



## ***Long-Term Immigration Approach Needed To Maximize Newcomers' Employability***

Textbook economics suggests immigration should lift productivity. After all, new immigrants open up trade opportunities; they diversify the engines of economic growth; they offer new and different perspectives on business; and they inherently take risks in hope of greater gains — a key ingredient of innovation.

Yet the results have been quite different. A recent study by the Organization for Economic Cooperation and Development (OECD) found immigration has no impact on overall productivity. In Canada, it appears immigration is, in fact, working to reduce productivity given the chronic underemployment of immigrants in the country. According to some estimates, 20% of the increase in the U.S.-Canada productivity gap over the past decade can be attributed to immigration.

A male immigrant who arrived in Canada in the 1970s made about 80¢ on the dollar relative to a Canadian-born worker, and he was able to narrow the gap at a rate of roughly 1¢ per year. Today, despite the fact two-thirds of newcomers have post-secondary education, their earnings have dropped to close to 60¢ on the dollar and the gap is narrowing at a much slower pace. Nearly half of the individuals who immigrated to Canada between 2001 and 2006 are overqualified for the jobs they occupy.

This disparity is not without a price. We estimate that the current employment and wage gaps between new immigrants and native-born Canadians, cost the economy slightly more than \$20-billion in forgone earnings. And more than 20% of working-age male immigrants leave the country within a year of arrival.

Addressing productivity is becoming increasingly crucial for the Canadian economy. An aging population means that just to stabilize the ratio of working-age to non-working age population would require tripling the annual number of new arrivals for decades — something not being contemplated. So without a significant increase in immigration-based productivity, the aging profile of the Canadian population will work to reduce the standard of living of all Canadians.

Many recent changes in Canada are modeled on Australia, which maintains a 50% smaller earnings gap between its native-born and non-native-born workers than Canada. The key here is the recent move by the Canadian government toward an increased use of temporary, employer-driven, lower-skilled workers, while still making it easier for successful temporary workers to gain permanent status through the Canadian Experience Class program.

However, the program should not grow much larger than its current size. Immigration policy should not be based on short-term job market considerations. Too heavy a reliance on short-term, unskilled foreign workers might improve job market flexibility in the near term but will reduce its growth potential in the long term due to the comparatively limited ability of low-skilled workers to adjust to changing labour market conditions.

Even the Federal Skilled Workers program, which is supposed to take a long-term approach, is not immune to short-term bias.

Out of the 29 preferred occupations in the FSW program, no less than one-third are directly linked to the construction industry. It is not a stretch to imagine many of these immigrants will find it difficult to find or maintain employment in a slower housing market.

The FSW should direct its attention to the job market of tomorrow by developing an information infrastructure system designed to identify emerging trends in labour-market activity. That should be supplemented by a much simpler and efficient credential-recognition process. While difficult to achieve, the ideal situation would be to establish a single regulator assessing credentials for each occupation.

The bar on language proficiency should also be raised.

The move in Australia toward mandatory pre-immigration English-language testing in the late 1990s is probably the most important distinguishing factor explaining the performance advantage of Australian immigrants relative to the Canadian experience. In Canada, language skills have also proven critical to success. Those in the FSW program who are proficient in either national language are 50% more likely to find a job and earn close to 40% more than FSWs who are minimally proficient in either language.

Immigration is critical to Canada's economy but it is clear some inherent barriers exist that prevent us from reaping the full economic benefits new Canadians have to offer. We need to address these to continue to improve productivity and sustain our standard of living.

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