IMMIGRATION AND THE "NEW ECONOMY"

ABSTRACT

While immigration is not primarily an economic issue, immigration policy does have broad, subtle and poorly understood, but potentially large, economic implications. It appears as though the net economic impact of current immigration policy is close to zero for the pre-existing population. However, there is much that we don't know and the economic balance could easily be tipped one way or the other.

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In thinking about economics and immigration, one of the most important points to remember is that immigration is not primarily an economic issue. Immigration is about family unification, humanitarianism, and national identity, among many other concerns. Nevertheless, there are economic aspects of many immigration issues that affect Canadians as individuals and as a nation, whether or not we understand them. And one of the messages of this article is that there is a lot we do not know, especially in the Canadian context and when it comes to the "big questions". Some of these questions are, however, being addressed in other contexts, and will be reviewed here, though they are at the frontier of research and only tentative conclusions can be drawn. I will address three issues that are relevant for economic aspects of policymaking in the face of an economy that is rapidly changing. First, economies of scale arguments for immigration will be discussed, then I will turn to issues of the complementarity and substitutability of individuals with different skills *in production*, and finally I will look at importance of the relative growth rates of physical and human capital on the level and distribution of economic outcomes.

Remarkably little is known about immigration's impact with respect to the "new economy", productivity or the economic standing of the pre-existing population (which comprises both the Canadian born and previous arrival cohorts of immigrants). Several arguments and hypotheses currently circulate, but each one's empirical force is not fully understood. Overall, the economic impact of immigration on immigrants is firmly believed to be strongly positive on average. While relatively little large-scale evidence exists for this, evidence from non-random and small-scale interviews and the like is fairly convincing. This is not to say that all immigrants experience a gain from immigration to Canada, or that the gain from moving to Canada is as large as that which might be expected from migrating elsewhere. The incidence of return migration, and migration from Canada, points to the increasing welfare that some expect from leaving the country. The economic value of immigration to Canada and to the pre-existing population, which is a primary concern in this article, is more difficult to ascertain.

Knowledgeable policymakers often suggest the economic benefits of Canada's current immigration policies are small, but positive. While there is some disagreement, most economic research suggests that the net impact is indeed not very large. This is not to say that immigration does not increase the size of the Canadian economy – clearly it has a sizeable impact. Rather, the issue revolves around the per capita size of the economy, and the per capita benefit of immigration to the pre-existing population.

There was a period when a strong argument could be made for immigration having an important impact per capita *because* it increased the total size of the economy – that is, there were increasing returns to scale. However, even as early as 1991, an Economic Council of Canada report by Swan suggested that scale was less important than it had been. The report's rationale has become even stronger over the decade that followed as the "new economy" is increasingly characterized by rapid communication, high technology, massively reduced transportation costs (which many economists see as crucial, but which is not prominent in discussion), and increasingly global trade. Having a large domestic market and labour force is not as important as it once was.

Consider next the complementarity or substitutability of new immigrant and pre-existing Canadian labour in production, as reviewed by Borjas (1999). The size of the economic pie is maximized when new immigrants are complements to the pre-existing population in production. New immigrants should, therefore, have different skills and "fill holes" in the Canadian demand for labour. If, alternatively, new immigrants are close substitutes in production, then, not only will there be less output (lower productivity) than under the alternative scenario, but those skills that are common will have their price bid down as the supply increases. This has an implication for measures of discrimination and related issues: occupational and/or industrial differences between immigrants and the Canadian born are the desired result of a selection mechanism that seeks out potential immigrants with skills that are in short supply in the Canadian labour market. Differences in wages for equivalent workers are, however, a different matter.

A puzzling study that attempts to measure the empirical magnitude of any displacement that might result from new immigrants substituting for pre-existing workers is by Card (1990). If displacement is observed, that is, if new immigration causes wages or employment to decline for the pre-existing population, then this is evidence for new immigrants being substitutes in production. Card focuses on a singular event – the boatlift of refugees from the port of Mariel, in Cuba, to Miami. This was a massive migration involving about 125,000 new immigrants and it caused about a 7% increase in Miami's labour force almost overnight. Using a combination of four other cities as a comparison group, he found only very modest reductions in wages and employment in the Miami area, and these were quite temporary and concentrated among the low skill portion of the workforce most similar to the immigrants. This suggests that there are very limited displacement effects – very little substitutability – at least locally.[1]

However, the issue of location turns out to be crucial. Angrist and Krueger (1999) point to the adjustment, or lack of adjustment, to Miami's population associated with the influx of new immigrants. The increase in Miami's population did not endure very long. Domestic migration appears to have adjusted so as to eliminate any population change following the massive immigration from Mariel. Displacement appears to occur not in terms of local wages and/or unemployment, but in terms of internal migration. This implies that the effects from new immigration, if there are appreciable ones, ripple through the nation as a whole (and rather quickly) even if the new immigrants are highly concentrated. Unfortunately, measuring these impacts at the national level is remarkably difficult.[2]

Borjas (1999) tries to get around the measurement issues by developing a stylized model of the U.S. economy with heterogeneous skill levels. He then uses it to estimate the impact of a 10% increase in the labour force due to immigration on the national income of the pre-existing population. Using a variety of estimates for the relevant relationships, he finds that the pre-existing population benefits, but the magnitude is in the range of only 0.01 to 0.4% of GDP. The total size of the economy increases much more than this, but immigrants themselves receive almost all of the value of their production. It is hard to make Borjas's benefit estimate very large, and it is also very hard to make it negative. Immigration is not primarily an economic issue from this perspective.

Related in purpose, but using a very different approach, is research sponsored by the U.S. National Science Foundation that is reported in a book entitled to *The New Americans*. One of its focuses is on estimating the net fiscal impact of immigration to government in a comprehensive way. It concludes that, while government budgets in states with large immigrant populations (it focuses on New Jersey and California) lose financially, the federal government gains, and the pre-existing nation, as a whole, gains. However, the gains are spread broadly across many states, whereas the bulk of the costs are concentrated in a few. Once again though, the gain is small, but unlike Borjas's estimates, in some plausible scenarios it is negative. Interestingly, California, which has much more generous social and other programs than New Jersey, loses more. It is not clear whether a Canadian province with generous social and related programs would, on net, gain or lose financially. One issue that emerges clearly from a procedure such as this is that the gross financial flows are quite large, therefore any change in the characteristics of immigrants, or of public programs (including debt servicing), can alter the net benefit substantially.

Turning next to the amount of physical and/or financial capital available to workers, in the context of the ongoing productivity debate, Beaudry and Green (2002) suggest that one reason for Canada's relatively poor productivity performance is that the amount of capital available to Canadian workers is declining in relative terms. No matter how hard one works, a worker with a bulldozer can move more earth than one with only a shovel. More importantly, as we move to a more knowledge-oriented "new economy" more capital per worker is required. One implication of this is that an aggressive physical capital accumulation strategy needs to accompany new immigration. This is particularly important if there is an emphasis on the recruitment of highly skilled immigrants. Note also that if the supply of labour increases more quickly than the supply of capital, then immigration, by changing relative prices, serves also to redistribute income from the owners of labour to the owners of capital. (This also applies if displacement occurs.)

A central point in this discussion is that while, as I stated in opening, I do not believe that immigration is primarily an economic issue, immigration policy nevertheless has broad, subtle and poorly understood, but potentially large, economic implications. Inasmuch as U.S. evidence can be applied to Canada, and unfortunately there is no comparable Canadian evidence as far as I know, it appears that these large costs and benefits approximately balance currently and the net economic impact of current immigration policy is close to zero for the pre-existing population. However, there is much that we don't know (for example, even though the returns to scale are not what they once were, I wonder if they may still be sizeable). Two things are clear though; first, the economic balance could easily be tipped one way or the other by policy or luck, and, second, as long as the balance is maintained (and maybe even if it is not) non-financial factors are probably paramount for immigration.

FULL REFERENCES AND BIBLIOGRAPHIES
RÉFÉRENCES ET BIBLIOGRAPHIES COMPLÈTES

Adam article – references (pp. 10-12)

[1] Percentage of visible minority population: Richmond (B.C.) 59.0%, Markham (Ont.) 55.5%, Vancouver (B.C.) 49.0%, Burnaby (B.C.) 48.6%, Greater Vancouver (B.C.) 43.5%, Toronto (Ont.) 42.8%. Statistics Canada (2003) [http://www12.statcan.ca/english/census01/products/analytic/companion/etoimm/tables/subprovs/topimm.cfm]

[2] Centre for Research and Information on Canada (CRIC). Portraits of Canada 2001. Montreal. http://www.cric.ca/en_html.

[3] Association for Canadian Studies. Canadian Opinion Toward Second Language Knowledge and Education. Montreal.

[4] See http://people-press.org/reports/display.php3?ReportID=165 . The Pew Research Center is an independent opinion research group in Washington, D.C. that studies attitudes toward the press, politics and public policy issues.

[5] Statistique Canada, 1996 (dans : Commissaire aux langues officielle. 2002. L'immigration et l'épanouissement des communautés de langue officielles au Canada. p. 63.)

[6] Copies can be ordered or downloaded. Please visit www.ocol-clo.gc.ca.

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[1] The opinions and interpretation expressed in this article are those of the author and do not necessarily reflect the views of Citizenship and Immigration Canada.

[2] The IMDB is a longitudinal database of linked immigrant records and subsequent taxfilings. The database is maintained by Statistics Canada on behalf of Citizenship and Immigration Canada and a federal provincial funding consortium. For more information see: http://www.cic.gc.ca/english/srr/pdf/res4bi.pdf

[3] To benchmark the entry earning of skilled workers against the Canadian average is not an adequate reflection of the objectives of the program. A more appropriate benchmark, such as similarly skilled Canadian-born individuals entering the labour market at a comparable time, could be taken from the Survey of Consumer Finances/Survey of Labour and Income Dynamics data.

[4] Li, Peter S. "Destination Canada - Immigration Debates and Issues" Oxford University Press 2003

[5] The Immigration and Refugee Protection Act and its accompanying regulations (which came into effect on June 28, 2002) introduced changes to the selection criteria for skilled workers, based on earlier research. However, it is too soon to determine whether these have had any impact on the economic performance of skilled workers.

[6] See for example: Reitz, Jeffrey G. 1998 *Warmth of the Welcome: The Social Causes of Economic Success for Immigrants in Different Nations and Cities* Boulder, CO: Westview Press; and Pendakur, Krishna and Ravi Pendakur, 1998 "The Colour of Money: Earnings Differentials among Ethnic Groups in Canada" *Canadian Journal of Economics* 31(3): 519-48.

[7] Waslander, Bert (2002) 'The Falling Earnings of New Immigrant Men in Canada's Large Cities' (forthcoming) presented at the John Deutsch Institute Conference on "Canadian Immigration Policy for the 21st Century October 18-19, 2002; and Green, David and Christopher Worswick (2002) "Earnings of Immigrant Men in Canada: The Roles of Labour Market Entry Effects and Returns to Foreign Experience" (forthcoming)

[8] International Adult Literacy and Life Skills Survey – the next round of this survey will include a sample of recently arrived immigrants.

Sweetman article – references (pp. 21-22)

[1] Of course, like all social science research, there are questions about Card's analysis. In particular, the sample size is small and the comparison cities may not be ideal. However, if one's prior assumption is that a very large impact should have occurred, then this would be observable.

[2] Though work on the topic has been attempted by, for example, Card (2001), DiNardo and Card (2000), and Borjas, Freeman and Katz (1997).

[3] Some attempts at looking at corners of this issue have been conducted in the Canadian context, but they have been very limited in scope and have not tended to look at provincial programs involving health and education, nor included generations beyond the initial one that is born outside of Canada.

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