

The Economic Goals of Canada's Immigration Policy: Past and Present

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Nous examinons les objectifs économiques de la politique actuelle d'immigration, ainsi que le rôle de l'immigration dans l'ensemble des politiques économiques. Nous commençons par décrire les objectifs économiques de la politique d'immigration au cours du dernier siècle. Nous décrivons ensuite les éléments ciblés économiquement par la politique d'immigration en les reliant aux tendances historiques. Finalement, nous examinons un ensemble d'objectifs économiques potentiels pour la politique d'immigration qui sont suggérés par l'histoire politique canadienne. En conclusion, il apparaît que les objectifs économiques ne devraient pas constituer l'orientation de base de la politique d'immigration dans un avenir immédiat, car d'autres politiques mieux adaptées peuvent atteindre ces objectifs. L'immigration devrait continuer d'être un élément de base de notre structure sociale.

We examine the economic goals of current immigration policy and what role immigration should play in overall economic policy. We proceed by describing the economic goals of immigration policy throughout this century. We then describe current economically targeted elements of immigration policy and relate them to historical trends. Finally, we examine a set of potential economic goals for immigration suggested by Canada's policy history. We conclude that economic goals should not form the defining orientation of immigration policy in the near future since other policies are better situated to meet those goals. Immigration should continue as a defining element in our social fabric.

INTRODUCTION

Canadian immigration policy is currently the focus of considerable debate and is in the process of being reviewed by the federal government. The key question in the debate is what should be the goals of our immigration policy. Once that question is answered, other questions such as how to set the size and composition of the inflow should, hope-

fully, be easier to answer. A variety of potential goals present themselves: humanitarian goals such as helping refugees and reuniting families in Canada, social goals such as altering the nature of Canadian society, and goals related to foreign policy. For Canada, though, one of the main uses of immigration policy in the past has been as a tool of economic policy. In this paper, we examine the economic goals of current immigration policy and the

role immigration should play in overall economic policy. To do this, we argue that one must consider current and potential goals in the context of the historic goals of immigration policy. This is true, in part, because the debate on current immigration policy often refers to historic precedent as a source of justification for particular options. This usage of historical argument reflects the fact that for a policy such as immigration where the potential effects are both large and subtle, the main basis for understanding its impact must be in our own history. Thus, we believe that understanding how immigration policy has been used in the past is a necessary precursor to discussing how we want to use it in the present and future. Further, knowledge of past goals of immigration policy allows us to understand whether current and potential policies are radical shifts from what has been deemed economically and politically feasible in the past. To the extent that new policies represent radical changes, arguments in their favour bear a greater burden of proof.

We proceed through our examination in three steps. First, we describe the economic goals pursued by immigration policy from the earliest years of this century to the present. Second, we describe current economically targeted elements of immigration policy and relate them to the historical trends. Third, we examine a set of potential economic goals for immigration policy suggested by Canada's policy history. Our aim is not to determine whether each potential goal is reasonable in itself but to decide whether immigration is the best means of attaining that goal.

We argue, first, that Canada's immigration policy history up to the late 1980s can be summarized as alternating periods of large inflows targeted at specific economic goals and periods of virtual shut down of immigration in the face of poor domestic labour market conditions. Most importantly, economic goals formed a central orientation of immigration policy throughout much of the twentieth century. Second, recent policy departs sharply from our history in not substantially reducing inflows

despite high and persistent unemployment rates. The specific economic goals of the policy are also not well specified, in contrast to the past. This raises the question of whether immigration policy should return to its focus on economic goals and, if so, on which goals. Using a combination of current immigration research and comparisons to historical patterns, we do not find a strong argument in favour of using immigration for virtually any of a considerable list of potential economic goals. Our argument is less that immigration is not useful for such goals as building up the stock of human capital in the economy than that other policies are superior for meeting those goals. Our conclusion is that economic goals should not form the defining orientation of immigration policy as we move into the next century. That does not mean, however, that immigration should be stopped. There is also no clear evidence of large economic costs to immigration, at least as long as it is well managed. Thus, the best immigration policy for Canada appears to us to be one that focuses on humanitarian goals while paying attention to short-term costs of immigration in the Canadian labour market. Immigration in the last 20 years has played a significant role in defining Canada as a country with a richly diversified culture and, through refugee policy, as a generous country. Those should continue to be its main goals.

Finally, we do not pretend to do an adequate job of placing immigration in the context of political, social, and cultural trends. Our aim is to discuss immigration as an economic policy. We strongly encourage readers to seek out work by authors such as Abella and Troper (1983); Avery (1979); Iacovetta (1992); Ramirez and Del Balso (1980); and Richmond (1967) in order to understand the importance of immigration to Canada in a wider context.

THE HISTORIC GOALS OF CANADIAN IMMIGRATION POLICY

In this section, we describe the main economic goals addressed by immigration policy over Canada's

history. We describe the goals within each of a set of periods, where the period endpoints are defined by major changes in the stated goals of the policy. We do not attempt to assess whether the policy was successful in meeting each of these goals. We are more concerned with how immigration has been perceived as an economic policy tool and how that conditions our current options.

Before beginning on our investigation, we provide some definitions. It will prove useful to follow Freda Hawkins (1972) in dividing the economic goals of immigration policy into short- and long-term goals. We will categorize achieving demographic benefits (those relating to size and age composition of the inflow), benefits from general immigrant characteristics such as flexibility, and investment and trade flow benefits as long-term goals of immigration policy. Achieving benefits from meeting immediate shortages in the labour market, we will categorize as short-term goals. As we shall see, the setting of Canadian immigration policy has often reflected a basic tension between using immigration as a tool for promoting long-term growth and using it as part of short-term labour market policy. However, the two sets of goals are not always in conflict and in fact overlap at times.

The pursuit of these various goals is conditioned by attempts to minimize the potential costs of immigration. Thus, a defining feature of Canadian immigration policy has been a concern that the inflows not exceed the "absorptive capacity" of the economy. According to this concept, the ideal rate of absorption depends on the ability of the economy to provide employment for new immigrants at the prevailing nominal wage (see Timlin 1960). Hence, in periods of rising unemployment the absorptive capacity for new immigrants declines and the government takes steps to limit the number of arrivals. This policy is reversed as the domestic labour market tightens. This is a recognition that large immigrant inflows may displace native-born workers in the host economy in the short run even if there are offsetting long-run benefits from the inflows. In-

deed, the concept of absorptive capacity is probably more strongly related to short-term than long-term goals: if the government is using immigration to meet excess demand for specific occupations then by definition the absorptive capacity of the economy is being considered. Similarly, if the government is pursuing primarily longer term goals then it is less likely to respond to short-term cost considerations.

1870-1913

This was the period which, after a slow start during the last decades of the nineteenth century, saw the settlement of the west, high levels of investment, rapid economic growth and the establishment of a national economy. During these years, and indeed up to 1930, immigration policy was part of a general set of national policies. These included the completion of three transcontinental railways, the imposition of high levels of protection on the import of secondary manufactured goods, and the adoption of a land policy aimed at inducing immigrants to settle in the west. As a set, these policies were meant to tie Canada together into an integrated whole with a strong eastern manufacturing sector selling its wares to an expanding western resource sector. The promotion of immigration was clearly an important element in this development strategy. Faced with large immigration inflows from the United States and overseas starting in 1896, the government was forced to replace the original Act of 1869 with a new Act in 1910. The new Act included a basic approach of focusing on a prospective immigrant's country of origin; an approach that was unchanged until a non-discriminatory set of regulations was created in 1962.

The stated goal of immigration policy up to World War I was to secure farmers, farm workers, and female domestics. The search for such workers was to be concentrated in Britain, the United States, and northwestern Europe. In actual fact, despite the published goals of seeking only farmers for the west, the actual distribution of immigrants was about equally divided among those intending to work in agriculture, manufacturing, and the service sector.

Moreover, immigrants were destined to all regions of Canada, not just the west (Green and Green 1993).¹ Further, when excess demand for labour increased in this first period, the government was forced to abandon its racist goals to some extent and expand recruitment beyond the traditional source countries. Specifically, this meant bringing in immigrants from Central and Eastern Europe (Avery 1979).

1919-1929

During this decade the official immigration regulatory structure was put in place. The first major change came with the 1919 revisions to the 1910 *Immigration Act*. These revisions established a literacy test for all prospective immigrants; expanded the terms of section 38 of the 1910 Act to allow the government, through Order-in-Council, to limit the number of immigrants admitted in a given period and to refuse admission due to conditions “temporarily existing in Canada”; and added the word “nationality” to that of “race” to define the origin of immigrants. The net effect of these changes was to expand the power of the government over the level, timing, and ethnic composition of immigration.

This period witnessed the first official division of source countries into preferred and non-preferred groups; a division that was to form the core of Canadian immigration policy until the early 1960s. Admission from the preferred countries was based solely on country of origin.² Prospective immigrants from non-preferred countries were admitted under a variety of conditions. Applicants from northern and western Europe were treated as almost equal to those from preferred countries, while those from central, eastern, and southern Europe faced stricter regulations. Immigrants from other regions were admitted only if sponsored by a relative already legally admitted to Canada.

In 1925, just two years after the formal division of countries into these two categories, the government passed the Railways Agreement, chartering the two major railway companies (the CPR and the

CNR) to, “recruit, transport and place in Canada, agricultural families, farm labour and domestic servants.” The agreement limited their search for immigrants to central and eastern Europe. The pressure to extend the search into non-preferred countries in this way arose from the scarcity of farm labour in traditional source countries (e.g., Britain and the US) coupled with growing demands for such workers from the west. Thus, supply considerations forced the government to alter its official goals. Recent work (Green 1994) indicates that this policy of steering immigrants to the west was highly successful.

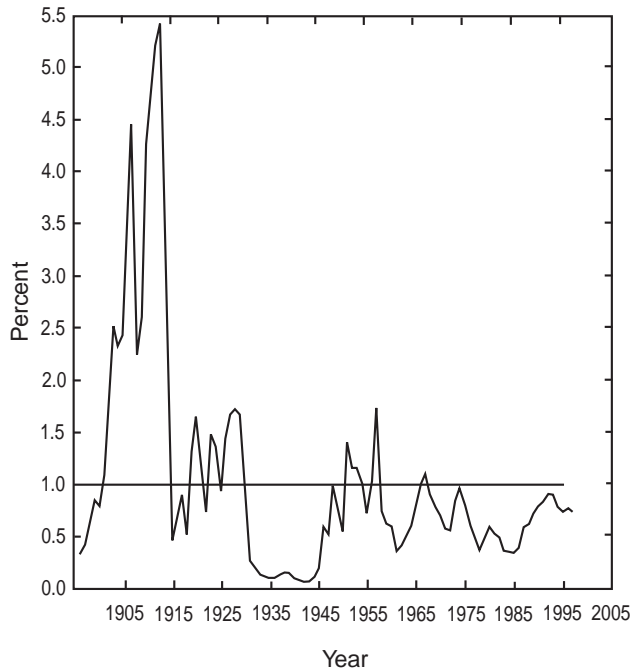
The period just following World War I is also the first time in which the government formally acknowledged the concept of short-run absorptive capacity. In 1918, the government established the “Employment Service Council” — a federal body with a mandate to control the level of immigration. The concept of absorptive capacity was first implemented in 1921 when the government refused, in the face of rising unemployment, to issue applications to employers wishing to bring in foreign workers. This, combined with the Railway Agreement, signalled a move toward active intervention in the selection of immigrants by the government, even if it used other agents for actual implementation. Steering immigrants to specific sectors and regions was part of the stated government policy from the late nineteenth century but apparently only became a fact after 1919.

The 1930s and 1940s

After almost six decades of actively recruiting immigrants, the door closed to most newcomers with the passage of Order-in-Council PC 695 on 21 March 1931 and remained that way until after the end of the Second World War. Figure 1, in which we plot immigration as a percentage of the current population over time, shows that immigration fell to near zero as a percentage of the population of the time.³ Immigration was closed off from the whole world, with the exception of Britain and the US, and with the occupation exception of farmers with capital. Even in these difficult times family reunification

FIGURE 1

Immigration as a Percentage of the Current Population, Canada, 1896-1997



was a priority, although this right was narrowly limited to include only immediate family members who would not directly enter the labour force.

The new regulations were a reaction to extreme economic conditions. By 1931 the unemployment rate stood at over 11 percent and, although the officials of the time did not know how long these conditions would prevail, the situation was such that a policy shift of this order of magnitude seemed justified. Nation-building, which had been of key importance to the government from 1870 to 1930, had been replaced by preserving the nation in the face of this major depression. This was then followed by a restrictive policy dictated by the exigencies of war.

1946-1962

Immigration policy in the immediate postwar period was dominated by two main events. The first was the large influx of displaced persons from

Europe. The second was the establishment of clear ethnic and economic goals for immigration policy. The displaced person flow fit with the broad ethnic targets, since most of those accepted were from Europe, but was sometimes in conflict with the economic goals.

The tone of immigration regulations for the decade and a half following the end of hostilities was set by Mackenzie King's statement before the House in May 1947. It is worth repeating in some detail since it was a blueprint for government policy on this issue.

The policy of the government is to foster the growth of the population of Canada by the encouragement of immigration. The government will seek legislation, regulation and vigorous administration, to ensure the careful selection and permanent settlement of such numbers of

immigrants as can advantageously be absorbed in our national economy.... There will, I am sure, be general agreement with the view that the people of Canada do not wish, as a result of mass immigration, to make a fundamental alteration in the character of our population. Large-scale immigration from the Orient would change the fundamental composition of the Canadian population (Quoted in Green 1976, p. 21).

The statement has six main components. First, immigration was to be used to promote population growth. Second, immigration would improve the standard of living of the extant population. This would operate by enlarging the domestic market, that is, by promoting economies of scale. Third, immigration was to be selective. Fourth, immigration was to be related to the absorptive capacity of the economy. Fifth, immigration was to be a matter of domestic policy, that is, national concerns were paramount. Sixth, immigration should not change the basic character of the Canadian population, meaning that restrictions on Asian immigration must remain in place (see Hawkins 1972).

The statement contained a potential tension between the main goals of immigration policy. It encompassed long-run benefits (i.e., population growth and economic development), while reaffirming the government's commitment to matching short-run labour market conditions. As in the 1920s, no real tension existed in the immediate postwar period because the desired immigrant was essentially unskilled. The policy was dominated by high demand for labourers in the booming resource sector, particularly in forestry and mining. Thus, the government could increase the population size and meet perceived labour shortages at the same time (Hawkins 1972). However, supply constraints from traditional source countries meant that the government had to partially abandon the racist element of the policy and extend its search to non-preferred countries (Richmond 1967). It did this in part by relaxing conditions of acceptance for immigrants from non-preferred countries and partly by expand-

ing the sponsorship rights of immigrants from central, eastern, and southern Europe to parallel those available to immigrants from traditional source countries.

The extension of sponsorship rights to landed immigrants from non-traditional sources in Europe created difficulties. Landed immigrants from southern Europe, and Italy in particular, were much more likely to make use of sponsorship rights than immigrants from traditional source countries. The result was a much more unskilled inflow beginning in the late 1950s (Green and Green 1995). This occurred just at a time of economic policy change as the government sought to steer the economy away from a resource base and toward a modern manufacturing structure. As part of this change in direction, it was argued that Canada needed skilled workers and needed them immediately. To accommodate longer term skill requirements, the postsecondary education system was to be expanded, but the more immediate needs would have to be met through immigration.⁴

The contrast between the large, unskilled inflow and the goal of raising the skill level of the workforce created the first substantial tension between the short- and long-term goals of immigration policy. This tension had a direct institutional embodiment in the two departments dealing with immigrants in this period. The Department of Citizenship and Immigration took a longer run view, while the Department of Labour attempted to tie the level of immigration to the business cycle and, moreover, to specific occupational job vacancies. Hawkins (1972) argues that, institutionally, the late 1950s can be seen in terms of a battle between these two departments. From the longer term view of Citizenship and Immigration, a larger, less skilled inflow was not necessarily a troubling outcome. However, for the Department of Labour, it was a disaster, especially coming as it did at a time of rising unemployment.

The justification for immigration as a means of filling skill gaps is significant since it recurs many

times in the next three decades.⁵ This approach points to an implicit input/output model of the economy in which production is hampered if one important factor is missing. The idea of using immigration to prevent that problem is at the heart of the selection system created in the next period we consider. It did, however, increase potential supply problems since the world supply of skilled workers was less than that of unskilled workers.

1962-1973

In 1962 the government abandoned its long-standing racist immigration policy. Henceforth, admission was to be based on an individual's personal characteristics, especially their education and other skills qualifications, rather than his or her nationality. This is clearly set out in the 1962 policy statement by the minister of immigration and citizenship, Ellen Fairclough:

The key to our immigration policy will be the consistent application of proper selection standards designed to bring the best possible settlers to Canada. I am sure all Canadians agree that once these standards are established they should be applied consistently to all who seek admission to this country, except where the admission of the immigrant is based on compassionate grounds or on close relationships (Quoted in Green 1976, p. 37).

The lack of mention of population growth as a main goal is in striking contrast to Mackenzie King's 1947 statement. The emphasis on selection standards indicates a victory for the short-run view of immigration policy championed in the Department of Labour. Indeed, even the elimination of the racist bias in the policy could be seen cynically as an attempt to expand the search area in response to inadequate supplies of skilled immigrants from traditional sources. This victory was consolidated with the amalgamation of the Department of Citizenship and Immigration and the Department of Labour into the Department of Manpower and Immigration in 1966. The new department was primarily concerned with

linking the level and composition of immigration to the immediate needs of the domestic labour market (see Hawkins 1972, pp. 127-31).

The shift in policy was not without complications. Eliminating racism in selection meant that immigrants from all parts of the world gained greater sponsorship rights. As immigrants from countries with lower average education levels exercised these rights, the result could have been an increasingly unskilled inflow. Also, the new selection standards were not well specified, implying that considerable discretionary power was being placed in the hands of overseas immigration officers.

The solution came in 1967 with the introduction of the point system (Order-in-Council, 1 October 1967, PC # 1616). The point system provided an objective scale based on education, age, language, etc. against which applicants for admission could be assessed. It was the first major step to limit the discretionary powers of immigration officers and to provide them with a set of explicit guidelines. Applicants were divided into three main entry classes: independents, whose admission depended solely on an assessment under the point system; nominated relatives, who were assessed under the point system, but were given bonus points based on family ties; and the family class, who were admitted based solely on kinship ties. The family class was to be given top processing priority. With a total number of immigrants roughly fixed by the size of the budget allocated to processing applications, this meant that assessed immigrants were effectively a residual under the new system. This was not an immediate issue, as the assessed part of the inflow made up over 70 percent of immigrants in the remainder of this period (Wright and Maxim 1993). This feature was to become very important, however, when the level of immigration was cut in the recessions ahead.

The form of the original point system indicates success for those who viewed immigration as an immediate labour market policy. The points assigned

to specific occupations were to be kept under constant review and changed as new information on vacancies became available. In fact the changes in point levels assigned to specific occupations were distributed to overseas agents on a quarterly basis (Green and Green 1995). This was the ultimate victory of the belief that immigration policy could be micro-managed. Table 1 provides the distribution of points across assessed categories in versions of the point system from 1967 to today. In 1967, an applicant needed 50 out of a possible 100 points to be admissible. Of the total possible points, 40 percent were based on assessment of predicted short-term success in the applicant's intended occupation and destination.⁶ This was balanced by longer term adjustment factors, such as education, implying that the short-term point of view had not won an absolute victory.

1974-1985

This was a period of big swings in the business cycle. Immigration inflows were adjusted accordingly. Immigration fell between 1974 and 1978, rose from 1978 to 1980 and then fell from 1980 to 1986. The major swings in the level of business activity in this period were the first real test of the efficacy of the new regulations governing admission. In some ways they failed since applicants could obtain enough points based on years of schooling, age, and language facility to meet or exceed the minimum required for admission even though their specific skills might be in excess supply at the time. This failure indicates the difficulty of trying to control both the level and composition of the skilled component of the inflow with points assessed for personal characteristics. The government responded by imposing, in 1974, a ten-unit penalty in points assessment if the applicant did not have previously arranged employment. The system, however, was successful in reducing the number of unskilled workers admitted to Canada (Green 1995; and Green and Green 1995).

Although the regulations established in the 1960s remained largely intact during this next period, the government did bring in a new *Immigration Act* on

10 April 1978. This Act defined three main goals of immigration policy: (i) to facilitate the reunion in Canada of Canadian residents with close family members from abroad; (ii) to fulfil Canada's legal obligations with respect to refugees and uphold its humanitarian traditions; (iii) to foster the development of a strong and viable economy in all regions of Canada. Under these provisions family members and refugees were given top processing priority and Canada was committed to bringing in a substantial number of refugees every year, rather than just in emergency situations. This forced a reduction in the share of immigrants who were assessed and represented a shift away from a policy focused on economic goals.

Concerns over meeting short-term labour market goals and over absorptive capacity did not disappear, however. The first concern was met by focusing on applicants with arranged employment or those who could be directed to specific occupations. Absorptive capacity concerns were met by altering the size of the inflow in response to cyclical fluctuations. The largest adjustments occurred in May 1982 when the government declared that the only independent applicants who could enter were those with arranged employment. At the same time, the government announced substantial cuts in the level of the inflow which were implemented in the following year and remained in place for the following four years. These adjustments indicate that short-term economic goals still held precedence in this period. Nonetheless, economic goals took a back seat to humanitarian goals.

1986-1993

When the immigration door reopened after the recession of the early 1980s, it did so on a very different basis than when it had been shut. In 1985, the new Conservative government undertook a review of immigration policy, the conclusions from which are evident in a special report to Parliament in June of 1985 (Canada 1985a) and in the *Annual Report to Parliament on Future Immigration Levels* several months later (Canada 1985b). A central

TABLE 1
The Points System Over Time

Factor	'67	'74	'78	'86	'93	'96
Education	20	20	12	12	14	21
Experience	-	-	8	8	8	9
Specific vocational preparation	10	10	15	15	16	-
Occupational demand	15	15	15	10	10	-
Labour market balance	-	-	-	-	-	10
Age	10	10	10	10	10	13
Arranged employment or designated occ.	10	10	10	10	10	4
Language	10	10	10	15	14	21
Personal suitability	15	15	10	10	10	17
Levels	-	-	-	10	8	-
Relative	0/3/5+	0/3/5	5	-	-	5
Destination	5	5	5	-	-	-
Total	100	100	100	100	100	100
Pass Mark	50	50	50	70	67	*

Bars on Entry:

1967 – no one category result can be conclusive either way.

Feb. 1974 – applicant must either receive at least one unit for occupational demand or get ten points for arranged employment or designated occupation.

Oct. 1974 – ten points would be deducted unless the applicant showed evidence of arranged employment or was going to a designated occupation. Removed in April 1979 but reimposed in September 1979.

May 1982 – only applicants with arranged employment are eligible for admission. Removed in January 1986.

1992 – zero units for experience is an automatic bar unless the person has arranged employment.

Note: The table shows maximum points possible in each category. Maximum points and Pass Mark have been rescaled in 1993 and 1996 to put the system in terms of points out of 100.

+ Points awarded depend on relationship to sponsor.

* The Pass Mark varies by skill group. The total available points actually equals 74. The pass marks are: professional, 52; skilled administrator, 52; technical, 47; trades, 45.

concern in these reports is that fertility in Canada had fallen below replacement levels, with the implication that the population would begin to decline just after the turn of the century if immigration was maintained at its then current low levels. The reports also reflect a belief that the economic component of the inflow should be increased. But, cautions the Annual Report, "the increase in the economic stream must not ... be at the expense of the social and humanitarian streams" (ibid.). Immigration levels would be increased substantially and restrictions on the economic component would be lifted to try to make sure that component grew with the overall levels, but the assessed inflow was still very much a residual. The new policy represented a victory for those who saw immigration as a long-run policy tool. Immigration, as an economic policy, would be used primarily to bolster population growth and to readjust the age structure of the population so that there would be enough workers to pay for the baby boomers' pensions and health care.

The outcome of these policy deliberations was a removal of the prerequisite of arranged employment for independent applicants in January 1986. The level of the inflow jumped from 83,402 in 1985 to 99,219 in 1986, and then to 152,098 in 1987. These were the first in a series of increases that eventually led to a level of nearly 250,000 in 1993.

The new policy also saw the expansion of the business component of the inflow. Self-employed workers and entrepreneurs, who were expected to establish and run a business in Canada, had a special place within the point system from the start. In January 1986, the government added the investor class, applicants within which gained admission by investing specified amounts in Canadian enterprises. While the business classes have never become more than a small part of the inflow,⁷ this represents a philosophical shift toward an idea that immigration could be used as a source of capital and as a means of establishing trade links.⁸ Notice that these, too, are long-term goals of immigration policy.

At the same time as these changes were being implemented, the government undertook a demographic review to examine the consequences of declining birth rates and their implications for immigration policy. That review, which was presented in 1989, indicated that immigration policy was not a good tool for meeting the demographic goals set out in the earlier policy statements. In particular, with a fertility rate of 1.7, gross flows that were likely to be politically feasible could not provide continual population growth. Further, the review showed that even wild immigration scenarios with large inflows and 50 percent of the inflow under age 15 would not have a substantial impact on the age structure (Canada 1989). Immigration was not the solution for a naturally aging population.

In the early 1990s, the government moved away from demographic goals. At the same time, it began to increase the importance of the economic component of the inflow.⁹ Beginning in May 1991, a designated occupations list was formed which contained occupations in short supply in specific provinces. Immigrants who matched this list were given added points and processed on a high priority basis. Most importantly, in 1992 the Conservatives introduced a new *Immigration Act* which was designed to provide greater control over the inflow. The Act gave the department broad new regulatory powers, including the power to set limits on components of the inflow and turn away applicants once specific numbers had been reached for a particular category. This, potentially, was a move toward increased use of immigration for economic policy. Indeed, the government proposed to use the new Act to reduce the proportion of the inflow who were in the family class from 52 percent in 1992 to 43 percent by 1995.

Strangely, a new set of regulations proposed along with the Act did not make use of these powers. While the regulations proposed setting targets for the various components of the inflow, the assessed class was still a residual. The government also committed to stable inflows of about 1 percent of the current population and increased the size of the inflow to nearly

250,000 in 1993 in spite of a persistently poor labour market. This was the first time that a Canadian government had responded to high unemployment rates by even maintaining, let alone increasing, the size of the inflow.

RECENT POLICY

Recent immigration policy can be seen as an extension of policies established in the early 1990s. The most comprehensive blueprint for the Liberals' strategy is found in the 1995 document, *Into the 21st Century: A Strategy for Immigration and Citizenship*. The key elements of the new framework are as follows. Immigration levels are to be maintained at 1 percent of the population level, though target ranges rather than specific numbers are to be set. Within that rough total, refugee management is to be moved into a separate system with separate resources and goals from the rest of the inflow. There is a clear commitment to achieving approximate equality of the family class and assessed inflows, even if that means falling short of overall level targets. For instance, *Into the 21st Century* proposes placing family-class applicants other than spouses and dependent children in a separate class and putting numerical limits on that class. All of these elements point to a continuation of the trend toward an enhanced role for the economic component of the inflow. Indeed, it is the Liberal government that has met the goal stated by the Conservatives of having the family component make up no more than 45 percent of the inflow.

What is the goal of this enhanced economic component? Statements in *Into the 21st Century* and a set of proposed regulations introduced in November 1995, but subsequently withdrawn, provide some guidance. Those statements indicate that the government no longer perceives filling short-term occupational gaps as an important goal. In telling wording, the government states that filling precise occupational niches is "not always effective in meeting long term needs" (Canada 1995). The 1995 pro-

posed regulations contained a reworking of the point system with emphasis on broad occupational classes rather than specific categories. However, political trade-offs mean this switch away from targeting occupations will not be complete. In *Into the 21st Century*, the federal government commits to "provide provinces with the opportunity to choose a number of independent immigrants who meet provincial economic objectives" (Canada 1994b). Immigrants will be selected to meet specific skill needs in specific regions, as denoted by the provincial governments, with applicants in this category given extra points and high processing priority.

The current goals seem, instead, to be more long term. Specifically, immigration policy is to be used to change the nature of the Canadian workforce: "The proposed changes (in immigration policy) seek to improve the skills, flexibility and diversity of the Canadian workforce responding to Canada's new, emerging economy" (ibid.). Notably, the government proposed a program be established to identify occupations where there is a shortage of labour and which are closely related to the skills of a specific immigrant. Thus, rather than making admission conditional on there being a labour shortage in the immigrant's intended occupation, the government would bring in skilled workers and help them to search for a job, possibly in a different but related occupation to their own.

The most telling evidence of a switch toward long-term goals is the virtual abandonment of absorptive capacity as it had been interpreted by previous governments. This is evident in Minister Sergio Marchi's statement accompanying the 1994 Immigration Plan:

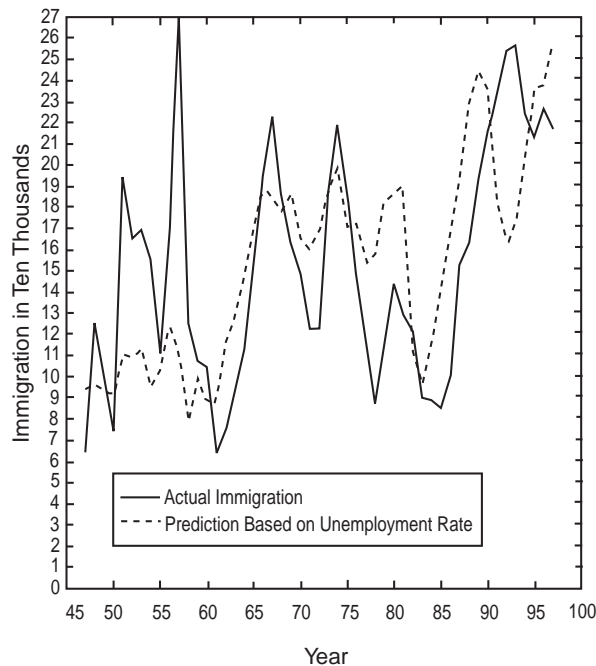
Periodically throughout our history — especially during economic downturns — there have been calls to slam the door shut to immigration.... I believe that such sentiments indicate lack of vision of what this country can become.... I believe that decisions about immigration should be made from the perspective of a long-term vision for Canada's future (Canada 1994a).

The main evidence that the government has abandoned absorptive capacity is the maintenance of large inflows in the face of persistent high unemployment. The level of the inflow has been reduced in recent years, but to nowhere near the extent one would predict based on earlier responses to bouts of high unemployment. To make this point, we regressed numbers of landed immigrants in each year from 1946 to 1989 on a constant and the detrended annual unemployment rate lagged by one year.¹⁰ This is meant to show the correlation between immigration and the business cycle over a period in which absorptive capacity appeared to be part of policy decisions. Figure 2 contains a plot of the actual immigration numbers and a fitted line showing predicted immigration levels based on our simple regression. Note that the fitted line from 1990 to 1995 represents a prediction of the levels that would have been in place over this period if absorptive capacity were still important. The fitted line tracks actual immigration levels quite well before 1990

with the exception of the spike created by the 1956 Hungarian refugee movement. In contrast, there is a large gap between the actual and predicted inflows in the 1990s; while the prediction based on extending the pre-1990 absorptive capacity policy turns down in the 1990s because of rising unemployment rates, the actual levels continued to rise. By 1993 the gap between the actual and predicted levels was 150,000. Even with recent reductions in the immigration level, the difference is approximately 70,000. The gap is a measure of the extent to which both governments in this period have moved away from earlier policies. The abandonment of absorptive capacity signals a victory of the long-term over the short-term view of the benefits of immigration. Institutionally, the recreation of a separate Department of Citizenship and Immigration in 1993 can be seen either as the source or a signal of the shift in power.

Several facets of the new immigration program are tailored to the goal of, "ensuring that newcomers

FIGURE 2
Actual and Predicted Immigration Rates, Canada 1947-1997



to Canada can integrate and contribute to Canada as quickly as possible, without adding to the burden on social programs” (Canada 1996). This is the source of new policy proposals which would make immigrants pay for settlement services and make sponsors post bonds out of which any welfare use by the sponsored immigrant in the first ten years after arrival would be subtracted. It is also a source of the push for more flexible workers since, in the “new” economy where constant change is to be expected, more flexibility will mean less time collecting social security. Most important in this regard is the increased emphasis on language proficiency in the selection process. Immigrants fluent in English or French are argued to enter the labour market more quickly. Finally, the government has maintained a commitment to using immigrants to generate investment and trade flows.

SUMMARY OF MAIN TRENDS

The policy periods we have examined can be aggregated into five broad periods. The first covers the time before approximately 1960. This is a period when short- and long-term economic goals for immigration policy were in concert. The government wanted both more people in general to populate an empty land and more unskilled people in particular to provide the labour to develop our natural resource base. The specific goals changed over time from unskilled labour generally before World War I to farm labour for the west in the 1920s to unskilled labour for mining and forestry in the 1950s. Overlaid on top of this was an attempt to tailor the size of the inflow to the absorptive capacity of the economy. This meant virtually shutting down immigration during economic downturns. From 1960 to 1978 the economic goal of immigration policy changed to the short-term one of matching skill gaps in the occupational structure. The point system was part of an attempt to do that matching as were attempts to keep the size of the sponsored component of the inflow small. From 1978 to 1986, the economic goals of immigration policy were swamped

by humanitarian goals. The government maintained a commitment to targeting immigrants to skill gaps but their ability to do so was hampered by a system in which applicants assessed for their skills were a residual category relative to refugees and family class immigrants. Then from 1986 to 1989, the government focused on long-term, demographic goals for immigration, placing little emphasis on selecting specific skills.

Up to the end of the 1980s, Canada's immigration policy could be broadly summarized as one with low inflows in economic downturns alternating with large inflows directed at specific goals in better times. This time-honoured pattern was abandoned in the 1990s, with the government deciding that long-term benefits of immigration were sufficient to justify maintaining large inflows in the face of high domestic unemployment. Further, the long-term goals being pursued are different from those at any previous time: they are not the broad demographic goals of expanding the population as an end in itself or of changing the age structure. Instead, the new long-term goal appears to be to use immigration to change the nature of the Canadian workforce, making it more skilled and flexible. We have never before tried to use immigration policy to change the skill mix in the economy without also stating explicitly which skills are lacking, that is, without trying to micro-manage the process.

WHAT SHOULD THE ECONOMIC GOALS OF IMMIGRATION POLICY BE?

We turn now to assessing immigration as an economic policy tool for Canada. Rather than directly evaluating current immigration policy, we pursue the more general end of examining a set of potential economic goals for immigration. Once that evaluation is complete, an understanding of the subset of goals characterizing current policy will follow. The specific set of goals we examine are those that have been pursued in Canada's immigration policy at least once in our history. Focusing on this set allows us

to narrow our discussion to the goals that have been deemed relevant for Canada. Our approach in considering each goal is to ask whether immigration is the best policy for meeting that goal rather than discussing the usefulness of the goal itself. Thus, we will consider immigration as one of a group of (possibly) competing policies. We argue that, unlike in the past when there were identifiable goals for immigration policy that could not be met through alternative policies, there is currently no single goal for immigration policy that could not be met better through an alternative.

Before evaluating any policy, we need to decide who we care about in the evaluation. A common approach is to examine the impact of immigration on individuals resident in the host country before immigration occurs. This, however, leads to potential inconsistencies as the optimal policy may change once the new immigrants arrive in Canada and their utilities are included in any calculations.¹¹ As an extreme response to this consistency problem, we could take account of the utilities not only of residents and immigrants but also of potential immigrants. This approach also has difficulties, which are evident in the context of a classical utilitarian social welfare function. Working with such a function, we could end up at the conclusion that we should bring in a large number of immigrants even if doing so meant very low average utilities for everyone in the country. The latter policy essentially trades off the standard of living for sheer numbers of individuals and arises because the average utility level and the number of people in a population are perfect substitutes in a classical utilitarian social welfare function. In response to these problems, Blackorby and Donaldson (1984) introduce an approach called critical level utilitarianism (CLU). Under CLU, one evaluates different social states by adding up the lifetime utilities of all residents and potential residents after subtracting from each a fixed, critical level of utility, α . This critical level acts like a fixed cost of adding extra people so that a higher level of α implies that society places more emphasis on individual levels of utility and less on

having more people. Thus, we can analyze various immigration policies not just by asking whether it increases total or average utility but by asking whether it results in more people (including the immigrants who would be brought in under the policy) having more than a minimum standard of living. It is this CLU approach which we will implicitly consider in the discussion that follows.

Our next step is to sketch out an economic model as a framework for discussion. The model we will consider is a standard one presented in Borjas (1995) among other places. In this framework we assume a production function $f(K,L)$ which is a function of the capital, K , and labour, L , used in the economy. For the moment, immigration will be assumed to cause an increase in L but have no effect on K . Perhaps the most crucial assumption at this point is about the returns to scale embodied in the production function. Trefler (1997) shows that if the function embodies a constant returns-to-scale technology then increasing L without changing K may mean that average income will stay constant or fall, depending on assumptions relating to trade and factor mobility. If, in contrast, the function embodies an increasing returns-to-scale technology then immigration can lead to growth both in total output and in income per capita (i.e., to both extensive and intensive growth). Intensive growth could occur for several reasons. First, more immigration increases the size of the market, implying more output and, perhaps if there is "learning by doing," a resultant increase in productivity. Second, Simon (1989) argues that more labour means more potential innovators, which in turn means productivity-enhancing improvements in technology. Third, there could be fixed costs to production implying that the greater production accompanying a larger economy will bring efficiencies.

Is there any evidence that there are economies of scale related to population growth in modern economies? Cross-country examinations of the effect of population growth on per capita income generally find no such effect. For example, Barro and

Sala-i-Martin (1992), using Japanese and US data, find that net migration to a region has almost no impact on economic growth for that region in estimation where they attempt to address the simultaneity between growth and migration flows. Even Simon, a strong proponent of the position that population growth promotes economic growth, admits “empirical studies do not prove that fast population growth in the more developed world as a whole increases per-person income” (Simon 1989, p. 197). Of course, as Simon points out, the opposite is also not true: population growth in modern economies does not appear to be related to reduced economic growth as would be predicted with a constant returns-to-scale production function and a fixed capital stock. Thus, a simple alternative would be that countries face a constant returns-to-scale technology combined with a perfectly elastic supply of capital. In this case, immigration could expand the size of the economy but could not lead to intensive growth.

We next need to make assumptions about the nature of trade for the economy since trade and migration are potentially substitutes in terms of their effects on returns to factors in Canada. Given the existence of the North American Free Trade Agreement (NAFTA) and movements toward trade liberalization under the General Agreement on Tariffs and Trade (GATT), it seems reasonable to us to start with the assumption that there is free trade between Canada and other countries, that is, that Canada is an open economy facing few legislated barriers to trade.

The composition of the inflow will also be important in determining its impacts on the host economy. Thus, we will split labour into two components: unskilled labour, L_u , and skilled labour, L_s . If we maintain the constant returns-to-scale assumption, assume that labour immigrates in the same ratio of skilled to unskilled as exists in the economy and assume a perfectly elastic supply of capital then the conclusions on immigration and economic growth just discussed do not change. Furthermore,

relative factor prices do not change and so distribution is not affected. If there is a disproportionate number of immigrants of one skill type or another, however, the outcomes will depend on the substitutability and complementarity between factors. For example, if skilled and unskilled workers are complements and the immigration inflow contains only skilled workers then wages for the unskilled will rise and those for the skilled will fall. Thus, the composition of the inflow in this model can affect distribution among owners of different factors in the economy. Given the CLU framework mentioned above, we are probably more concerned with impacts on the unskilled than on other groups.

Based on these discussions, we will take a model with constant returns-to-scale technology, three inputs (capital, unskilled labour, and skilled labour), a perfectly elastic supply of capital and free trade as our starting point for discussing various specific potential benefits from immigration for Canada. This is clearly a model biased against a conclusion that immigration has a significant positive impact on intensive economic growth. As we focus on each potential economic goal for immigration in turn, we will consider additions to the model that imply greater benefits from immigration. Of course, these additions may imply advantages to other policies as well, and our focus will be on whether immigration is the best policy to reap any implied benefits.

Filling Occupational “Gaps”

One main way in which immigration is argued to benefit a host economy is through filling “gaps” in the occupational structure. Filling such gaps could be beneficial if the production function is of a form such that minimal amounts of specific inputs are required or if there are empty sectors in the economy with increasing returns to scale when they are first developed. In the extreme, one could imagine a Leontief production function where inputs must be used in fixed proportions. In that case, even if the other factors are growing, we may not be able to achieve either intensive or extensive economic growth without sufficient labour. This type of

rationale was behind the earlier immigration policies designed to “fill the west” and the targeting of skilled workers after 1960.

Whether such extreme complementarities exist in current production functions is unclear. However, our goal is not to decide on the exact structure of production but to discuss the usefulness of immigration policy in meeting stated targets. Thus, assume that some key occupations exist and that we need to fill them. Is immigration policy the best tool? In the period before 1960, what was needed was a large and, given the race in the early part of the period to fill the west before the US took control of it, rapid increase in population. There does not appear to be an alternative policy to immigration that could have met these goals; changing fertility rates would not have provided a fast enough response. Green and Sparks (1999) show that immigration was a substantial contributor to both intensive and extensive economic growth in Canada before World War II.

Arguments about filling gaps at the more skilled end of the occupational structure are less clear since feasible, alternative policy responses do exist. In particular, if there is a skill shortage, the government could respond through training and education for individuals already resident in Canada. The need in this case is not for more people but more skills. At the time when the policy decision to shift toward a more skilled workforce was made (i.e., around 1960), the educational infrastructure did not exist to upgrade the skill level of the Canadian workforce. In this circumstance, immigration was the only feasible tool for rapidly changing the skill composition of the workforce. Moreover, some skilled immigration was necessary to provide the training for the native born. Thus, the government used the policies of bringing in skilled immigrants and expanding the educational system as complements. Once that system was expanded, however, increasing skills through immigration and through education of the resident population became substitutes as policies.¹² Recent large increases in enrolment among youths suggest that the education system can be used to

meet increased skill requirements (Card and Lemieux 1996). The question then becomes whether we want to use education or immigration policy to meet specific skill requirements.

Exactly how substitutable immigration and education policies are depends in part on the assumed model of human capital generation. In the simplest human capital model, in which everyone has equal ability and free access to the capital market to finance education, the wage differential between skilled and unskilled workers will be just enough to compensate skilled workers for their skill investment. In that case, bringing in skilled immigrants will not change the eventual distribution of skills in the economy or the distribution of wages between skilled and unskilled workers. Thus, education and immigration skill policies would be perfect substitutes. If, instead, there is a wide range of abilities and imperfect access to capital markets to fund education then the wage differential between skilled and unskilled workers may more than compensate for the educational investment of skilled workers. Moreover, bringing in a certain number of skilled immigrants will not necessarily lead to an equal number reduction in native-born individuals who acquire skills. Assuming demand for skilled workers is not perfectly elastic, it will still lead to a reduction in the skilled/unskilled wage gap. It seems reasonable to assume that there are some individuals who are just on the margin of deciding to go to university given any observed wage gap and, consequently, that a reduction in the gap will cause some reduction in the number of native born who acquire skills. Thus, it is reasonable to assume that education policy and a skill-gap filling immigration policy are substitutes to some degree.¹³

If education and immigration policy are substitutes, which should we use to fill occupational gaps? One apparent advantage of using immigration policy is that Canada does not have to pay for the human capital investment in the immigrants; that is done in the source country. The main argument against taking advantage of such a benefit must be moral:

purposefully attempting to confiscate the human capital investments of other countries, particularly less developed countries, should not be a goal of our immigration policy.

A second potential advantage to filling skill gaps through immigration policy is that more direct targeting appears to be possible. With immigration policy, the government sets admission screens to let in the desired occupational group. With educational policy, the government can only set up incentives and hope that individuals respond. Moreover, it appears that we should be able to fill any gaps more quickly using immigration rather than domestic skill generation. These arguments have several difficulties, however. First, immigrants may have difficulty gaining acceptance of their educational credentials and thus difficulty in getting a job in the occupation for which they were admitted. A common finding that there is a lower rate of return to education for immigrants relative to non-immigrants (Abbott and Beach 1993; Baker and Benjamin 1994) points to such difficulties. Similarly, using data from a panel of immigrants from the early 1970s, Green (1995*b*) finds that obtaining credentials recognition is a significant contributing factor in explaining rapid earnings growth among immigrants in their first three years after arrival. A second, related difficulty is that immigrants often take a long time to enter employment. Thus, Green (1999) and Green (1995*b*) show that immigrants experience very high unemployment rates of over 20 percent in the first six months after arrival. These decline rapidly with time in the economy, but they still indicate that immigrants should not be assumed to be an instant source of skill supply. In comparison, training residents in some trades takes less than two years and thus might provide comparable response times to immigration. For other occupations the training time will be longer than the immigration response. Finally, immigrants may not move into the occupation to which they are targeted. Green (1995*a*) compares the distribution of stated Intended Occupations (IOs) of immigrants when they arrive to the actual occupational distributions of samples of immigrants from

the same arrival cohorts in subsequent Censuses and finds that “leakage” into occupations other than the IO is not trivial.¹⁴

Perhaps the most important argument against trying to use immigration to fill specific skill gaps is that it is too difficult to accurately identify and target flows to those gaps. Green and Green (1995) find that the point system can work in increasing the numbers of immigrants intending to enter specified occupations but that with so many other goals for immigration policy as a whole and the point system more specifically, successful targeting has become rarer since the early 1970s. Thus, even if the difficulties in immigrant adaptation to the new economy set out above do not exist, we would need to make occupational targets one of a small set of goals of immigration policy if they are to work at all. But this too will be of little use if we cannot accurately identify the skill gaps we are trying to fill. In a review of related evidence, the Economic Council of Canada concluded that “there is no reliable way to detect gaps in the labour market” (Economic Council of Canada 1991, p. 9). As seen in the second section, the government itself appears to have lost faith that it can identify those gaps. This is the reason for its proposal to target a broader range of skills and to help immigrants find gaps after arrival. But if the workers themselves are to play a large part in identifying gaps then the evidence that immigrants take time to adapt to their new economy suggests that residents would likely perform this task better.

Finally, it is worth reiterating that there is no firm empirical evidence that population growth leads to economic growth among advanced countries. If filling skill gaps were necessary for Canada to succeed in the race to develop and implement new technologies then one would expect that we, as one of the few countries to try to use immigration policy to fill such gaps, should have better economic growth than our developed partners over the last 25 years. This does not appear to be the case.

Expanding Human Capital

We turn next to the possibility of using immigration to increase the stock of human capital. To aid in our discussion, we can alter our model such that the production function includes human capital as a separate input. One could then consider whether expanding the stock of human capital can lead to intensive as well as extensive economic growth. The argument that more human capital could generate increasing returns to scale, perhaps through increasing innovation, seems plausible. However, if this were true then countries with greater stocks of human capital should experience greater growth in income per capita. A comparison of the intensive growth over the last quarter century in Canada and the United States, which have similar natural endowments but are very different in the sizes of their respective human capital stocks, suggests this is not true. Thus, we are again led to the conclusion that expansion of any type of labour without bound is not called for.

Whether or not we are seeking unlimited quantities of human capital, but particularly if we are not, the issue of a trade-off between education and immigration policy must again be addressed. Both the education system and immigration can be used to increase the human capital stock. As was the case with filling specific skill gaps, using immigration policy to import human capital will decrease wage differentials between more and less skilled workers and thus reduce the human capital acquired by residents. Thus, immigration and education policy are substitutes. Both seem capable of generating substantial increases in human capital. Coulson and Devoretz (1993) show that the value of human capital transferred to Canada through immigration over the last 20 years has been substantial and could have been larger with more careful management. At the same time, we know that the proportion of the Canadian population with a university degree is much smaller than the equivalent proportion in the United States (0.16 vs. 0.26 in 1989), indicating that there is also room for expansion of the capital stock through education in Canada. The fact that enrol-

ment rates have sky-rocketed in the 1990s in Canada indicates that both the infrastructure and the desire exist to realize this potential.

Which policy should we use? As in the discussion of filling skill gaps, any arguments in favour of using immigration to increase the skill level are reduced to the extent that immigrants have difficulty in gaining recognition for their credentials. The main argument in favour of using immigration to increase human capital is that Canada does not have to pay for the investment. As we argued before, however, robbing other countries of their human capital investments does not appear to us to be a morally defensible goal for our immigration policy. Further, there appear to be reasons stemming from the current state of the Canadian labour market that point to using domestic education policy. We know that there have been increasing university/high school differentials in earnings and employment rates for young men and women but sharply declining earnings across successive labour market cohorts of men (Bar-Or *et al.* 1995; Beaudry and Green 1997). One possible policy response to this growing inequality is to help more young people acquire the higher education and the higher earnings that go with it. Should we seek to expand the supply of the university educated from another source when the earnings of new, university educated males are falling and just when the desired expansion of human capital appears to be happening on its own? While we may want a very skilled workforce in terms of the distribution of education among its members in order to manipulate new technologies, there does not appear to be a clear argument that the optimal stock of human capital is bigger than what could be created through educating the resident population. Without such a clear argument, it seems difficult to justify increasing the human capital stock as a main goal of immigration policy.

Meeting Regional Needs

Another proposed goal of immigration policy is to target labour and skills to regions of the country with small endowments of either or both. The argument

in favour of using immigration in this way must be that the regional economies need certain sets of skills in order to grow. Again we raise the question, if this is the problem, is immigration the best policy solution? Here the main difficulty with using immigration is that immigrants might not remain in needy areas even if their admission were based specifically on their doing so. Once immigrants enter they should be and are entitled to the same rights as other residents, including the right of free movement within Canada. Dougherty (1994) follows the migration patterns within Canada of immigrants using administrative data and finds that between 15 and 20 percent change provinces within six years after arrival in Canada. Further, immigrants seem quite responsive to income levels and unemployment rates in choosing their destination. Lin (1997) compares interprovincial mobility of immigrants and non-immigrants using data from the Labour Market Activity Survey and finds that their migration rates in a given year are not statistically significantly different from one another. The suggestion from these studies is that immigrants are mobile, though not inordinately so. The difficulty with this evidence is that it does not answer the main question of interest: if we forced new immigrants to go to depressed regions of the country, perhaps by making initial residence in a province a condition of their admission, would they stay? The Dougherty and Lin papers examine the 1980s, a time when immigrants were free to choose their initial location. The Dougherty finding of substantial responsiveness of immigrants to regional income and unemployment differentials suggests that they might be highly mobile if someone else chose an initial (high unemployment) location for them. Indeed, the fact that immigrants choose disproportionately not to settle in the Atlantic provinces suggests that they could not be successfully used as a long-term source of labour for that region. One recent attempt to force immigrants to match particular provinces is in the immigrant investor program. Immigrant investors enter by investing funds in a particular province but do not have to reside in that province. As a result, while British Columbia received 11.8 percent of all

investment under this program in 1993, it was the residential choice of 54.1 percent of the investors (Kunin and Jones 1995). Thus, the program steered funds but not people to the slower growing provinces.

Generating Investment

One main component of the current immigration inflow, the immigrant investor program, concentrates on using immigration to generate investment in Canada. Applicants can enter in the investor program if they have a minimum net worth and invest at least a specified minimum in small or medium-sized enterprises in Canada. The investments must fall in a set of pre-approved categories and must be deemed to be likely to generate employment for Canadians. In an economic model in which the host country is assumed to have a fixed capital stock in the absence of this program and in which there is a constant returns-to-scale technology, immigration will lead to a decline in wages as more labour is applied to a fixed capital stock. A program that brings in capital to match the immigrant labour inflow could reverse the predicted wage decline, helping the low-skilled labourers about whom we are most concerned.

The key question in determining the usefulness of an immigrant investor program is Canada's openness to international capital flows. In the model described earlier, in which there is a perfectly elastic supply of capital, an immigrant investor program will have no net impact. Any funds brought in through this route would depress rates of return in Canada below the going world rate and lead to an exodus of other funds until the rate of return rises back to the world rate. Previous evaluations of the immigrant investor program of which we are aware, such as Kunin and Jones (1995), simply add up the dollars officially invested and the jobs associated with those investments to calculate the impact of the program on the Canadian economy. This would only be an accurate expression of the net impact if there were no capital mobility and the projects being invested in would otherwise go unfunded. At this

point, we do not know whether bringing in immigrant investors has positive net benefits but, given that world capital markets are quite open, it seems likely that the net benefit is much smaller than the gross investment dollar total would indicate. To make generating investment a main goal of immigration policy would seem unwise in the absence of more substantial evidence of net benefits from such a program.

Increasing Trade Flows

A more recently stated goal of immigration policy is to help increase trade flows. The idea here is that trade connections depend in part on trust and information. Potential exporters and importers need to have information that it is viable in order to enter a particular market in another country and need to connect with suppliers and distributors they can trust. Cultural and legal differences across countries may make it difficult to establish the types of business links needed to carry on the mechanics of trade. Immigrants from a particular country would presumably have connections with specific potential suppliers and distributors in their country of origin, have information about the state of markets in that country and have the kind of cultural and institutional knowledge about both their country of origin and Canada that would facilitate trade between the two. Gliberman (1995) proposes this as a potential benefit from immigration but, based on basic tabulations, casts doubt on whether any such benefit is large. Head and Ries (1998) estimate the impacts of the stock of immigrants from a given source country in Canada in 1991 on the volume of trade between Canada and that country. They find that increasing the immigrant stock from a given country by 10 percent increases exports to that country by 1.5 percent and imports from that country by 3.8 percent. Thus, immigration does affect trade, though more by affecting imports than exports. Interestingly, Head and Ries find that the best predictor for increased trade volumes with a given source country is not the number of entrepreneur and investor class immigrants from that country but the number of other independents.¹⁵ This indicates that there is

no reason to focus on business class immigrants if we choose to use immigration policy for promoting trade.

Again, the key question is whether immigration is the right policy tool for increasing trade. The problem being addressed in this case is one of incomplete markets in information. This problem could be solved with a small set of firms selling information about overseas markets to Canadian exporters. Beyond some minimal number of such firms, bringing in more immigrants from a particular source country will yield diminishing added amounts of information about that country. Thus, added immigrants would serve to dissipate rents being earned by the first firms that sold the information rather than bringing large net benefits to Canada. That there might be some such non-linearity in the relationship between trade benefits and migration flows is indicated by the fact that Helliwell (1997) finds no impact of stocks of immigrants from other provinces on interprovincial trade in Canada. This could arise if information enabling trade among provinces is so widespread that there is no added trade benefit to extra migration. Thus, while Head and Ries' results may serve as a justification for some immigration they are not necessarily justification for large, ongoing immigration levels.

Altering the Age Structure of the Population

Immigration could conceivably be used to offset current tendencies toward the aging of the resident population. With the aging of the baby boomers, there is considerable concern about a future rise in the ratio of dependents (non-workers) to workers in the Canadian economy and the implication of that rise for public pension provision. One could imagine offsetting this aging tendency by bringing in large numbers of young immigrants. However, Denton, Feaver and Spencer (1997) argue that, given that a normal immigration inflow includes its own dependents, even very high immigration would have only marginal impacts on the age structure. Thus, they project that with annual inflows of 200,000 immigrants per year, the ratio of those out of the

labour force to those in the labour force will be 24.8 percent in 2036 (approximately twice what it is now) while with annual inflows of 500,000 that dependency rate would be reduced only slightly to 21.3 percent. This supports the results from the 1989 Demographic Review. The review calculated that with inflows of 200,000 immigrants per year, approximately 22 percent of the population would be over age 65 in 2036 compared with approximately 17 percent if we brought in 600,000 immigrants per year with 50 percent of them being under age 15. Thus, even a policy of bringing in large numbers of orphans cannot solve problems related to the aging of the population.

Increasing Flexibility

Immigrants are sometimes assumed to supply a special type of labour, superior to domestic labour supply in its flexibility. Given that immigrants are by definition mobile and that they may have fewer social ties to lock them into particular communities or jobs in Canada, it is reasonable to predict that they would be more mobile than native-born workers. If so, then immigrants could provide the grease the economy needs to adjust to various shocks: immigrants would be the workers who respond most to wage signals, equalizing the marginal product of labour across various regions and occupations. Green (1999) argues that immigrants are in fact more occupationally mobile than native-born workers and, specifically, that they moved out of the declining manufacturing sector more rapidly than native-born workers in the 1980s. On the other hand, the regional mobility evidence cited above does not indicate that immigrants are more geographically mobile than the native born. Mobility can be viewed as a form of investment like human capital investment and thus, some of the same arguments raised in discussing human capital stocks are relevant here. As in that case, bringing in more mobile immigrants will dampen wage signals which might otherwise induce native-born workers to leave depressed areas. However, domestic policy aimed at inducing the native born to make particular occupational or regional adjustments seems as unlikely to succeed as trying to target immigrants at particular

occupational gaps. Thus, immigration seems to be a superior policy in that it simply involves bringing in more mobile individuals and letting them select the best response to economic shocks. How many immigrants we would want to bring in to fill this sort of "shock troop" role is unknown.

Increasing Returns to Scale Arguments

As discussed earlier, based on existing econometric evidence, we believe that a constant returns-to-scale technology best describes the situation facing developed economies. There are no gains in terms of intensive economic growth to be had simply from increasing the population size. In the spirit of the remainder of the discussion, however, suppose this was not true. Does this imply that Canada should seek large immigration flows? If a larger scale of production means more productivity then it seems likely that a small country such as Canada could achieve much greater efficiencies through trade than population growth. This raises the whole issue of interaction of trade and labour flows.

In a standard Heckscher-Ohlin model with two goods, two countries and two factors of production, trade patterns are based on the relative factor endowments of the two countries. If both countries produce both goods in the trading equilibrium then the factor prices are equalized between the countries even without migration. Permitting migration does not change anything: factor flows and trade flows are substitutes. However, if the countries specialize in production of one of the goods then factor flows can lead to greater world efficiency. If capital is perfectly mobile, however, wage equalization will again follow without any migration. Thus, in a world where both trade and capital appear to be more mobile than labour, it is not clear that there are large extra gains from migration.

In an alternative model, trade is based on economies of scale in particular industries rather than relative factor endowments. In such a world, one might consider using immigration to bolster the size of the Canadian market to take advantage of those scale

economies. With relatively free trade with the United States, however, increasing our population increases the market not only for our own firms but also for US firms. If there is an increasing returns-to-scale technology industry in which the US already produces more (and hence is more efficient), an increase in our population may not allow Canada to expand its production in that market. Whether our industry would expand is unclear and depends on factor price readjustments. The point, though, is that for a small open economy such as Canada, immigration is not a clear path to taking advantage of scale economies. Similarly, arguments about immigration increasing productivity through innovation do not necessarily follow even if one believed that more population meant more innovation. Whether Canada would benefit more from an innovator being in Canada rather than their original country is not clear, particularly if Canada is not willing to apply more resources to research than the potential source country.

It is worth noting that, while there does not appear to be evidence of particularly strong positive impacts of immigration on intensive growth, there also does not appear to be evidence of strong negative impacts. Examining the mainly US literature on the impact of immigration on the native born, Friedberg and Hunt conclude, "empirical estimates in a variety of settings and using a variety of approaches have shown that the effect of immigration on the labour market outcomes of natives is small" (1995, p.42). Similar evidence for Canada does not exist and, given that we have only a small amount of variation in local labour markets to identify such an impact, may never exist in a convincing form. The differences in our immigration policy relative to the US indicate that conclusions for the US cannot be easily imported but at least the evidence for a similar economy does not imply large negative impacts. Pope and Withers (1993) use macro data to examine immigration impacts for Australia, which has a similar immigration policy to Canada's. They conclude that immigration can actually lead to declines in unemployment though any such declines are at best small. Finally, using cross-national data,

the Economic Council of Canada finds evidence for "very small" positive impacts of population growth on intensive economic growth and no effect of population growth on the unemployment rate (Economic Council of Canada 1991). Earlier we used this minimal impact result to argue in favour of an economic model with constant returns-to-scale technology and a perfectly elastic supply of capital. An alternative model that does not require perfectly elastic capital supply is one in which immigrants bring some benefits (perhaps through impacts on trade linkages and labour force flexibility) that offset costs implicit with a constant returns-to-scale technology. There is no clear evidence that either raising or lowering the immigration level would lead any benefits of immigration to exceed the costs.

MANAGING THE COMPOSITION OF IMMIGRATION

The discussion to this point does not indicate clear benefits from any particular goal of immigration. That does not mean that we should abandon managing the inflow, however. Seeking to select immigrants who will adapt easily to the Canadian economy potentially reduces the fiscal costs of immigration. Thus, it is worth noting that Green (1999) finds that individuals not in the independent class and/or with low language skills at the time of arrival are much less occupationally mobile than those entering as independents. Further, we may wish to minimize direct impacts on particular groups of workers. In this regard, while we have argued against trying to steer immigration toward specific predicted skill gaps, it is still reasonable to minimize immigration into high unemployment occupations. Further, even if we did not want to make building human capital stocks a primary goal of immigration policy, it would be reasonable to select immigrants based on their education level. Unemployment rates for university-educated individuals in Canada in 1996 were 5 percent compared to rates of 8 percent for individuals with a postsecondary education and 11 percent for individuals with a high school

education.¹⁶ Based on the 1993 Survey of Consumer Finances, corresponding unemployment rates for immigrants entering before 1986 were 5.8 percent for the university educated, 8.5 percent for those with a postsecondary certificate or diploma below a BA and 10 percent for those with a high school education. This suggests that university-educated immigrants will be more likely to enter the labour force successfully. Similarly, in a well-managed immigration system, bringing in younger applicants in order not to contribute to the immediate increase in the dependency ratio seems reasonable. Further, an inflow balanced across source countries appears beneficial if for no other reason than it will help encourage a balanced trade pattern for Canada.

The current immigrant selection system appears to permit sensible management of the inflow in general. It bars applicants whose intended occupation matches a list of high unemployment occupations, and attempts to select individuals from around the world who are young, educated, and fluent in English or French. Unfortunately, the system still tries to direct the inflow toward specific occupations both through points given for being in a list of acceptable occupations and, more importantly, through the added points and high processing priority given to immigrants in occupations specified by the provincial governments as being in high demand. The federal government appears to be moving away from such targeting, as we argue is reasonable. Why then should we reverse that policy direction by giving the provinces the power to target immigration at specific gaps? In standard arguments about how to divide powers in a federation, activities that spill over provincial boundaries should be allocated to the federal government. The results on regional mobility discussed above suggest that immigrants are mobile and that they might be even more so if we attempt to coerce them into locations and occupations they might not otherwise choose. Based on this argument, immigration should be a strictly federal power. This conclusion could be reversed to the extent that provincial governments have better information about gaps in their local occupational

structures. There is no reason to believe this is true. The federal government has a system to project occupational gaps but, as we have seen, CIC no longer appears to believe it accurately identifies skill gaps. Why should provincial governments, with fewer resources dedicated to labour research, do a better job of predicting such gaps? The British Columbia government's Work Futures program, which attempts to predict occupational openings, is in fact based on the federal government's occupational projection system (British Columbia 1996). Thus, it is hard to argue that it could be doing a better job of prediction than the federal government. If there is no clear reason to have the federal government try to target skill gaps, there is even less reason to have the provincial governments do so.

CONCLUSION

Our goal in this paper has been to use a combination of Canada's immigration policy history and current immigration research to examine economic goals for immigration policy in Canada. We present three main arguments. First, Canada's immigration policy up to the late 1980s was characterized by alternating periods of expansion targeted at specific economic goals and periods of virtual shut down in response to poor domestic labour market conditions. The specific goals that have been targeted have varied from long-term goals of increasing population and altering the age structure to the short-term goal of filling specific perceived gaps in the occupational structure. Moreover, in each case one can make an argument for why immigration was the best policy for meeting the specific goal. Second, the policy in the 1990s has broken with the established pattern in not cutting back immigration in response to high unemployment rates and in switching almost completely to long-term goals. In this regard, claims that keeping the inflow at or near 1 percent of Canada's population is consistent with our policy history are simply not true. Third, in an examination of a list of potential goals, we have not been able to find a convincing argument that immigration is the appropriate

policy tool for meeting any specific goal. There is some support for using immigration as a tool of trade policy and for increasing the flexibility of the labour force, but neither of these goals indicate a need for large inflows in poor labour market periods. Arguments can be made for using immigration to meet other economic goals, such as increasing the skill level of Canada's labour force, but in each case we argue that other policies would perform better. Thus, Canada appears to have entered a new era in which there is no clear economic goal for which immigration is best suited.

Does this mean that Canada should abandon immigration? By no means. A defining feature of immigration is that it constantly rejuvenates the population: bringing in people with new perspectives and customs. This makes for a potentially rich culture that is continually being reinvented. Just as importantly, it necessarily negates attempts to create one simple definition of what it is to be Canadian. A glance at the ethnic turmoil that curses some of the most culturally static countries in the world indicates the benefit we receive from ongoing immigration. Bringing in a continuous stream of people who come hoping to find a better place provides the ongoing energy needed to make Canada a better place.

As we stated at the outset, our examination is centred exclusively on economic trends and policy goals, neglecting immigration's role as a cultural and humanitarian policy. We chose this approach out of a need to present a focused argument and because of our own limitations in expertise. We believe that immigration plays a positive, dynamic role in Canada's cultural development but that to see this clearly requires a clear understanding of immigration as an economic tool since this is where many discussions appear to end up. Reading this paper should be complemented with reading studies on immigration as cultural policy and with experiencing the wonderful diversity of current Canadian society. It should also be recognized that many potential benefits, both cultural and economic, may be realized in generations that follow the original migrants.

Thus, our conclusion is that immigration policy should now be seen primarily as a cultural, social and humanitarian policy rather than an economic one. This does not mean, however, that all economic concerns should be abandoned. Immigration should be selected to minimize negative impacts on the least well off. In this regard, government plans to move away from targeting specific occupations and toward selecting broad skills seem appropriate. Also, immigration should likely be cut back in poor labour force times rather than being kept at high levels in the hopes of realizing economic benefits for which there is little supporting evidence.

NOTES

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¹The fact that public declarations and actual policy were so different was made easier in part by the fact that immigration policy was being set through Orders-in-Council rather than through changes in the Act. The latter would have entailed more parliamentary and public debate. See Green and Green (1997) for a discussion of legislative flexibility and its impact on the implementation of immigration policy in Canada.

²The preferred countries included Britain, the United States, the Irish Free State, Newfoundland, Australia, New Zealand, and South Africa.

³The figure plots the ratio of immigration in a year to the population at the end of the preceding year. The data are from Leacy (1983).

⁴For a discussion of the new perceived needs of the Canadian economy see the Report of the Special Committee of the Senate on Manpower and Employment (Canada 1961).

⁵In a 1992 policy document the government states, "our supply of highly-skilled workers is not keeping up with demand. Even though unemployment is relatively high today, hundreds of thousands of jobs go unfilled because there are no qualified applicants to fill them.... Immigration can benefit the labour market by helping employers fill skilled jobs for which Canadians are not available.

This alleviates structural 'bottlenecks' in the supply of skilled workers" (Canada 1992).

⁶An applicant could obtain up to 35 points for the combination of occupational demand (the government's assessment of the demand for the individual's three digit occupation), specific vocational preparation (the skill level of the individual's occupation) and arranged employment (points awarded if the immigrant had a job waiting that could not be filled by a Canadian). Adding in points awarded if the intended destination in Canada had a labour market shortage, yields a total of 40 points for these categories.

⁷In 1996, principal applicants in the combined business classes made up only 3 percent of all immigrants.

⁸See Borowski and Nash (1994) for a description and evaluation of business class immigration.

⁹See note 5, the quote is drawn from the policy document setting out the five-year plan.

¹⁰The unemployment variable is created by regressing annual unemployment rates on a constant and a trend. The difference between unemployment rates and the estimated trend is used to predict immigration levels. The variable is designed to capture the relation of immigration levels to the business cycle. Immigration level and unemployment rate data are from CANSIM. The regression has 43 observations and an R^2 of 0.48.

¹¹An extreme example would be importing slaves: this could increase societal welfare if we count only slave owners (existing residents) but decrease it once we also count the utilities of the slaves.

¹²Note that estimates of the degree of substitutability or complementarity between immigrant and non-immigrant skilled labour using historic data (e.g., Akbari and De Voretz 1992) reflect past use of immigration and education policies to try to address skill gaps. In contrast, the discussion here centres on filling a specific projected set of job openings. In that context, there is no reason to believe that immigrant and non-immigrants with identical qualifications would be anything other than substitutes; and thus that the immigration and educational policies behind them are anything other than substitutes.

¹³In a signalling model of education, as well, increased immigration in a particular occupation can lead to a decline in wages in that occupation and thus to a reduction

in the incentives to acquire the signal. If, however, there is only a limited range of abilities that can be used in a particular occupation, and there are no close substitutes in production for that occupation then there could be an argument in favour of using immigration policy if there is an undersupply of the abilities associated with specific occupations. On the other side, admitting immigrants with skill credentials that cannot be verified could lead to confusion on the part of employers about the value of the credentials signal for all workers. This would imply a reduction in efficiency in the labour market.

¹⁴In particular, an increase by 0.1 in the proportion of a given (three year) entry cohort of immigrants who list a particular occupation as their IO corresponds to only a 0.05 increase in the proportion of that cohort observed in that occupation at the next Census. Further, since the level of occupational aggregation in Green (1995a) is substantial (only ten occupations are used), the amount of "leakage" at the finer occupational groupings that have been used for the selection system in the past must be larger.

¹⁵In a discussion with John Ries, he indicated that in more recent work they find that there may be an entrepreneurial impact.

¹⁶Calculations from Labour Force Survey Historical Statistics Compact Disc.

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