now proven incapable of providing the funding and deregulating the construction industries to prevent the housing crisis and the crowding of public facilities for several years. In addition, the fiscal burden caused by recent immigrants reduces the amount of government funding available for housing and infrastructure.

Yet, the solution to, or at least the alleviation of these costly burdens on Canadians, could be a number of policy changes such as: replacing letting Canadian employers rather than civil servants select immigrants as the former have powerful incentives to hire only those applicants whose wages match their productivity; and who, in order to ensure that the taxes they pay at least match their use of public services, are required to hire only immigrants whose wages are at or above the average for the region in which the employers are

located. Investors should be required to put their funds into productive business investment and pay taxes on their incomes abroad. In the future, parents and grandparents should not be granted immigrant, but only visitor visas (Grady and Grubel 2015).

Other possible policy changes would be to temporarily reduce the number of annual immigrants significantly to, for example 50,000, which would put a stop to mass immigration, but would allow the beneficial flow of migrants that have crucial skill sets they can use to serve the interest of the economy and society. After the construction of housing and infrastructure has caught up with demand, and the absorptive capacity of the country has been determined in the light of recent developments, the number of immigrants per year can be changed to the optimum level.

The following policy changes were suggested to me in a personal email by James Bissett, a former Ambassador and former head of Canada's immigration service run by the federal government:

*Cutting down on the numbers; concentrating on younger immigrants (we used to give 10 points extra for those under the age of 40 years); insisting that professional and skilled trades people confirm through Canadian sources that their credentials will be accepted on arrival; giving parents and grand parents an unlimited temporary visa which allows them to remain indefinitely here with their sponsors but does not give them access to free medical and other services available to Citizens; increasing substantially our dollar contribution to the UNHCR's efforts to care for refugees in favour of resettling refugees in Canada (the cost benefit favours this kind of policy); adopting an asylum policy that prohibits anyone from applying for asylum if coming from a "safe country" (one that is a signatory to the UN Convention, or is a democratic country following the rule of law); insisting that immigrants in the economic/labour force category be seen and interviewed by professional, career and experienced visa officers to determine the applicant's credibility and chances of quickly becoming established on his/her arrival in Canada.*

Politicians have ignored the call for the kinds of reforms suggested above, despite the fact that a 2017 opinion poll showed that 57% of Canadians agreed with the statement that: "Canada should accept fewer immigrants and refugees" (Todd 2017) and a government survey conducted in August 2016 found that 54% of Canadians believed that the annual immigration level should be below 150,000. The same poll showed that between January and August 2016 the number of Canadians who believed that there are too many immigrants rose by 7 percentage points (Government of Canada (6)).

The reason why politicians have ignored the call for immigration policy reforms is rooted in public choice theory (Lee 2012): politicians are afraid that powerful and highly motivated interest groups will reduce their financial and electoral support and thus threaten their parties' election chances if they adopt policies leading to reduced immigration.

These interest groups consist of immigrants already settled in Canada who want to see their communities grow in numbers and political influence; employers wanting cheap labour and larger markets for their output; the construction and real-estate industries benefiting from the growth in the residential housing market; the home-owners who enjoy large capital gains on their property; the builders of transportation infrastructure facilities who are needed to deal with traffic congestion; the professionals who enjoy the larger markets for their services as supervisors in businesses, teachers and professors; the civil servants and welfare workers who are paid to serve the needs of immigrants and the vocal groups or idealistic individuals who believe that it is Canada's responsibility to reduce poverty and suffering in the developing world and whose views are spread widely by the media.

Lined up against this collection of powerful, rich and idealistic supporters of present immigration policies are the overwhelming numbers of Canadian voters who are too busy working and caring for their families to have the time to inform themselves about the burdens immigrants impose on them, especially since the interest groups and politicians, aided by the media, very effectively hide or deny the damage mass immigration is doing to their interests (Munger 2017).

Canada's first-past-the-post electoral system discourages the foundation of anti-immigrant parties similar to those that have emerged in a number of European countries, where proportional representation has allowed such parties to achieve substantial electoral successes and gain seats in parliament; and which have influenced the debate over and the design of immigration policies. Canada's immigration policies will remain unchanged, at least until the adoption of proportional representation for elections. The present Liberal government under Prime Minister Justin Trudeau promised to deliver proportional representation in its election campaign, but has failed to implement this reform after two years in office.

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