Intelligence MEMOS

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To: Immigration Watchers

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Re: **It's Time to Relearn Some Basic Immigration Lessons**

At the crux of economic immigration policy is the question of whether immigrant selection should prioritize current labour market needs or the human capital of applicants. Does Canada need more farmhands and delivery riders, or do we want more scientists and tech workers?

For economists, the answer is simple.

Governments should rely on competitive markets to allocate labour to where it is most productive and focus immigration on raising the average skill level of the population.

Where there are genuine labour shortages, governments can help job seekers identify opportunities but should allow competition for scarce labour to incentivize businesses to increase wages to attract new workers and invest in training and technology to get more out of existing workers. Where businesses can't compete, they will fail, and scarce workers will be reallocated to more productive businesses. As we look to solve what the Bank of Canada has called a "productivity emergency" these are good outcomes.

In a **new study**, Pierre Fortin, a former president of the Canadian Economics Association, finds that Canadian immigration, which has prioritized addressing labour shortages, has, in fact, done more to increase labour demand than labour supply in recent years. And as labour markets tighten, corporate Canada calls for more immigration, and labour shortages are exacerbated.

The government's ill-advised preoccupation with shortages in low-skill labour markets is resulting in the dismantling of Canada's skilled immigration system, which for decades has been the envy of the world.

The dismantling began on Feb. 13, 2021, when the government bypassed its Comprehensive Ranking System (CRS) – the "points system" used to grade the human capital of applicants – to provide permanent residency status to applicants with record low scores. Two months later, it again bypassed the CRS to provide a pathway to permanency for 90,000 "essential workers," our modern-day euphemism for low-skill workers. Last September, **Category Based Selection** was enshrined as a new selection policy allowing the minister to bypass the CRS to prioritize truck drivers, farm workers and French speakers outside Quebec. Whatever lobby group shouts the loudest will be prioritized next.

But perhaps most significant is the continuing devolution of immigrant selection to provinces through their nominee programs, which have lower skill requirements. Ontario recently **proposed** to extend eligibility in its program to 34 new occupations, all of which require a high-school diploma or less. And with the federal government now downloading responsibility for allocating international student visas, Ontario has opted to allocate only 15 percent of its 235,112 visas to universities, with the remainder going to community and private career colleges.

What is too often overlooked is that immigrant selection is a zero-sum policy choice because annual admissions are capped. Every time a construction labourer is prioritized for immigration, a computer science graduate from one of the country's top universities is not.

Benefits of a more educated population are clear. Education raises workers' earnings, improves their health, reduces crime and increases civic participation. These benefits spread widely through higher tax revenues, lower public-health care costs, greater safety and community trust, and a more active and informed electorate.

Evidence also points to the potential of educated immigrants to increase **innovation** and boost the **wages** of other workers through higher productivity. These gains can raise average living standards and, if anything, will tend to lower **economic inequality** as any adverse effects of immigration on wages affect the highest-, not lowest-, paid workers. In turn, immigrants are less likely to be seen as competition and public support for high immigration isn't undermined.

Labour market earnings are our best indicator of the value of workers' skills to the economy. **Studies** of earnings reveal that not all skills are valued equally and not all schools are equally good at attracting and producing skills. Yet in screening applicants, our current immigrant selection system ignores the schools, fields of study and academic grades of applicants.

We're completely ignoring the lessons of history. 2001 saw the introduction of a new *Immigration Act* that doubled down on the human capital model of economic immigration. Canada's annual immigration rate was kept at a steady and predictable 0.8 percent of the population, mandatory premigration language testing and credential assessment were introduced, and a new selection system regularly selected applicants with the highest predicted future earnings.

The result? After decades of deteriorating immigrant earnings, research from **Statistics Canada** and a separate study by the **Parliamentary Budget Officer** shows unambiguous improvement in the average earnings of new immigrants up to 2019.

Why are we now undoing everything we learned?

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