

Briefing Note #3

Instructions: You are an economist working for a federal government department. Note that the department for which you work is NOT designated for you. You will need to decide the most appropriate department to which you will write the briefing note. The briefing note will thus need to be tailored to the mandate of the department that you choose. The Cabinet needs to decide whether make changes to Canada's technology policy, fiscal policy or immigration policy such as to increase, decrease, or keep the level of annual immigration to Canada unchanged. As an unbiased economic policy analyst, you are asked to write a formal 2 to 3-page briefing note (approximately 1000 words) seeking a decision from the Minister, based on your recommendations, on action regarding one policy (e.g. fiscal or technology or immigration). For example, if you choose immigration policy, then the options might be increase/decrease/no change of annual immigration levels. Use the articles below as context. Your briefing note should present economic arguments based on facts and may require an extension, (which may include agreement or disagreement) of the information found in the articles. Base your recommendations on fundamental economic theory learnt in class throughout the semester. Do not shy away from addressing environmental issues, historical issues, debt issues, and so forth, if appropriate. Of importance, your briefing note should clearly state options and your recommendation for action.

Time limit: See Moodle.

Materials allowed: You are free to use any material including laptop, notes, access to the Internet, etc. Your only restriction is communicating with anyone.

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Article 1: Executive Summary from a Fraser Institute Study¹

Immigration is a contentious public policy issue. Most contention, however, is about immigration by individuals with relatively limited education and there is much less skepticism about the economic benefits of highly educated immigrants to the native born. Critics of immigration argue that immigrants with little education will compete for jobs with relatively unskilled native-born and drive down their wages; and that they are more likely to draw heavily on public services such as health care while paying little or no taxes.

While highly educated immigrants can also compete for jobs with similarly skilled nativeborn, they are believed to create job opportunities by starting new businesses and promoting trade and investment linkages to their home countries. As high-income earners, they are thought more likely to have a positive net fiscal impact on the host country by paying more in taxes than they receive in government services.

¹ 2019, Fraser Institute, Highly Educated Immigrants Economic Contributions and Implications for Public Policy by Steven Globerman.

In fact, relatively little is known about the specific effects of highly educated immigrants on the host economy compared to the effects of immigration more generally. The purpose of this study is to set out the main theoretical linkages between immigration by highly educated individuals and the economic welfare of the native born, both more or less well educated. The study also presents and evaluates a wide range of studies providing empirical evidence on the theoretical linkages identified.

There are both direct and indirect linkages between immigration by highly educated individuals and the economic welfare of the native-born. Most of the theoretical linkages point to a positive impact; however, the potential for direct substitution of the skills of highly educated immigrants for the skills of similarly educated native-born raises the prospect that even highly educated immigrants may have mixed effects on the host economy. This concern is magnified to the extent that highly educated immigrants cluster in a few cities, giving rise to diseconomies of scale—disadvantages of very large cities like traffic congestion—that harm the productivity of native-born workers in those cities.

The empirical evidence bearing upon the main linkages of interest is not conclusive as there are a relatively small number of empirical studies, particularly for Canada. However, it points to a conclusion that the main benefits from highly educated immigrants on the native-born are associated with increased innovation and entrepreneurship in the host country. The benefits from increased innovation and entrepreneurship, in turn, arguably reflect in a disproportionate manner, the activities of the upper tier of highly educated immigrants. These tend to be individuals with graduate-school degrees in science, technology, engineering, and math (STEM) disciplines. Unfortunately, while Canada is relatively successful in attracting college-educated immigrants compared to other developed countries, it does not seem to do as well as the United States in attracting the most productive STEM-trained highly educated immigrants. The pressing issue for Canadian policymakers might therefore be not how to encourage increased numbers of highly educated immigrants but how to improve the economic benefits that Canadians receive from highly educated immigrants. It may be possible to achieve that goal by giving greater weight in the immigrant-selection process to the quality of the educational institution in which an applicant received his or her graduate training, as well as to graduate training in a STEM-related discipline. However, making immigration to Canada easier for upper-tier STEM degree holders does not ensure that those upper-tier candidates will choose Canada as a host country and the fact that Canada loses so many of its domestically educated systems engineers and computer scientists through emigration to the United States suggests that the higher expected net incomes there make Canada a less attractive destination for STEM stars. For this reason, improved success in attracting the most productive highly educated immigrants might require changes in policies not directly related to immigration, including reductions in the highest marginal income-tax rates and pruning regulatory red tape, which would make

it more profitable for highly educated immigrants to establish and grow new enterprises. Such policies would also encourage highly educated native-born to remain in Canada and contribute to innovation and entrepreneurship in their home country.

Article 2: Politics, not economics, sets the limit on Canadian immigration

Don Pittis · CBC News · Posted: Aug 28, 2017 5:00 AM ET | Last Updated: August 28, 2017

A well-known economic theory says that when it comes to people, you can get too much of a good thing. As thousands of asylum seekers come across the Canadian border from Trump's America, there are many Canadian voices, including mainstream Conservatives, who believe we may have reached that point.

Diminishing returns - In the economic principle sometimes called the law of diminishing returns, there is a text book example which describes an increasing number of workers coming to help dig in a garden of limited size. One or two pairs of extra hands make the garden more productive, but as the number increases, the benefit falls, until, at extremes, there are so many people they are stomping on the plants and productivity collapses.

In Canada where is that point?

"The realistic part is we don't know. We absolutely do not have the magic number," says Bessma Momani, senior fellow at the Centre for International Governance Innovation (CIGI) in Waterloo, Ont. While Canada continues to admit hundreds of thousands of new permanent residents every year, some as refugees and many more through the official points-based immigration system, the country also has a long history of being wary of new arrivals.

In the 1800s, Irish immigrants were seen as stealing jobs from earlier immigrants. As we've heard in recent debates over honouring political leaders of the past, Prime Minister Mackenzie King turned back Jewish refugees, many of whom died later in Nazi concentration camps. According to modern refugee laws, that could not happen now, because Canada is committed to an agreement that requires countries to accept valid refugees who appear at their border. Theoretically, if all the world's suffering people arrived on Canada's doorstep they would overwhelm the country's relatively small economy, and, like the workers stomping on plants, damage the economy.

Sinking lifeboat? - In the 1970s that was called the lifeboat theory, where rescuing too many people would cause the boat to sink. But it hasn't happened yet. Refugees have to get to the border first, and as people seeking asylum from the United States may find, the qualifications for refugee status are quite strict. Even if the number of refugees were to swell, the government could limit the number of people admitted under other categories to reach an optimum level, says Christina Clark-Kazak, professor of international affairs at the University of Ottawa. "The

government clearly does that on the basis of a model that they think optimal for Canada given the economy and the times," says Clark-Kazak.

The limits to immigration in North America are thought to be political, not economic. A study on the Mariel Boatlift on the Miami labour market found increased immigration had no real impact on the city's wage and employment rates. There is a potential that admitting too many people, especially of one national group, could create a poor underclass as people get trapped in a cultural ghetto of generational underachievement. Clark-Kazak says that has happened in a few distinct communities, but it is an exception.

Evidence shows immigrants don't eat a piece of a limited pie. They make the pie bigger. "The first generation may struggle, but what Statistics Canada has actually shown is that the children of immigrants do very well and that's across the immigrant categories," says Clark-Kazak. "One would expect the children of highly skilled workers to do well, but actually the children of refugees also are more likely, for example, go to university than Canadian-born," she says. Of course such a system would likely break down if, as in some Middle Eastern countries, the refugee population were bigger than that of the original host country, but studies around the world have shown that more moderate, but still high, levels of immigration are consistent with economic success. Others show immigration has no net effect.

Half a million a year - "There have been many many studies that show when it comes to Canada we could absorb, easily, 500,000 immigrants a year," says CIGI's Bessma Momani, co-author of the book *Diversity Dividend: Canada's Global Advantage*. That half million economic capacity compares to the current intake of between 200,000 and 300,000. Canada's population is aging. Without immigration Statistics Canada says growth would stall. But Momani says that besides adding absolute numbers, immigration stimulates an economy in innumerable ways. It adds creativity in the workplace as people bring broader cultural perspectives. As a counter-example she points to the automatic soap dispenser that would only work for white skin, something that would not have happened to a diverse development team. It helps businesses question assumptions and try new things, leading to innovation. By exposing Canadians to global cultures, immigration makes international business seem more accessible. It offers access to those businesses through the language skills of immigrants. Previous immigrant groups including the Vietnamese boat people and the Ismaili people pushed out of Uganda have been some of Canada's entrepreneurial stars. Momani says that while there are clearly economic limits to the number of people Canada can absorb, all the benefits of immigration have repeatedly shown that we are well below those levels.

The issue, she says, is not economics. It is the kind of backlash we've seen in Europe and the United States where people reach a point where they decide that they are being culturally overwhelmed. "The reality is, it's really about how much the political system can take," Momani says.