



The Economics of Canadian Immigration Levels

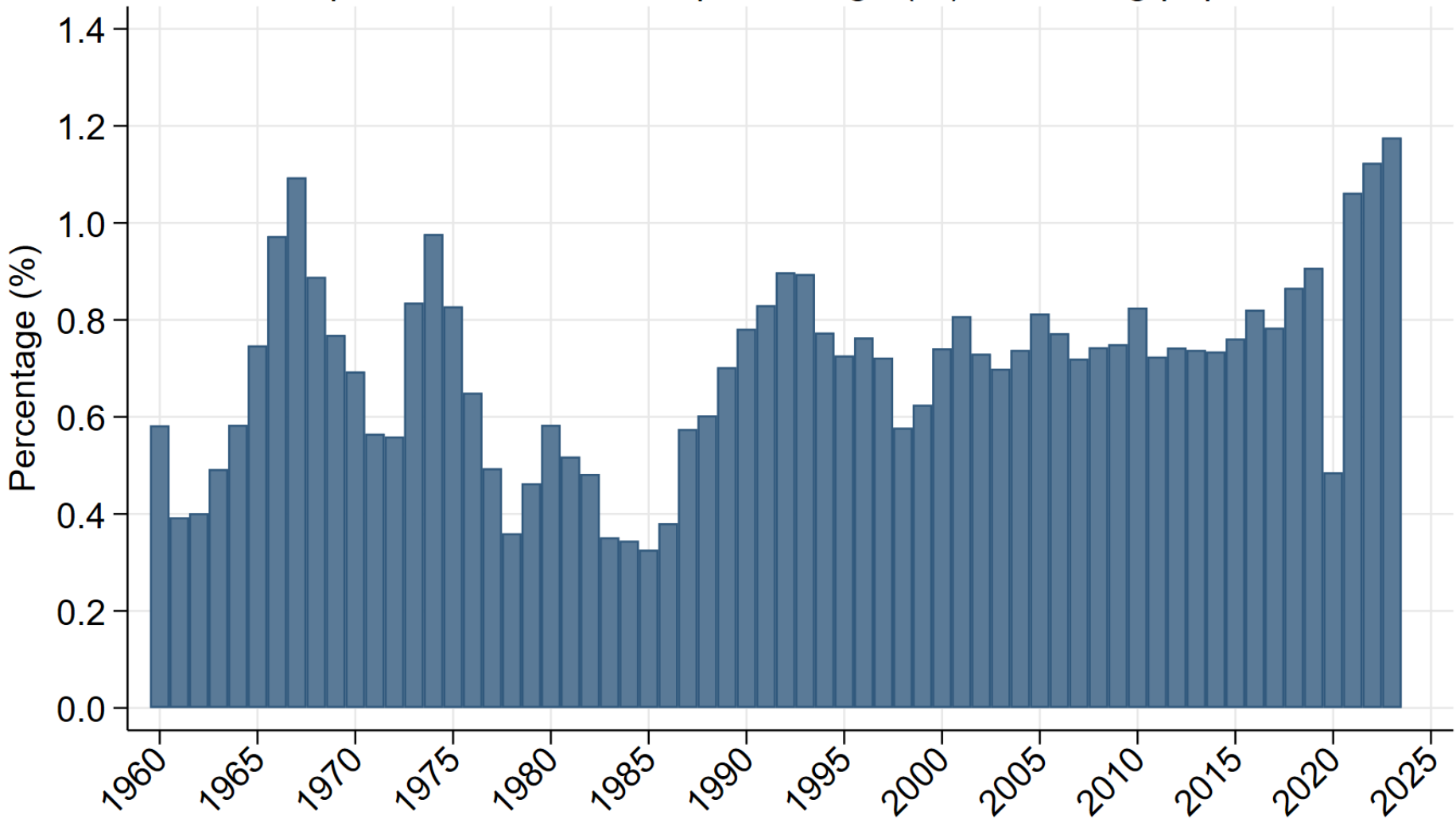
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WEBINAR

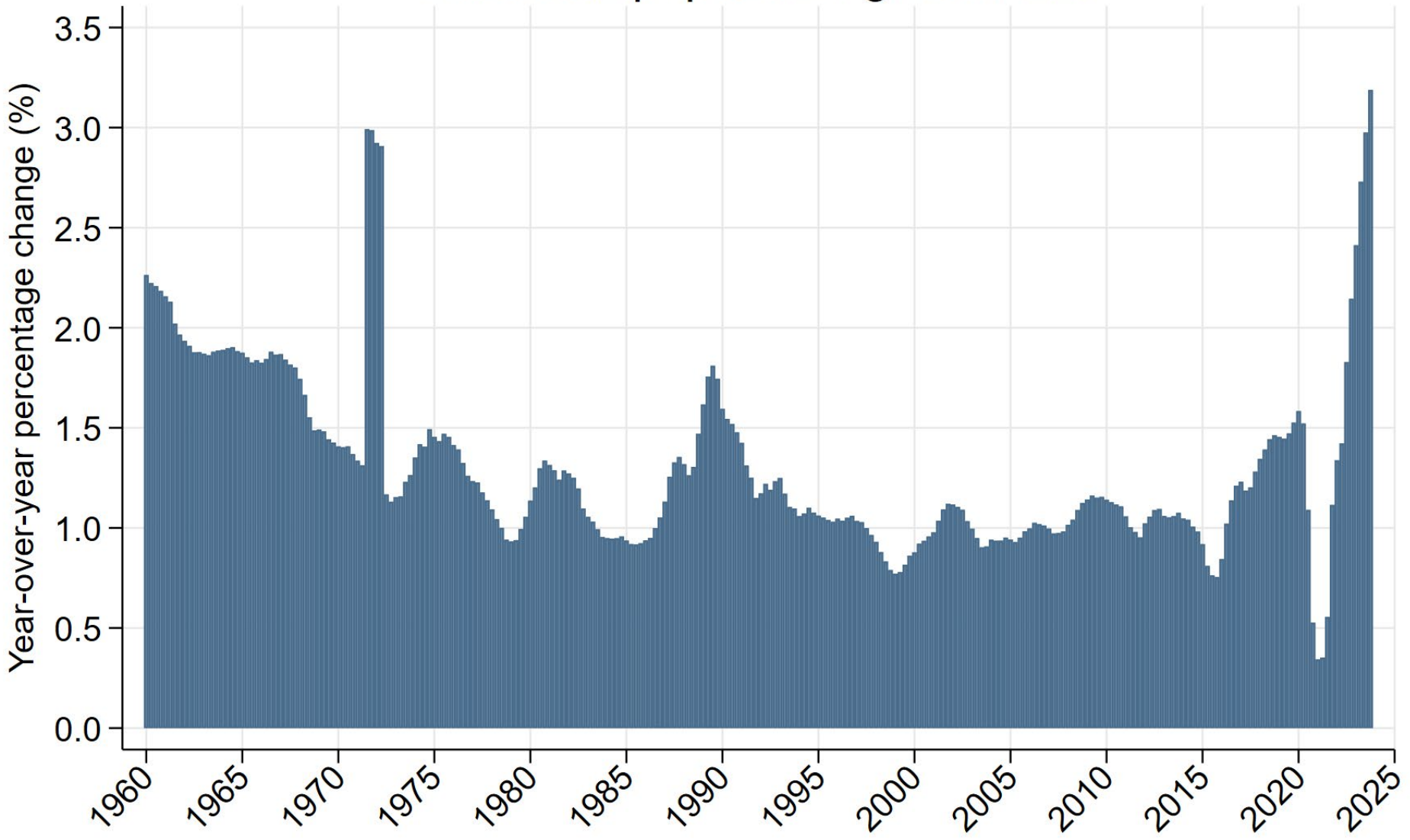
FEBRUARY 13, 2024

Canadian Immigration Rate

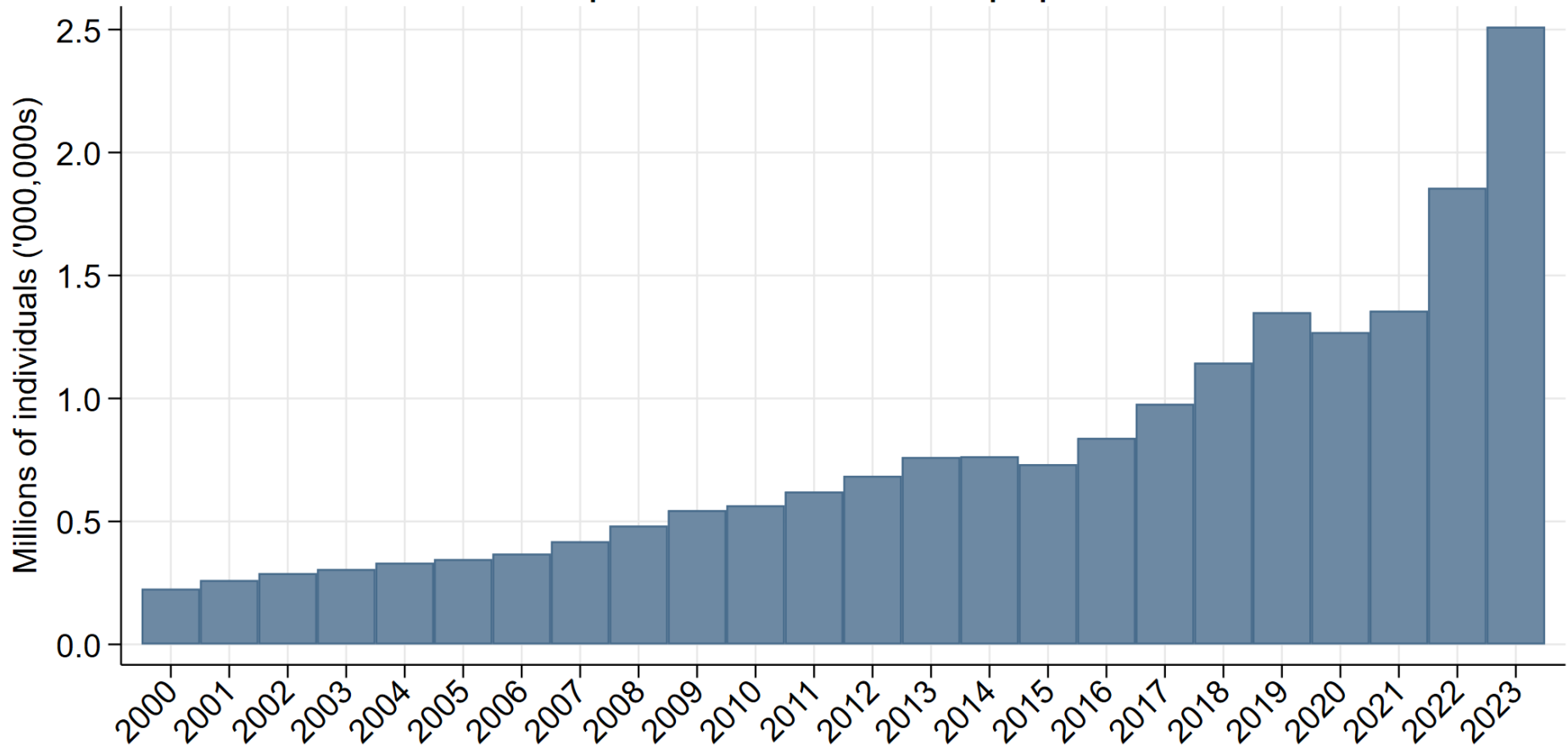
New permanent residents percentage (%) of existing population



Canadian population growth rate



Non-permanent resident population



Sources: 2000-2000 values are December 31 stocks of temporary permit holders reported by IRCC. 2021-2022 values are Q1 (January 1) for the following year from Table 17-10-0121-01. 2023 is Q4 (October 1) of 2023.

Policy objective?

Objective of economic-class immigration should be to boost growth rates in real **GDP per capita**.

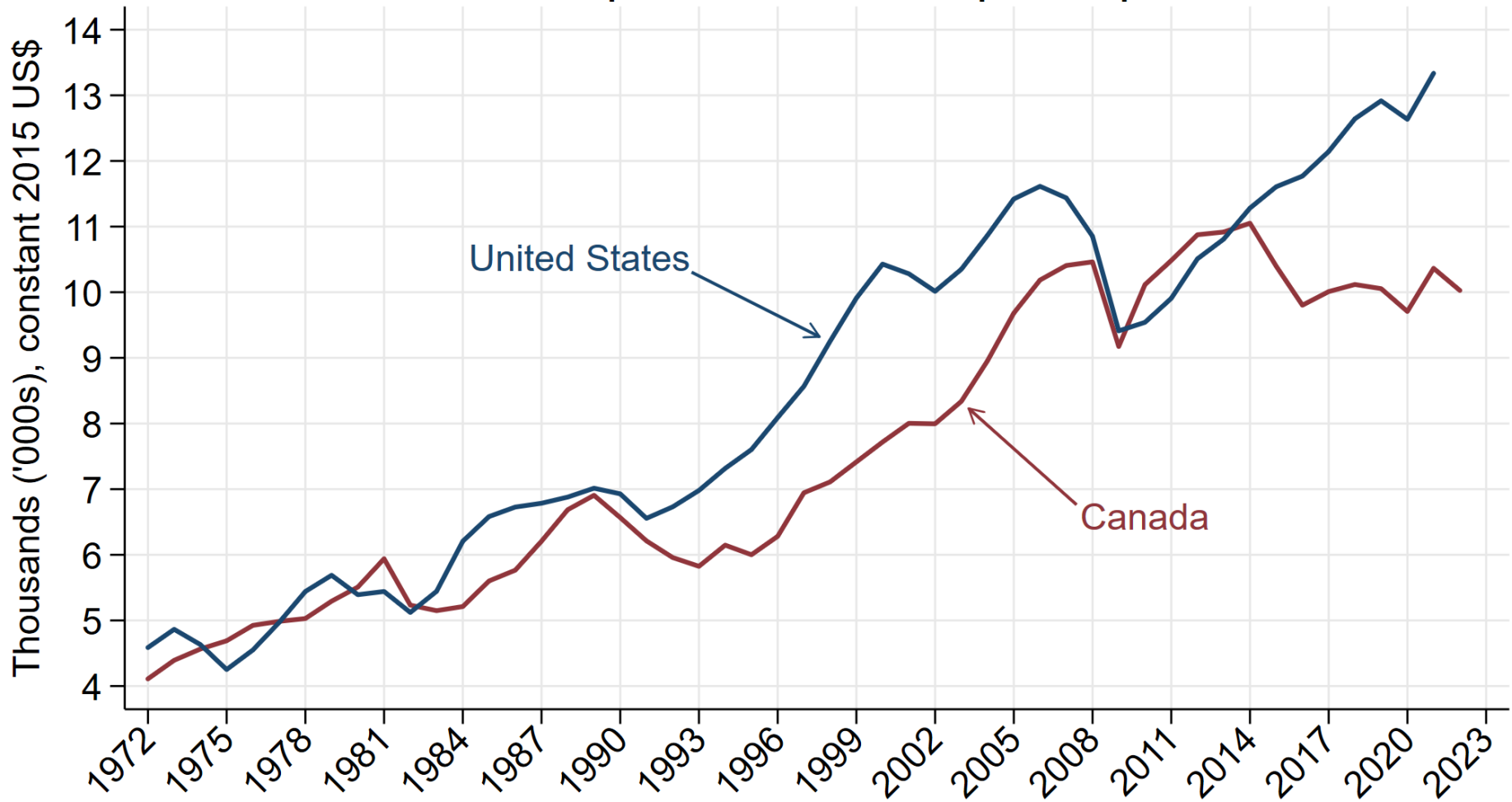
$$Y = AF(K, hL) \Rightarrow y = Af(k, h)$$

Two offsetting first-order effects:

1. Capital dilution ($k = K/L$)
2. Human capital stock and potential productivity spillovers (h and A)

Immigration is a blunt instrument to address aging population.

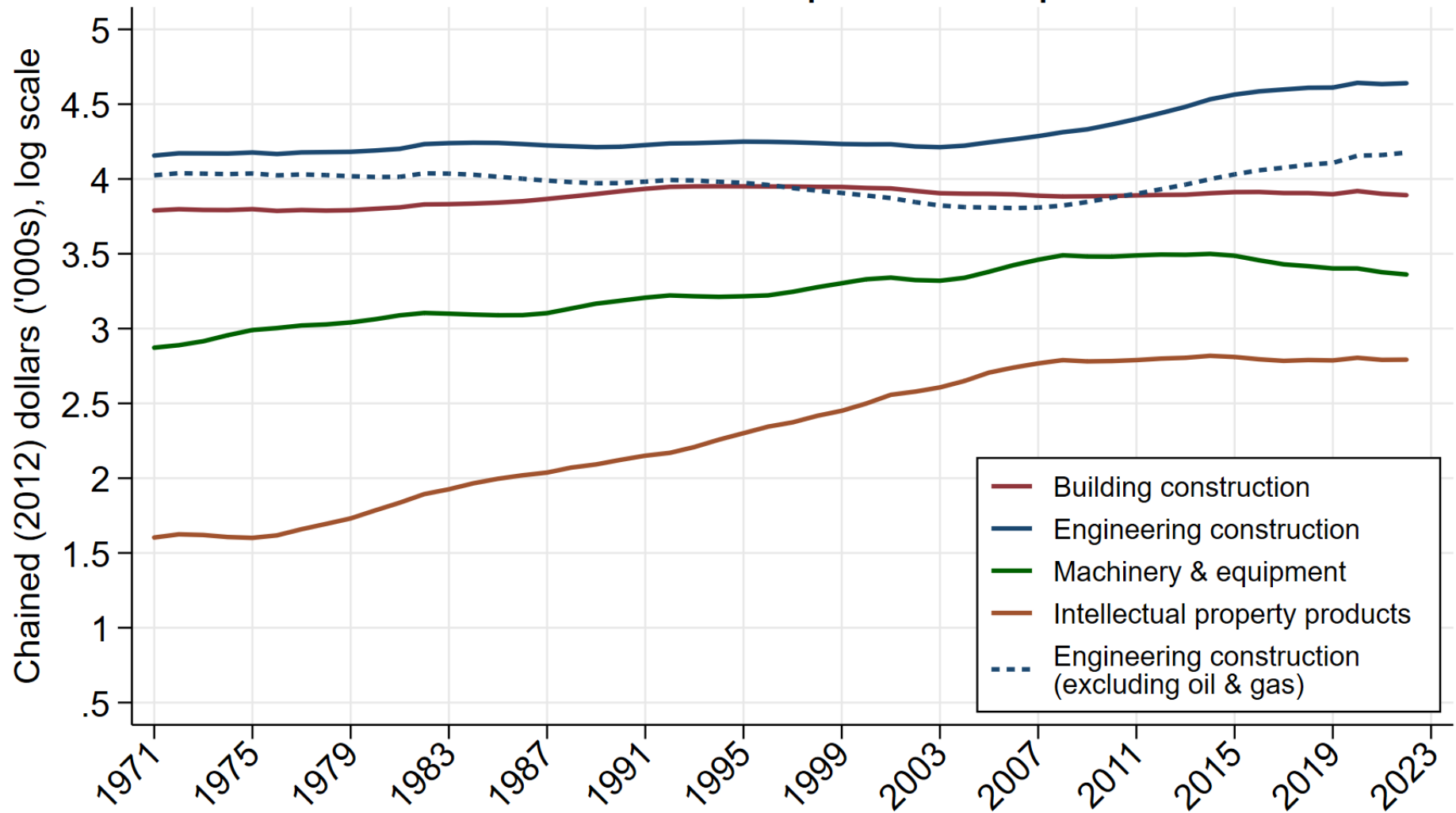
Real capital investment per capita



Note: Data are gross fixed capital formation (GFCF) which includes investments of corporations, households, and governments in dwellings, other buildings and structures, machinery and equipment, information and communications technology equipment, and intellectual property products.

Source: OECD (2023), Investment by asset (indicator). doi: 10.1787/8e5d47e6-en (Accessed on 24 January 2024).

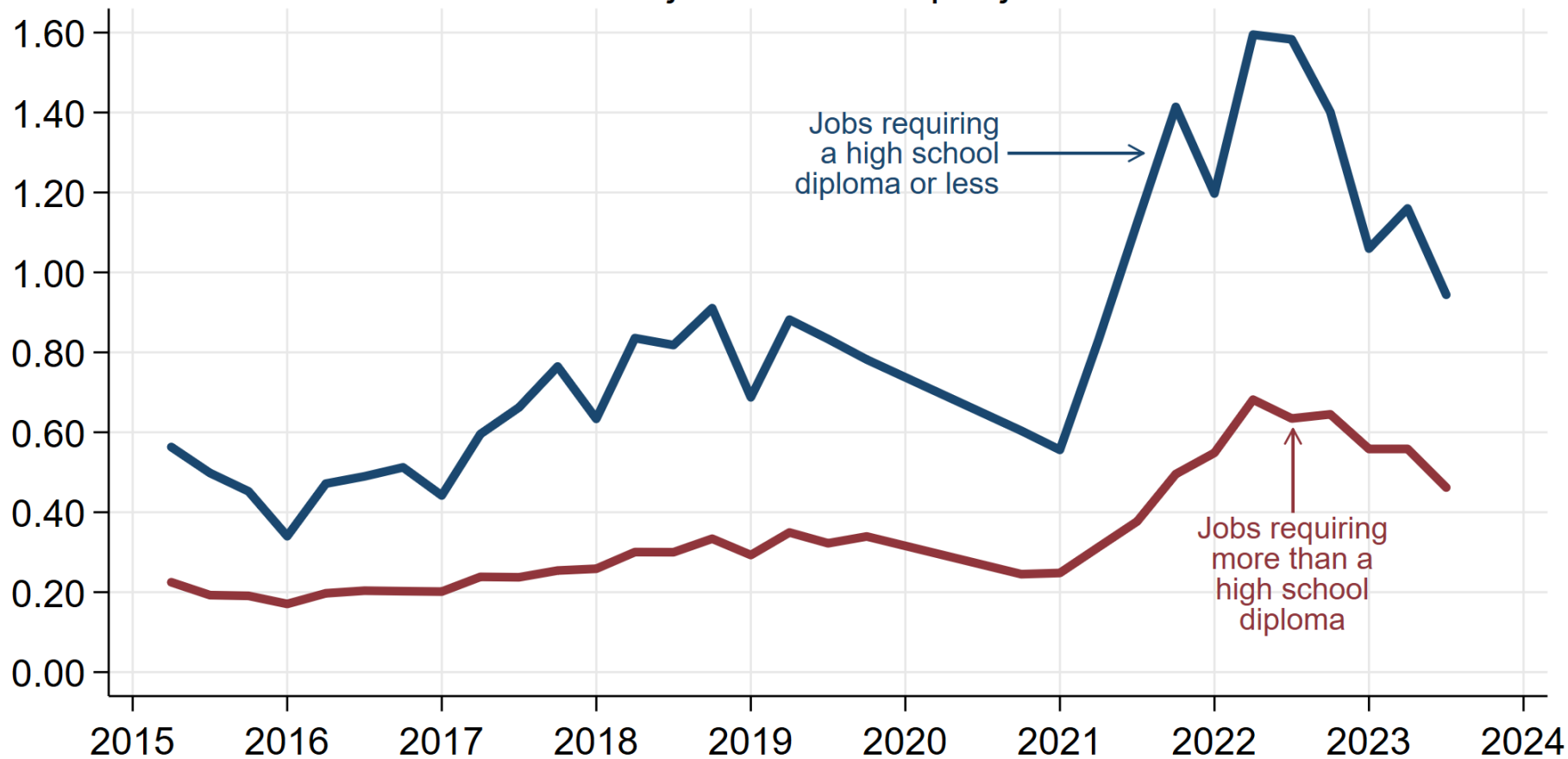
Non-residential real capital stock per worker



Note: Capital stock is the hyperbolic end-year net stock. Workers are the civilian labour force.
Source: Statistics Canada table 36-10-0098-01

Canadian Labour Market Tightness

Number of job vacancies per job seeker



Note: Job seekers include unemployed on temporary layoff who report searching for a new job. 2020Q2 and 2020Q3 values are linearly interpolated.

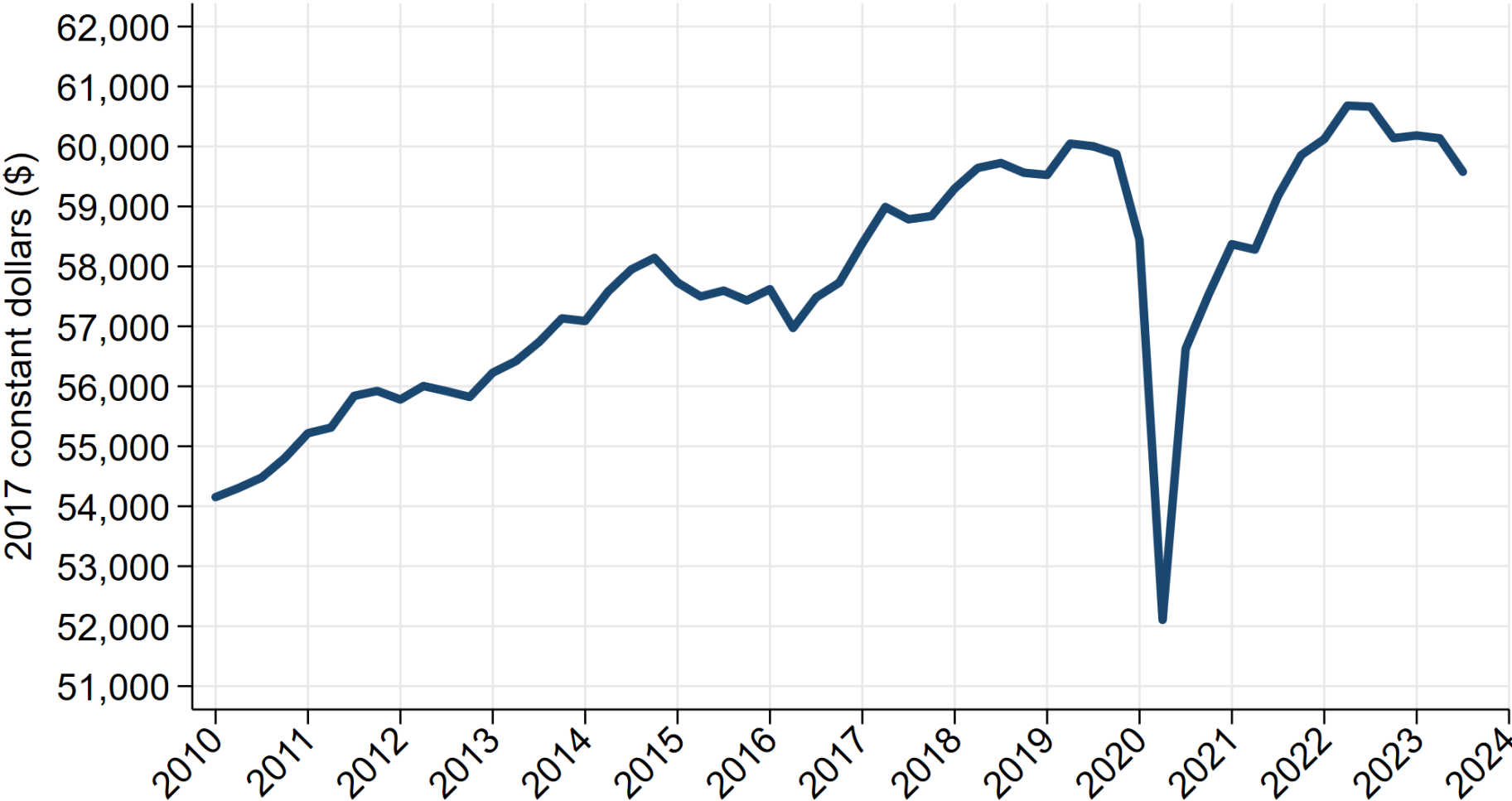
Source: Labour Force Survey (PUMFs) and Job Vacancy and Wage Survey (Table 14-10-0372-01).

Charted by @mikalskuterud.

Immigrant selection policy

- Private Member's Motion M-44 introduced in January 2022 called for government to “expand the economic immigration stream to allow workers of all skill levels” (see “Strategy to Expand Transitions to Permanent Residency,” IRCC, September 2022).
- “Category-Based Selection” enables Minister to prioritize any attribute (e.g., occupation, language) in selection.
- Ignores:
 1. Historical lessons on human capital model vs. current labour market needs.
 2. Improvement in immigrants’ relative earnings in 2005-2019 period (Clarke, Ferrer and Skuterud 2019; Crossman, Hou and Picot 2021; PBO 2024)

Canadian Real GDP Per Capita



Note: GDP is expenditure-based at 2017 constant prices. GDP series is seasonally adjusted. Population is the midpoint between start and end of quarter values.
Source: Tables 36-10-0123-01 and 17-10-0009-01. Charted by @mikalskuterud.

What to do?

Comprehensive Ranking System (CRS) scores are predictions of immigrants' earnings 5-10 years after landing.

Policy target: expected earnings of lowest ranked selected immigrant equal to average earnings in existing population.

Advantage: ties the Minister's hands and takes immigrant selection out of the political realm.

Recommendations:

1. Improve predictiveness of CRS scores
2. Enhance quality of applicant pool

Summary

- A pillar of Canada's **economic growth strategy** since 2015 has been heightened immigration to address aging demographics and labour shortages.
- Our analysis suggests that this policy is unlikely to boost growth in GDP per capita owing to **capital dilution** and **quality-quantity trade-offs** in immigrant selection.
- We **recommend** refocusing policy efforts on: (i) raising per capita business capital investment; and (ii) returning to a single economic-class pathway to PR status that relies on an enhanced CRS to prioritize candidates with the highest earnings potential.