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An Assessment of the Impact of Conservative Immigration Reform on the Labour Market Performance of Immigrants

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Abstract:

This paper examines the performance of recent immigrants to Canada in the labour market as revealed in the Longitudinal Immigration Database (IMDB). This is an administrative database constructed by Statistics Canada by combining an administrative landing file from Citizenship and Immigration with the T1 Family File (T1FF) of income tax returns from the Canada Revenue Agency. As this database now extends to 2012, it provides the most current evidence on the impact on the labour market performance of recent immigrants of the relatively ambitious immigration reforms introduced by the Conservative Government. These reforms involved tighter criteria for skilled workers, an expansion of the Provincial Nominee Program, and a tightening up on refugee claims.

The conclusion of the paper is that the overall performance of recent immigrants has improved enough to modestly reduce the wide earnings gap that has opened up between average recent immigrant and overall earnings. However, the reduction in the earnings gap has not been very large given the ambitiousness of the immigration policy reforms. There are many reasons for this, but the most important is that the Conservative Government has continued to pursue a policy of high mass immigration admitting around 250,000 new immigrants per year right through the 2008-09 recession. Ironically, while the Government has cut back on the number of relatively high performing skilled workers admitted, it has actually increased the number of live-in caregivers, and their families who predominantly are low earning. On the other hand, it is clear that if the Conservative Government had not tightened up immigration policy as aggressively as it did, particularly by eliminating the backlog of workers admitted under the old less stringent criteria, the labour market performance of immigrants would have probably deteriorated, instead of improving modestly as it did.

JEL Classification Codes: J23 – Labour demand; J24 – Human Capital; Skills; Occupational Choice; Labor Productivity; J61 – Geographic mobility, immigrant workers.

Keywords: wages, recent immigrants to Canada, immigration policy, immigrant labour, human capital

Introduction

When the Conservative Government came to office in January 2006, it inherited a failing immigration policy. Since the number of immigrants was increased in the late 1980s, the performance of immigrants in the labour market had steadily deteriorated and new immigrants had become an increasing drain on government finances. More precisely, in a recent study Herbert Grubel and I estimated that recent immigrants imposed a fiscal burden of at least \$20 billion annually (1.1 percent of GDP) on Canadian taxpayers, mainly because the income taxes paid by these immigrants are only about half those paid by Canadians, while both groups receive the same benefits from government spending (Grubel and Grady, 2011 and 2012).

To deal with the unsatisfactory situation, which threatened to get even worse if the growing backlog of accepted, but not yet admitted, immigrants were all allowed to come to Canada as permanent residents, the Conservative Government took a very controversial step and eliminated the backlog by means of legislation. This angered many who supported the admission of all of the previously accepted immigrants. In addition, the other most important steps taken by the Conservative Government were the introduction of more stringent criteria for Federal Skilled Workers, which were tied more closely to employability, and modifying the process for claiming refugee status in-country, thus facilitating the removal of those pursuing unjustified refugee claims.

At the same time, the Conservative Government has maintained a historically high level of immigration of around 250,000 per year right through the Great Recession of 2008-09 and soaring unemployment, which reached around 9 per cent overall and was almost double that for recent immigrants. There were several motivating factors behind the high level of immigration including: seeking to appeal to Canada's immigrant communities; meeting the business sector's demand for a plentiful supply of new less costly workers; and responding to provincial governments' pressure for a greater role in the selection of immigrants.

The question that needs to be answered is: how successful has the Conservative immigration policy reform been in improving the labour market performance of recent immigrants. The data source that best sheds light on this is the Longitudinal Immigration Database (IMDB), which is an administrative database constructed by Statistics Canada by combining an administrative landing file from Citizenship and Immigration with the T1 Family File (T1FF) of income tax returns from the Canada Revenue Agency. It utilizes exact matching record linkage techniques for immigrants who filed taxes at least once. The IMDB now covers the period between 1982 and 2012 so it is possible to update an earlier assessment, which ended in 2010 (Grady, 2013). An advantage of the IMDB over the National Household Survey data that is collected with the census is that it is available annually and provides a breakdown of immigrants into all of the various administrative categories, which permits an analysis of how the many different immigration programs are working and contributing to the overall result. A drawback of the data is that, as an administrative database, it is subject to greater privacy concerns and is only fully available to researchers that have been sworn in under the Statistics Act and

allowed to work under the control of Statistics Canada. Fortunately, however, some summary tabulations have been made available on Statistics Canada's website that can be used to assess the labour market performance of the various streams of immigrants. This paper makes use of that data to draw some conclusions about the success of Conservative immigration reform.

The Data

The two reference years for studying the success of Conservative immigration policies are 2006 and 2012. The immigrants included in the totals shown in Table 1 for these two years are those who had arrived in the six previous landing years (i.e. 2006, 2007, 2008, 2009, 2010, and 2011 for 2012; and 2000, 2001, 2002, 2003, 2004, and 2005 for 2006) and who filed income taxes. This is done so that those immigrants counted in 2012 would reflect the admission decisions made by the Conservative Government after it came to office and those counted in 2006 could be attributed to admission decisions made by the previous Liberal Government. The immigrants arriving in the same year that the income tax is filed and earnings are calculated (i.e. 2006 and 2012) are excluded as they land at different times over the course of the year and their annual earnings, which are used as the indicator of the success of immigration policies in this paper, do not usually reflect a full year's participation in the labour market.

Admittedly, the period of one-to-six years after landing used here is a very short one to use for analyzing the results of changes in immigration policy on labour market performance, but it does make use of all the data currently available and should provide a reasonable early indicator of whether the Conservative immigration policy changes are significantly improving the poor performance of recent immigrants in the labour market.

The first thing worth noting in Table 1 is that the total number of immigrants included in the database has actually increased under the Conservatives. This is because the number of provincial nominees and dependents, family class, and live-in-caregivers increased even though the number of Federal skilled workers and dependents, and refugees landed in Canada, which bore the brunt of the tightening introduced in the reforms, actually decreased significantly. This indicates that clamping down on the Federal Skilled Worker Program and screening out non-qualified refugee claimants have not been enough by themselves to reduce the overall number of immigrants.

The most meaningful indicator of the performance of recent immigrants in the labour market is their average employment earnings. It is a measure of how much they contribute to Canada's GDP by their labour as employees and, since labour income is by far the largest category of income, of how much they can afford to pay to finance their share of Canada's public spending. (Note: it would also make sense to include self-employment income, but the combined data for employment and self-employment is not available in the tabulations.)

The number of immigrants declaring employment income on their T1 Tax forms is shown in Table 2. This is smaller than the total number of immigrants filing tax returns in Table

1 because it only includes those with employment income and excludes those who filed income tax returns to declare self-employment income and non-wage income such as interest, dividends, capital gains, government transfers and to claim tax credits such as the child tax benefit or the GST credit.

Average earnings are shown in Table 3. As stated above, this is the most meaningful available indicator of immigrants' labour market performance. Interestingly, in spite of the very ambitious package of immigration reforms introduced by the Conservative Government in the face of strong opposition from advocates of mass immigration, the overall improvement in average earnings is relatively modest only rising to \$31,333 in 2012 from \$28,666 in 2006. Moreover, since this was only slightly in excess of the growth of estimated annual earnings, average earnings only increased moderately to 74.4 per cent of estimated overall average earnings in 2012, up from 71.9 per cent in 2006 (Table 4).

Unfortunately, a gap in earnings of this magnitude is large enough that it will still produce a growing fiscal burden from immigration due to the increase in the number of immigrants and will contribute to rising poverty in rapidly growing immigrant communities. On the other hand, it must be admitted that if the Conservative Government had not acted to tighten requirements under the Federal Skilled Worker Program and had instead admitted the over a million backlog that it legislated away, the gap in earnings would probably have risen substantially. But this cannot be proved with the data because it does not tell us anything about what the immigrants in the backlog would have earned if they had been admitted.

While the performance of Federal Skilled Workers remained better than average, there was a decline in the ratio of their earnings to the overall average earnings (Tables 3 and 4). This is surprising given the Conservative Government's greater emphasis on employability and the decline in the number of skilled workers admitted (Table 1). Overall it must be regarded as a disappointing result for those expecting an improvement in the labour market performance of FSWs, which was the focus of the policy reforms. But perhaps this only reflects the deterioration in labour market conditions due to the 2008-09 recession and subsequently and that without the reforms the situation would have deteriorated much more.

While the performance of the Provincial/Territorial Nominees, principal applicants declined significantly (average earnings falling to \$51,190 in 2012 from \$51,687 in 2006) as their numbers increased (almost eightfold to 54,885 in 2012 from 7,015 in 2006), their average earnings remained the highest of all the categories (121.6 percent of average annual earnings in 2006), thus bolstering the overall average earnings (Tables 3 and 4). The expansion of the PNP program under the Conservative Government has thus made a strong positive contribution to improving the labour market performance of immigrants.

The Conservative Government's measures to tighten up on refugee claims in the country by streamlining the process and introducing safe third country status were successful in reducing the number of claims in the preceding six years from 63,565 in 2006 to 49,285

in 2012. This facilitated an improvement in average annual earnings of these refugees from \$22,453 in 2006 to \$25,434 in 2012.

The Conservative Government's difficulty in improving overall performance of recent immigrants can probably be explained by three factors. First, while its efforts to improve performance by tightening criteria for Federal Skilled Workers and rejecting non-eligible refugee claims were moves in the right direction (as can be seen for the latter by the decrease in the number of refugees landed in Canada), they were not sufficient to offset the depressing impact on performance of larger numbers of family class immigrants, and live-in care givers and dependents. Second, the 2008-09 recession and its aftermath created a labour market that was particularly inhospitable for new immigrants. In fact, in the past at least up until the late 1980s, when the old tap-on, tap-off immigration policy had been the order of the day, it had been the practice to scale back the number of immigrants in recessions and times of high unemployment. That this was not done in 2008-09 probably contributed to the poorer than expected labour market performance of new immigrants. And third, the performance of business class immigrants and their spouses and dependents has remained disappointing even taking into account their reported income from self-employment.

Federal Skilled Workers and Provincial Territorial Nominees are the only categories of workers that earn more than average. This is necessary if they are to be able to pay their own way and contribute their share of the government benefits enjoyed by all Canadians (Tables 3 and 4).

Other categories of immigrants such as family class, live-in caregivers, and refugees (all of which have low relative earnings and are still admitted in large numbers) will continue to undercut the improved performance of skilled workers and provincial nominees. The poor performance of Family Class has particularly large impact in depressing average earnings because of their relatively large numbers (accounting for almost 29 per cent of the total number of persons included in the count in 2012). More specifically, the parents and grandparents included in family class come to Canada late in their life and usually have very little, if any, earning capacity in Canadian labour markets, make very small contributions to the financing of the health and social programs they take advantage of.

It is very difficult for any Government to reduce the numbers of Family Class admitted in the future as established immigrants become citizens and voters and understandably like to have their family members join them. And, once immigrants are admitted and gain citizenship, it is considered by most Canadians to be unfair, not to mention un-Canadian, to discourage the extended families of immigrants from following. Thus in determining whether it is economically advantageous to admit skilled immigrants who are expected to do well, it is necessary to consider the implications of their admissions for subsequent Family Class immigrants who are not expected to do so well in the labour market and will probably require substantial Government assistance. This means that not only should the skilled immigrants be expected to pay their own way and contribute economically, but they must also be able to make enough and contribute enough to compensate for their less successful family members who may impose a net fiscal cost on the country.

The Government's failure to eliminate the live-in-caregiver category as part of its efforts to improve immigrant performance is difficult to understand on economic grounds given the low earnings and/or problems and administrative abuses associated with this category of immigrants. But it is even worse and more costly to Canadians that the Government increased the number of live-in caregivers, principal applicants, spouses and dependents admitted over the six years preceding 2012 to 50,120 from 17,010 in 2006. This huge increase was accompanied by a reduction in average annual earnings to \$26,747 in 2012 from \$28,505 in 2006. The retention of the program and such a large increase in numbers admitted only makes sense on political grounds as an effort to cater to certain immigrant communities who disproportionately take advantage of the program.

Conclusions

To its credit, the Conservative Government has introduced ambitious reforms in immigration policy since coming to office in January 2006. The Government sought and obtained legislative authority that gave it the discretion to eliminate a backlog of immigrants admitted under old criteria that were clearly not working and whose application would result in the admission of many who would encounter great difficulties adapting to the competitive Canadian labour market. This in my view is its greatest achievement as the admission of such a large number of under-qualified immigrants in a short period of time would probably have resulted in a substantial deterioration in the performance of recent immigrants and would have given rise to exorbitant fiscal costs. The Government also restructured the Federal Skilled Worker Program to put much greater weight on employability and arranged employment, which hopefully will produce much better results once the labour market fully recovers. And the Government deserves credit for reforming the refugee admission process to try to weed out non-genuine refugees.

Notwithstanding the relatively ambitious reforms introduced, the measured overall performance of recent immigrants has not improved enough to substantially reduce the wide gap that has opened up between average recent immigrant and overall earnings. There are many reasons for this. But the most important is that the Conservative Government has continued to pursue a policy of high mass immigration admitting around 250,000 new immigrants per year right through the 2008-09 recession, which created a particularly inhospitable labour market for new immigrants. Moreover, it would be unrealistic to expect the Conservative Government's reforms in immigration policy, as desirable as they might be on their own merits, to by themselves produce the desired improvement in immigrant labour market performance as they applied to only a small proportion of immigrants with the largest proportion of immigrants not subject to labour market criteria.

The only viable solution to the problem of the growing fiscal burden and rising immigrant poverty is a substantial reduction in the total number of immigrants admitted. But this, of course, is not something that a Canadian Government of any political stripe is yet likely to contemplate as it runs counter to that widespread belief that, regardless of the

strength of the Canadian economy and labour markets, Canada always needs more and more immigrants no matter how poorly they perform and how great of a fiscal burden they impose. More new immigrants may increase aggregate GDP, but they will decrease the living standards of existing Canadian residents unless they are able to earn at least as much as other Canadians and thereby pay their pro rata share of the social programs to which they become entitled as Canadians. This is the basic fact that Canadians need to recognize.

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Table 1: Total Count by Immigrant Admission Category for Immigrants Landing in Previous Six Years in Number of Persons		
Immigrant Admission Category	2006	2012
Total	970,375	1,041,295
Family class	289,590	299,885
Business class, principal applicants	16,085	15,735
Business class, spouses and dependents	29,700	30,555
Skilled workers, principal applicants	249,920	201,450
Skilled workers, spouses and dependents	209,010	168,730
Provincial/territorial nominees, principal applicants	7,015	54,885
Provincial/territorial nominees, spouses and dependents	7,790	53,085
Government-assisted refugees	30,740	26,435
Privately sponsored refugees	13,140	18,350
Refugees landed in Canada	63,565	49,285
Refugee dependents	15,460	15,165
Live-in caregivers, principal applicants, spouses and dependents	17,010	50,120
Backlog clearance program	105	0
Other immigrants, humanitarian and compassionate/public policy considerations	21,260	57,645
<p>Note: The "recent immigrants" counted in this table are those who were landed in the six previous years to the year stated (i.e. 2006 or 2012). "Recent immigrants" landing in the year stated are not counted as they land at different times during the year and their annual earnings, which are used as an indicator of the success of immigration policies, do not reflect a full year's participation in the labour market.</p>		
<p>Source: Statistics Canada, Tabulations from Longitudinal Immigration Database (IMDB), http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0540001&paSer=&pattern=&stByVal=1&p1=1&p2=-1&tabMode=dataTable&csid=</p>		

Table 2: Total Count with Employment Earnings by Immigrant Admission Category for Immigrants Landing in Previous Four Years for Number of Persons with Earned Income

Immigrant Admission Category	2006	2012
Total	656,400	701,385
Family class	184,315	184,170
Business class, principal applicants	6,555	6,515
Business class, spouses and dependents	13,500	11,015
Skilled workers, principal applicants	194,275	156,260
Skilled workers, spouses and dependents	137,445	105,990
Provincial/territorial nominees, principal applicants	5,920	47,400
Provincial/territorial nominees, spouses and dependents	5,430	38,385
Government-assisted refugees	18,815	13,455
Privately sponsored refugees	9,720	12,025
Refugees landed in Canada	41,205	31,700
Refugee dependents	9,630	9,555
Live-in caregivers, principal applicants, spouses and dependents	15,855	45,840
Backlog clearance program	70	0
Other immigrants, humanitarian and compassionate/public policy considerations	13,665	39,060

Note: The "recent immigrants" counted in this table are those who were landed in the six previous years to the year stated (i.e. 2006 or 2012). "Recent immigrants" landing in the year stated are not counted as they land at different times during the year and their annual earnings, which are used as an indicator of the success of immigration policies, do not reflect a full year's participation in the labour market.

Source: Statistics Canada, Tabulations from Longitudinal Immigration Database (IMDB), <http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0540001&paSer=&pattern=&stByVal=1&p1=1&p2=-1&tabMode=dataTable&csid=>

Table 3: Average Earnings by Immigrant Admission Category for Immigrants Landing in Previous Four Years in 2012 Constant Dollars		
Immigrant Admission Category	2006	2012
Total	\$28,666	\$31,333
Family class	\$22,886	\$25,364
Business class, principal applicants	\$23,635	\$25,515
Business class, spouses and dependents	\$13,490	\$14,483
Skilled workers, principal applicants	\$43,301	\$44,901
Skilled workers, spouses and dependents	\$21,502	\$24,181
Provincial/territorial nominees, principal applicants	\$51,687	\$51,190
Provincial/territorial nominees, spouses and dependents	\$18,526	\$22,854
Government-assisted refugees	\$16,583	\$16,600
Privately sponsored refugees	\$21,159	\$22,184
Refugees landed in Canada	\$22,453	\$25,434
Refugee dependents	\$14,233	\$16,433
Live-in caregivers, principal applicants, spouses and dependents	\$28,505	\$26,747
Backlog clearance program	\$26,143	\$0
Other immigrants, humanitarian and compassionate/public policy considerations	\$25,568	\$33,146
Note:		
Total Average Annual Earnings from SLID (Est for 2012)	\$39,885	\$42,107
Previous Six Year Cohort as Percentage of Total	71.87	74.41
<p>Note: The "recent immigrants" counted in this table are those who were landed in the six previous years to the year stated (i.e. 2006 or 2012). "Recent immigrants" landing in the year stated are not counted as they land at different times during the year and their annual earnings, which are used as an indicator of the success of immigration policies, do not reflect a full year's participation in the labour market.</p>		
<p>Source: Statistics Canada, Tabulations from Longitudinal Immigration Database (IMDB), http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0540001&paSer=&pattern=&stByVal=1&p1=1&p2=-1&tabMode=dataTable&csid=</p>		

Table 4: Average Earnings by Immigrant Admission Category for Immigrants Landing in Previous Four Years as Percentage of Canada-wide Average Earnings

Immigrant Admission Category	2006	2012
Total	71.9	74.4
Family class	57.4	60.2
Business class, principal applicants	59.3	60.6
Business class, spouses and dependents	33.8	34.4
Skilled workers, principal applicants	108.6	106.6
Skilled workers, spouses and dependents	53.9	57.4
Provincial/territorial nominees, principal applicants	129.6	121.6
Provincial/territorial nominees, spouses and dependents	46.4	54.3
Government-assisted refugees	41.6	39.4
Privately sponsored refugees	53.1	52.7
Refugees landed in Canada	56.3	60.4
Refugee dependents	35.7	39.0
Live-in caregivers, principal applicants, spouses and dependents	71.5	63.5
Backlog clearance program	65.5	0.0
Other immigrants, humanitarian and compassionate/public policy considerations	64.1	78.7

Note: The "recent immigrants" counted in this table are those who were landed in the six previous years to the year stated (i.e. 2006 or 2012). "Recent immigrants" landing in the year stated are not counted as they land at different times during the year and their annual earnings, which are used as an indicator of the success of immigration policies, do not reflect a full year's participation in the labour market.

Source: Statistics Canada, Tabulations from Longitudinal Immigration Database (IMDB), <http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0540001&paSer=&pattern=&stByVal=1&p1=1&p2=-1&tabMode=dataTable&csid=>