Labour Market Matters

Volume 5, Issue 6 June 2013

Special points of interest:

- Financially vulnerable older immigrants found to stave off poverty by living with family members.
- Macroeconomic forecasting model finds immigration to Canada can have positive effects on real GDP and GDP per capita, aggregate demand, investment, productivity, and government expenditures, taxes and especially net government balances, with essentially no impact on unemployment.

"Evidence of lower incomes for recent immigrants at older ages accompanied with evidence of a greater tendency towards co-residency could be an indication that these immigrants are having difficulty supporting themselves."

Ted McDonald (University of New Brunswick)

Familial co-residency found to play a central role in the prevention of poverty among older immigrants

Older immigrants in Canada often struggle in the labour market compared to both their native-born peers and their younger counterparts. In addition to encountering difficulties with labour market issues related to assimilation and credential recognition, immigrants as a group tend to have difficulty gaining the needed years of contribution to both public and private pension plans due to the fact that a significant part of their working careers may have occurred outside of Canada. When an immigrant arrives in Canada after the age of 50, these problems are accentuated. While the socio-economic welfare of older immigrants is concerning, there is evidence that the effects of the lower incomes on the welfare of older immigrants are mitigated to a certain extent through co-residency, presumably with their younger relatives already resident in Canada. In a CLSRN study entitled ***"Retirement Incomes, Labour Supply and Co-residency Decisions of Older Immigrants in Canada: 1991-2006"*** (CLSRN Working Paper no. 116) Ted McDonald (University of New Brunswick) and Christopher Worswick (Carleton University) examine the extent to which older immigrants are able to support themselves in their retirement years, as well as analyze the extent to which older immigrants are more (or less) likely to reside with other family members relative to the Canadian-born as a way of diminishing the effects of low income on consumption.

Using data from the confidential master files of the Canadian Census for the years 1991, 1996, 2001 and 2006, the researchers find that immigrants – particularly immigrants who have lower average incomes - are more likely to live with more family members than Canadian born individuals. The analysis finds that immigrants who arrive after the age of 50 tend to earn lower wages than both their native-born counterparts and immigrants who arrived at younger ages, and that income differentials are especially pronounced for immigrants from non-traditional source countries. At the family-level, however, differences in total income are smaller as it appears that older immigrants who struggle in the labour market tend to rely on (extended) family members for financial support. This likely reduces income available per person in those households, but is not necessarily sub-optimal from the family's perspective, as it can facilitate migration to Canada for older family members while helping those family members avoid living in poverty.

In terms of pension income, the researchers find that older immigrants in Canada, particularly recent arrivals, have significantly lower levels of both private and public pension income, even though some of these immigrants work significantly more than immigrants who arrived at younger ages and the native-born. Since many immigrants arrive in Canada part way through their working careers, they have fewer years in which to generate eligibility for retirement programs in Canada, and have fewer working years with which to accumulate contributions in private pension accounts. In this case, immigrants may rely more heavily on working

Christopher Worswick (Carleton University)

past the usual retirement age than do the Canadian born in order to support themselves and their families. Immigrants from non-traditional source countries (ie: Africa, Asia, Caribbean) were also found to have low levels of Canadian Pension Plan (CPP) and Quebec Pension Plan (QPP) income relative to immigrants from traditional source countries or the Canadian born.

Evidence of lower incomes for recent immigrants at older ages accompanied with evidence of a greater tendency towards co-residency could be an indication that these immigrants are having difficulty supporting themselves. Given that familial co-residency appears to be an effective way for older immigrants to avoid poverty in retirement, the researchers recommend a targeted approach to any policy interventions would be needed. Indeed, focusing on income levels alone would not be sufficient since some low income older immigrants may have decent standards of living if they are residing with economically successful younger family members.

Forecasting model finds that Immigration can bring economic benefits to all Canadians

Despite a history built on immigration, immigrants are among those who struggle the most in Canada. Recent research finds that the proportion of recent immigrants (in Canada for 5 years or less) who were in poverty has risen steadily from 24.6% in 1980 to 47% in 1995, before falling to 36% in 2005.[1] Disturbingly, this increase in poverty for immigrants was occurring at the same time as poverty rates for the non-immigrant population was generally falling. At times when the ageing population is expected to impose a heavy fiscal burden through age-related programs like pensions and health care, immigration is often looked upon as a possible way to mitigate that burden. Immigration can also help break skilled labour shortages and production bottlenecks – which can expand job opportunities for domestic-born workers. Immigrants also increase aggregate demand for goods, services, housing and investment. Importing people through immigration to domestically produce goods and services can be a substitute to importing such goods and services from other countries.

Peter Dungan (University of Toronto)

In a study entitled ***"Macroeconomic Impacts of Canadian Immigration: Results from a Macro-model"*** (CLSRN Working Paper no. 106) by CLSRN affiliates Peter Dungan (University of Toronto), Tony Fang (York University), and Morley Gunderson (University of Toronto) find that additional immigration is likely to have a positive impact on the Canadian labour market and economy in general – with positive impacts on factors such as real GDP and GDP per capita, aggregate demand, investment, productivity, and government expenditures, taxes and especially net government balances, with essentially no impact on unemployment.

Tony Fang (York University)

Employing a macro-economic forecasting model, the researchers find that in a scenario of 100,000 new immigrants to Canada per year, the results are that by 2021 GDP increases by $6.5 billion (2002 dollars) or in other words, real per capita income increases by 0.37%. While governments' expenditures are forecast to increase in response to new immigration, the increase in expenditures is less than the increase in taxes paid by immigrants for various reasons: the taxes are more immediate while many of the expenditures come later; there are economies of scale in the provision of government services; immigrants tend to enter in the tax paying years of their lifecycle.

Because taxes paid by immigrants exceed expenditures, the researcher's model finds that immigration actually adds to overall government balances by $14 billion in total and by roughly $8 billion at the federal level by the 10th year of the simulation. This represents a significant reserve against future needs or could perhaps be redeployed into additional social programs or tax cuts.

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By adding to the population size, immigration can lower the cost of public services where economies of scale exist. Importantly, increased immigration helps to spread the cost of providing pure public goods such as National Defense – the value of which is not diminished by additional users – over a greater number of taxpayers. In effect, immigrants contribute to the provision of pure public goods without any offset in their availability to others.

Morley Gunderson (University of Toronto)

While immigrants will most certainly use government services like education and health care, and they can receive transfers like employment insurance, social assistance and public pensions, they will also pay taxes in various forms. Immigration can also alter the age distribution of the population in a way that yields relatively more taxes and fewer public expenditures. In some ways, a selective immigration policy such as the one employed in Canada is a way for the government to select a working-age population – with desirable skill sets – that will most often immediately contribute to the tax base.

[1] Fleury 2007; Picot and Sweetman, 2005; Picot, Lu and Hou 2010. Please see working paper for full bibliographic information.

Endnotes

Labour Market Matters is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by the Social Science and Humanities Research Council of Canada (SSHRC) under its Strategic Research Clusters program. Opinions expressed in this publication do not necessarily reflect the views of the SSHRC.

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