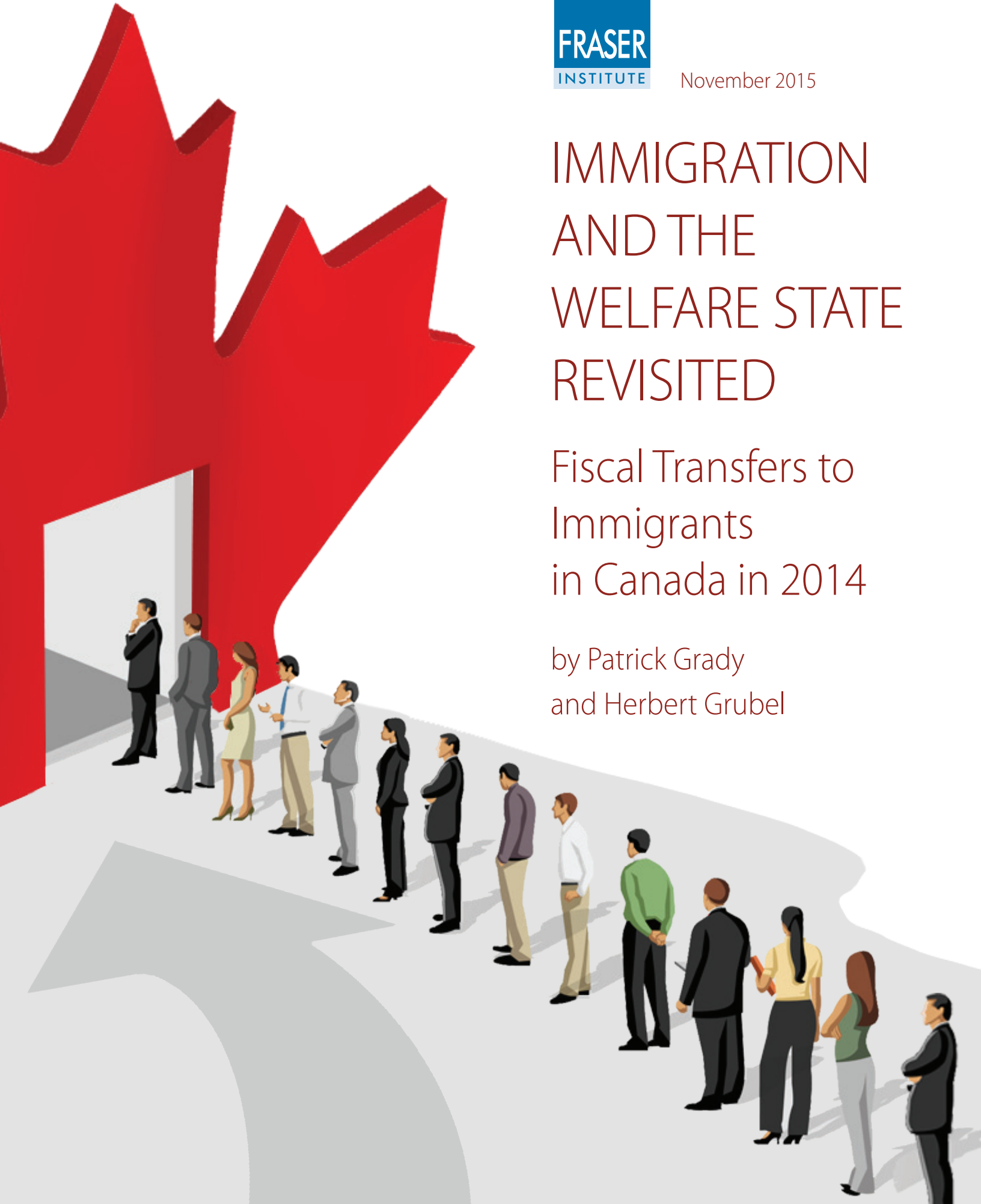


# IMMIGRATION AND THE WELFARE STATE REVISITED

Fiscal Transfers to  
Immigrants  
in Canada in 2014

by Patrick Grady  
and Herbert Grubel





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## Executive Summary

We estimated in our earlier papers that because of the low average incomes of recent immigrants, the low taxes they pay and the government services they absorb, the fiscal burden on Canadian taxpayers was over \$6,000 per capita in fiscal year 2005/06, and that the total fiscal burden in that year was between \$16.3 billion and \$23.6 billion. The basic methodology employed in our studies has not been challenged and Jason Kenney, the Minister of Employment and Social Development cited our studies in a speech as providing the evidence for “why we [the Government] fundamentally reformed our immigration system”.

New data now available from the 2011 National Household Survey (NHS) has allowed us to update our earlier estimate in order to shed light on the success of the recent major steps taken by the Federal Government to improve the selection of new immigrants to improve their economic prospects. We found that the annual net fiscal transfer to recent immigrants is significantly lower at \$5,329 per capita than the \$6,000 we had found in our previous analysis. However, because the number of immigrants receiving this transfer has increased substantially, the total fiscal burden has risen from \$16 to \$24 billion in 2005, to \$20 to \$28 billion in 2010, to \$27 to \$35 billion in 2014.

One of the government policies that have led to the reduction in the per-capita fiscal burden involved the elimination of the backlog of hundreds of thousands of immigrants who had already met the specified points criteria established for admission. Since this points system had produced the poor economic performance of recent immigrants that led to the fiscal burden we had calculated and because a number of other problems were associated with this backlog, the government basically terminated the automatic admission of around one million already approved immigrants.

More important, the government introduced a number of policies to improve the economic prospects of immigrants. These policies involve: improved selection criteria in the Federal Skilled Worker program; the introduction of the Canada Experience Class, which gives preference to immigrants who have already demonstrated their labour-market skills in Canada as Temporary Foreign Workers or students; the implementation of the Federal Skilled Trades program for immigrants in 43 targeted occupations with job offers in their trades; an expansion of the Provincial Nominee Programs, whereby provincial government are able to identify immigrants with skills and experience needed in provincial labour markets; and reform of refugee policy.

While these new policies are in the spirit of the recommendations we had made in our earlier studies, they failed to implement the more radical policy we had proposed. We had suggested a more complete reliance on private-market information to select economic immigrants only if they possessed a job offer from a Canadian employer paying at least the average wage of Canadians in the region where the employer is located.

Most important, these reforms did not address the fundamental issue facing Canadian immigration policies: it left unchanged the total number admitted annually. As a result, while the new criteria lower the per-capita burden, the total fiscal burden continued to rise and will continue to do so in the future. The 260,000 to 285,000 planned immigrant admissions announced by the Immigration Minister for 2015 will add from \$1.4 billion to \$1.5 billion to the burden annually, with a similar increment every year thereafter as long as the high targeted level of immigration is maintained.

We conclude that the new policies adopted by the government serve Canadians well by reducing the per-capita fiscal burden of immigrants but suggest that more policies in this spirit are needed and that the number of annual immigrants needs to be reduced to bring about a substantial reduction in total fiscal burden imposed by new immigrants on Canadian taxpayers.

## Introduction

As Milton Friedman so wisely observed: “You cannot simultaneously have free immigration and a welfare state” (Friedman, 1999). This, of course, is an observation based on pure free-market economic theory. If people can immigrate, they will as long as they can improve their standards of living enough to offset the economic and non-economic costs of moving. The higher social benefits usually offered in the destination country contribute to higher living standards for immigrants just as wages do and are thus part of the economic benefits of immigration weighed by immigrants. But unlike wages, which reflect the immigrants’ contribution to the destination country’s output, fiscal benefits must be paid for by the population already living in the destination country, creating a net fiscal burden on the country’s existing residents and consequently reducing their living standards. The tendency of immigrants to be attracted by social benefits is based on the economic theory of maximizing utility, where it is posited that more after-tax income including social benefits is preferred to less. The extent to which immigration generates a net fiscal burden, however, is an empirical question that depends largely on the extent to which immigrants earn less than other Canadians and thus pay less tax for the services they receive, which, as a general rule, are the same as those received by other residents. The exact magnitude of any net fiscal burden is an empirical question that can only be answered by the type of analysis (and resulting estimate) offered in this paper.

Our previous estimate (Grubel and Grady, 2011, 2012) that recent immigrants coming to Canada between 1987 and 2004 received fiscal transfers of over \$6,000 per capita in fiscal year 2005/06 and that the fiscal burden in that year was about \$16 to \$24 billion per year gave rise to much controversy because of its obvious implications for a restrictive immigration policy (Javdani and Pendakur, 2011).<sup>1</sup> But our methodology remains the only one yet offered that is capable of producing credible estimates of the net fiscal cost of immigration and so can serve as a guide for the development of an

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1. Our earlier estimates produced using census data were made to refine the cruder estimates first produced by Grubel (2005). It is our intention to update the estimates whenever significant new data is released or new information comes available. And we will continue to refine our methodologies based on the comments we receive. For that reason, we welcomed the criticisms of Javdani and Pendakur (2011), which we believe helped us to improve the quality of our estimates. Moreover, since we believe that our methodology is the only credible scientific approach that has been offered, we were pleased that they adopted it even though they made some assumptions we regard to be highly questionable. ►

evidence-based immigration policy. Indeed, the Minister of Employment and Social Development cited it as providing the evidence for “why we [the Government] fundamentally reformed our immigration system” (Kenney, 2014: 17). This indicates that no plausible alternative methodology for assessing the fiscal implications of immigration exists.

Since new data for 2010 is now available from the 2011 National Household Survey (NHS), which, we note, is itself a subject of some controversy (Grady, 2015a), we have updated our earlier estimate to incorporate this most recent information. This is important because the Federal Government has taken a number of major steps to improve the selection of immigrants from the point of view of their labour-market readiness and it is important to determine if they are sufficient to halt the growing fiscal cost of immigration identified in our earlier papers. An assessment of the impact of these measures on the various immigration streams is provided in Grady, 2015b.

Since we support the main thrust of the Government’s immigration policy reforms to refocus immigration policy more on economic class immigrants who are more likely to succeed in the competitive Canadian labour market, we are pleased to report that our new estimate of the net fiscal transfer to recent immigrants is significantly lower at \$5,329 per capita per year in 2010 than our previous estimate of \$6,051 in 2005, subsequently revised to \$6,329 (Grubel and Grady, 2011, 2012).

The Federal Government’s efforts to select immigrants who are prepared to succeed in Canada’s labour market must be given full credit for their ambitiousness. Indeed, they encountered much resistance and were severely attacked by the immigration lobby, which strongly opposes any actions to restrict unimpeded mass immigration. The most important measure introduced was the elimination of the growing backlog of immigrants who had met the specified points criteria established for admission and who hence had to be admitted under the legal interpretation of the phrase “shall be admitted” in the Immigration and Refugee Protection Act. The prospective immigrants already selected numbered around a million and been waiting to be admitted for years and were not getting any younger. The problem was that the Government had determined that, if admitted, they would be likely

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Specifically, the difference between our estimates and Javdani and Pendakur’s can be attributed to two assumptions. First, Javdani and Pendakur used estimates of the incomes of immigrants that arrived over the period from 1970 to 2004, which were higher than the incomes of the 1987–2004 immigrant cohort used in our study because the immigrants admitted in the earlier period came mostly from traditional source countries and earned much higher incomes than more recent cohorts of immigrants. Second, they assumed that 10% of total government spending involved “pure public goods” such as defence, to which they believe immigrants need not contribute. It is noteworthy that in spite of making these unreasonable assumptions, they still ended up with a significant cost of recent immigration.



to experience labour-market difficulties stemming from their inadequate employment and language skills, thus exacerbating the growing income gap between recent immigrants and other Canadians.

The wide-ranging reforms introduced by the Government refocused the selection of immigrants more on employability and less on education, following the Australian and New Zealand models (Hawthorne, 2011) and moving modestly in the direction we discussed in our earlier papers (Grubel and Grady, 2011, 2012). This included: improved selection criteria in the Federal Skilled Worker program; the introduction of the Canada Experience Class, which gives preference to immigrants who have already demonstrated their labour-market skills in Canada as Temporary Foreign Workers or students; the implementation of the Federal Skilled Trades program for immigrants in 43 targeted occupations with job offers in their trades; and an expansion of the Provincial Nominee Programs, whereby provincial government are able to identify immigrants with skills and experience needed in provincial labour markets.

While it is a source of concern that the per-capita improvement in the net fiscal burden identified in this paper is relatively modest given the relative ambitiousness of the reforms in selection introduced (which however stopped short of basing admission on a job offer paying higher than the average wage as recommended in our earlier papers even for economic class immigrants), it is even more worrying that the overall net cost of fiscal transfers to recent immigrants has continued to grow, reaching \$20 to \$28 billion in 2010 (and \$27 to \$35 billion in 2014), up from our earlier estimate of \$16 to \$24 billion in 2005. To put this number in perspective, it is large enough to account for a substantial proportion of the \$56.9 billion Canadian consolidated government-sector net borrowing in 2013 (the latest year available at the time of writing).

On the other hand, it is encouraging to note that the Government has introduced a new Express Entry Program effective January 2015 (Government of Canada, 2015). This program promises further improvement in the performance of immigrants by allowing prospective immigrants to submit profiles and then inviting the top-ranking candidates to submit applications for permanent residence under several existing federal programs designed to attract the most able immigrants with job offers and/or skills and experience. (It also makes the applicant inventory available to provincial and territorial governments for use in their Provincial Nominee Programs.)

Obviously, however, the success of this Express Entry Program cannot be evaluated until enough time has passed to generate reliable data on the performance of those selected. A concern we have with the Express Entry Program is that it is not clear if it puts an adequate emphasis on selecting high-wage immigrants. If not, it could still allow applicants to qualify who would impose a net fiscal burden on Canadian taxpayers. There is also the question of the number and performance of family-class immigrants admitted that accompany or are sponsored by the Express Entry immigrants.

## The Data

The new data that is now available in the convenient form of a Public Use Microdata File (PUMF) on CD comes from the 2011 National Household Survey (Statistics Canada, 2014a). This was a voluntary survey that replaced the long-form census questionnaire. While such statistical changes are usually boring affairs only noted by statisticians and economists, this replacement turned out to be anything but, triggering the resignation of the Chief Statistician and igniting a controversy that is still raging more than four years later, with a bill to reintroduce the mandatory long-form questionnaire being debated and angry op-ed pieces still appearing in the *Globe and Mail* (Jacobsen, 2014).

When the new National Household Survey (NHS) was published, like most economists and commentators, we had fairly low expectations. We thought that it would probably turn out to be fairly useless as claimed by many economists because of the low response rates often associated with voluntary surveys and because of the difficulty of making comparisons of data of interest across time given the change in methodology. We recognized that the long form had the advantage of consistency of approach across time and that this facilitated intertemporal comparisons of data.

But when we actually looked at the 2011 NHS, we were pleasantly surprised. The first thing we noted about the PUMF was that it was free, which is something as economists we cannot ignore. This was a particularly welcome development as the 2006 Census PUMF we used in our previous estimate cost \$1,150 plus 5% GST, which we had to pay out of our own pockets. It cannot be emphasized too much that Statistics Canada's new policy of making all its data available free of charge to all Canadians is a great improvement over its previous policy of restricting access through high user fees. In our view, this should be quite helpful in encouraging researchers to actually use the data and not just result in the collection of data for its own sake. The previous policy of spending vast sums of money on collecting data that were too expensive for many researchers to use did not make much sense. Once the data was collected, they were in effect a public good, which could and should be provided to all at a zero marginal cost.

Statistics Canada notes in the user guide (2014a: 5) that the content of the 2011 PUMF is largely the same as that of the 2006 PUMF. It cautions, however, that there are various changes, resulting from content changes in the 2011 NHS, as well as the creation of new variables from existing questions or the use of updated classifications on existing questions. These include: the addition of 20 new variables; the removal of 13 old variables; and a change of universe to Mobility, Generation status, and Place of birth of parents variables.

On examining the data, we were pleased to discover that the basic structure of the long-form questionnaire had been retained and that a key question was included allowing respondents to link their responses to their tax forms as had been done in the census long form. This resulted in the preservation of most of the data series collected in the census and in a database that even used the same names for most of the 124 variables included. Thus, the computer code we had previously used to process the long-form data only required relatively minor adjustments to work with the NHS data. The sample size included in the PUMF of 887,012 was also comparable, representing 2.7% of the Canadian population.

A concern we had in using the data was that its integrity would be compromised by a low response rate. This concern, happily, was alleviated by the rigorous reliability checking carried out by Statistics Canada and reported in the dictionary and PUMF user guide. A very sophisticated statistical methodology was used for sampling and weighting to ensure that the sample was representative of the population. This is the approach that Statistics Canada has pioneered and used with great success with all its voluntary surveys to produce reliable information. Statistics Canada's statisticians are definitely professionals capable of getting the most information out of voluntary surveys.

With a sampling rate of about three in 10 and an overall response rate of 68.6%, Statistics Canada estimated that about 21% of the Canadian population participated in the NHS (2014b: 12). Not coincidentally, this is comparable to the population participating in the long-form census questionnaire in 2006, which was provided to one in five households. Thus it is hard to argue that Statistics Canada did not obtain information from enough people.

While the response rates to the individual questions were lower than in the 2006 Census as expected with a voluntary survey (59.3% compared to 67.4% for income; and 57.6% compared to 76.6% for income tax paid), the data was judged to be of publishable quality by Statistics Canada after its usual rigorous editing and consistency checks and comparisons with the Survey of Labour and Income Dynamics (SLID)<sup>2</sup> and the Annual Estimates for Census Families and Individuals or T1 Family File (T1FF), an income tax data file prepared for the Canada Revenue Agency (CRA).

According to Statistics Canada (2014c: 15–16), the estimates of the number of income recipients from the NHS estimates of 2010 income are between the estimates from the 2010 SLID (3.2% lower) and the 2010 T1FF (2.7% higher). But the NHS estimate of median total income was 4.0% greater than that from the 2010 SLID and 2.3% more than in the 2010 T1FF. Estimates of income tax from the NHS are also between the SLID and the T1FF.

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2. Incidentally, the last release from the Survey of Labour and Income Dynamics was June 27, 2013. Thus, this source of information will not exist as a crosscheck for future National Household Surveys.

Based on the relative closeness of these comparisons and Statistics Canada's confidence in the reliability of the data as evidenced by their willingness to publish the survey results, albeit with the usual caveats about the reliability of the more granular data based on fewer observations, we are definitely comfortable enough to use it in this paper to update our estimates of the net fiscal cost of recent immigration.

A remaining issue with the NHS data is that it does not provide a breakdown by year of immigration prior to 1990, but instead groups the data for all immigrants admitted between 1985 and 1989 together. Since our previous estimate was for recent immigrants admitted after 1987 because this was the year that immigration was stepped up with a larger proportion of immigrants coming from non-traditional source countries, we have revised our definition of recent immigrants to include immigrants admitted after 1985. This means that immigrants admitted in 1985 and 1986 are included in our sample this time when they were not in our earlier papers. This will bias our estimate of per-capita net fiscal cost downward and our estimate of total fiscal cost upward. Correspondingly, the category "Canadian residents excluding recent immigrants" includes everybody else, that is, the native born and immigrants landing before 1985.

While the NHS data did not pose any problems when we were preparing our estimate, we did have to overcome a significant data gap in seeking to obtain the Consolidated Government Sector data from the Financial Management System that is also used in our calculations. The last fiscal year published is 2008/09, which was released in May 3, 2010 (Statistics Canada, 2010). This government-sector data, which is no longer published, is important because it provides a functional breakdown of expenditures, which can be used in allocating spending to beneficiaries. Unfortunately, Statistics Canada has now moved to publishing Government Finance Statistics using the international standard system developed by the International Monetary Fund. While this data is useful for many international comparative purposes, it lacks the detailed programmatic breakdown of spending by function derived from program budgeting.

Statistics Canada's decision to no longer publish functional detail of expenditures is surprising as most analysts require such detail to develop an understanding of what governments are actually spending their money on. A breakdown by economic object does not suffice to fill this gap. It is important to know if governments are spending on such areas as education, health or social programs, and not just on such categories as compensation or non-wage goods and services. And the problem is compounded for federal systems where the functional spending is divided among different levels of government. In a unitary state, a functional breakdown can usually be easily produced from the annual budget, but this is a much more difficult task when there are many provincial and municipal governments, each with their own budgets that need to be consolidated.

It is ironic that every time we carried out a Public Expenditure Review for the World Bank in some developing country we would have to either obtain or prepare a functional breakdown of government spending as an essential input to our review of public spending priorities yet Canada, with arguably the world's best statistical agency, no longer prepares such basic information.

If we were to follow exactly the same methodology as we did in our two previous estimates, we would use fiscal data for fiscal year 2010/11 with our NHS data for calendar 2010. However, since the data for that year is not available, we have to use the data on revenues and expenditures for 2008/09, the latest year available, as a proxy. This probably biases downward our net fiscal costs estimates of both per-capita and total costs.

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## The Estimate

### Income

The tabulation of the income and tax data from the NHS is shown in [table 1](#). It covers the cohort of 3.7 million immigrants who arrived in Canada over the period of 24 years from 1985 to 2009, as represented by the sample of 104,604 immigrants in the database.<sup>3</sup> In 2010, they had an average income of \$32,922 on which they paid an average of \$4,567 in income taxes. The comparable figures for all Canadian residents excluding recent immigrants were an average income of \$41,935 and income taxes of \$6,885, based on the entire sample of 774,210 individuals but only including those aged 15 and over for whom data was also available. This represented 28.9 million people. The table also shows the average employment income for the two groups (also used in the per-capita cost calculations in [table 2](#)). The main differences between income and employment income are that the former includes transfer payments as well as earnings from investments.

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3. Recent immigrants arriving in 2010 (and first four months of 2011), who were in the full sample, were not included in the sample used as they were not in the country for a full year in 2010 (or not at all) and would thus bias downwards the income and tax estimates. Also not included in the income and tax compilations were: immigrants for whom the income and tax data was not available; or immigrants under 15 for whom the data was not applicable.

**Table 1: Income and taxes paid by recent immigrants and other Canadians in 2010**

	Average Income	Average Employment Income	Average Income Tax Paid	Number of Observations in Survey	Population
(1) Recent immigrants 1985–2009	\$32,922	\$27,230	\$4,567	104,644	3,696,683
(2) All Canadian residents except recent immigrants	\$41,935	\$30,581	\$6,885	774,210	28,863,389
(1) / (2)	78.5%	89.0%	66.3%		

Note: Recent immigrants are compared with all Canadian residents excluding recent immigrants since they are the most relevant comparator group.

Source: Calculations by authors made from the 2011 National Household Survey PUMF (Statistics Canada, 2014a). Total income is provided by the variable *totinc* in the file, and income tax by the variable *inctax*, both of which are averaged across individuals to calculate averages. All recent immigrants and Canadian residents reporting income or income tax were included in the sample. The main differences between income and employment income are that the former includes transfer payments as well as earnings from investments.

The last row of table 1 shows the ratio of the average income of immigrants to the average income of all Canadian residents excluding recent immigrants: 78.5%; and the ratio of employment income: 89.0%; and the ratio of income taxes paid: 66.3%, which was derived by dividing rows (1) and (2). The income ratios are larger than the tax ratio because the progressivity of the income-tax system results in all Canadian residents except recent immigrants paying a proportionately higher amount in taxes than recent immigrants because of their higher incomes. The ratio for taxes paid of 66.3% is used in calculating income tax in table 2. It is noteworthy that all of the ratios used are slightly higher than in our previous estimates, indicating that the relative performance of recent immigrants has improved, undoubtedly because of the improved selection under the Conservative Government's reformed immigration policy.

## Taxes

The data on income and taxes compiled from the NHS is used in table 2 to allocate the government revenues in Canada that are raised not only through the personal income taxes, but also through all the other taxes and revenue sources. The types of taxes are shown in column (1), while column (2) gives the total revenue raised by each type of tax. Column (3) shows the percentage distribution of revenues among the various categories. Column (4a) translates this total into per-capita amounts, based on the country's estimated population of 33.246 million on July 1, 2008, which corresponds most closely with the 2008/09 fiscal year. Column (4b) adjusts this amount so that it represents taxes paid by Canadian residents excluding recent immigrants.

**Table 2: Taxes paid by recent immigrants and other Canadians, all levels of government, 2008/09**

(1)	(2)	(3)	(4a)	(4b)	(5)	(6)	(7)
Type of tax	Total revenue raised (\$ millions)	Distribution of total revenue (%)	Total revenue raised per capita, all Canadians (\$)	Total revenue raised per capita, Canadian residents excluding recent immigrants (\$)	Taxes paid by recent immigrants as % of taxes paid by all Canadian residents excluding recent immigrants (%)	Taxes paid per capita by recent Immigrants (\$)	Difference in per-capita tax; (6)-(4b) (\$)
Personal income taxes	196,632	33.9	5,914	6,150	66.3	4,079	-2,071
Health & social insurance levies	93,850	16.2	2,823	2,823	100.0	2,823	0
General sales taxes	67,001	11.5	2,015	2,066	78.5	1,622	-444
Corporate taxes	56,828	9.8	1,709	1,857	30.0	557	-1,300
Property and related taxes	52,460	9.0	1,578	1,617	78.5	1,270	-348
Other taxes and revenues	113,733	19.6	3,421	3,507	78.5	2,753	-754
<b>Total</b>	<b>580,504</b>	<b>100</b>	<b>17,461</b>	<b>18,019</b>	<b>n.a.</b>	<b>13,103</b>	<b>-4,916</b>

Note: The total taxes paid include those paid by recent immigrants. The dollars per capita figures paid by Canadian residents excluding recent immigrants were calculated taking into account the ratio of taxes paid by recent immigrants so that the sum of the dollars paid by the two groups weighted by their share of the population equals the total taxes paid. Personal income taxes includes taxes on payments to non-residents. Health & social insurance levies includes payroll taxes. Corporate taxes includes capital taxes, and natural resource licenses and fees. Property and related taxes excludes capital taxes. Other taxes and revenues includes all other revenues except for the sales of goods and services of \$53,168 million, which are excluded. The total consolidated government revenue reported by Statistics Canada including the sales of goods and services adds up to \$633,672 million.

Source: Statistics Canada, 2010; calculations by authors.

The crucial estimate for our analysis is the taxes paid per capita by recent immigrants in each of the types of taxes, as shown in Column (6). It is unfortunate that this information is not available from publically available sources, nor can it be extracted from the PUMF database. Therefore, the ratios shown in Column (5) are based on assumptions spelled out below, but are deliberately biased in favour of overstating rather than understating the amounts of taxes paid by immigrants. Thus, the ratio for health and social insurance levies is assumed to be 100% on the grounds that these taxes are levied on only a maximum level of income that is reached by most immigrants. The ratio for general sales taxes is assumed to be 78.5% on the grounds that the federal value-added tax and provincial sales taxes are levied on consumer expenditures that are related to average income ratios. The ratio for

corporate income taxes is assumed to be 30% because recent immigrants are judged likely to hold only small amounts of common stocks that bear the burden of the corporate income tax. In support of this assumption, we note that according to the PUMF data the immigrants' investment income is only a fraction of the average for all Canadians and that this probably includes a disproportionate amount of investments other than corporate stocks. It was assumed that the amounts paid as property and related taxes and other taxes were related to total income. The last row in table 2 shows the sum of all taxes paid by the average recent immigrant (\$13,103) and the average of all Canadian residents excluding recent immigrants (\$18,019) in the fiscal year 2008/09 (ending March 31, 2009). Thus recent immigrants paid on average \$4,916 less than non-recent immigrants, which gives us the tax part of the net cost of recent immigrants to the fisc.

## Benefits received

Our updated calculations of the expenditure component of the net fiscal transfer to recent immigrants are presented in [table 3](#). Column (1) lists the different types of spending programs, column (2) total expenditures, and column (3a) expenditures per capita for all Canadians based on a population of 33.2 million as of July 1, 2008. The amounts in table 3 represent the spending by all levels of Canadian government, consolidated so as to remove inter-governmental transfers. Program spending excludes debt-service payments of \$43.634 billion, which do not provide current services for Canadians and immigrants. This exclusion is considered reasonable on the grounds that, to the extent that the past deficits necessitating the interest payments resulted in the creation of tangible assets like infrastructure and the maintenance of intangible assets like freedom and the Canadian way of life, they provide benefits that accrue equally to Canadians and immigrants. Column (3b) adjusts these figures to make them applicable to non-recent immigrants.

The figures in column (4) are central to the calculation of net fiscal costs presented in the next subsection. They show the percentage assumed to apply to the benefits received on average by recent immigrants relative to the benefits received by all Canadians under each type of program. In most columns, this figure is 100% and reflects the view that recent immigrants benefit as much per-capita as do other Canadians. In some cases, such as in the category, Environment, the underlying rationale should be obvious. Most readers will agree that all persons in Canada benefit equally from the maintenance or improvement in the quality of the environment. Most of the other spending categories to which the 100% figure has been applied should be similarly obvious and were discussed in our previous papers, which we do not propose to duplicate here (Grubel and Grady, 2011, 2012).



**Table 3: Benefits received by Canadian residents excluding recent immigrants, all levels of government, 2008/09**

(1)	(2)	(3a)	(3b)	(4)	(5)	(6)
Type of government expenditure (program spending)	Total expenditure (\$ millions)	Per-capita benefits received by all Canadian residents (\$)	Per-capita benefits received by non-recent immigrants (\$)	Benefits received by recent Immigrants (% of Canadian residents excluding recent immigrants)	Per-capita benefits received by recent Immigrants (\$)	Difference in per-capita benefits (5)-(3b) (\$)
General government services	22,822	686	686	100.0	686	0
Protection of persons and property	50,790	1,528	1,566	78.5	1,229	-337
Health	121,577	3,657	3,657	100.0	3,657	0
Social services	190,276	5,723	5,723	100.0	5,723	0
Education						
<i>Elementary and secondary education</i>	50,941	1,532	1,510	113.0	1,706	196
<i>Post-secondary education</i>	39,670	1,193	1,134	146.0	1,656	522
<i>Special retraining services</i>	3,615	109	109	100.0	109	0
<i>Other education</i>	1,506	45	45	100.0	45	0
Recreation and culture	16,306	490	490	100.0	490	0
Labour, employment, and immigration	2,395	72	70	120.0	85	14
Housing	6,120	184	182	110.0	200	18
Regional planning and development	2,775	83	83	100.0	83	0
Transportation and communication	32,197	968	968	100.0	968	0
Resource conservation; industrial development	19,975	601	601	100.0	601	0
Environment	16,933	509	509	100.0	509	0
Foreign affairs and international assistance	6,508	196	196	100.0	196	0
Research establishments	2,268	68	68	100.0	68	0
Other expenditures	945	28	28	100.0	28	0
<b>Total</b>	<b>587,619</b>	<b>17,675</b>	<b>17,628</b>		<b>18,042</b>	<b>414</b>

Note: Spending categories for which the immigrants are estimated to receive lower or higher benefits are shown, e.g., Protection of persons and property.

Source: Statistics Canada, 2010; calculations by authors.

Turning now to a discussion of the spending categories for which the recent immigrants are estimated to receive lower or higher benefits. For protection of persons and property, we assume that the benefits from protection are proportional to income. Since the income of recent immigrants is 78.5% of that of Canadian residents excluding recent immigrants, this figure is used. It should be noted that this is a conservative assumption as a case could be made for using a figure of 100% since it could be argued that recent immigrants benefit just as much as other Canadians from the prevention of crime and many live in urban areas with higher crime rates that require higher per-capita expenditures on police.

The percentage for spending on education is based on an analysis of the underlying components, most notably primary and secondary education, and post-secondary education (Statistics Canada, 2010). For primary and secondary education, it is assumed that recent immigrants obtain a benefit of 113% of the amount for Canadian residents excluding recent immigrants. This reflects the fact that, according to the NHS, recent immigrants received a per-capita share of child benefits that is almost double that received by non-immigrant families, but it also makes a generous allowance for the fact that the child benefit is income tested, inflating this number somewhat. For post-secondary education, it is assumed that the benefit is 146% of the average of non-recent immigrants, reflecting the fact that school attendance above the age of 19 for recent immigrants is correspondingly above the Canadian average, as noted by Javdani and Pendakur (2011).

Spending on labour, employment, and immigration is assumed to benefit immigrants 20% more than other Canadians because they have more dealings with the government on immigration issues related to the family reunification program, the processing of refugee claims, and related issues. The low average incomes of immigrants also lead to the use of more benefits under programs that deal with labour markets and employment.

Housing is the final category of spending that recent immigrants are assumed to use more than other Canadian residents. The assumption is that immigrants benefit by 10% more on the grounds that upon arrival many have temporary access to free or heavily subsidized housing while they settle and find employment. Furthermore, the many low-income immigrant families benefit disproportionately from government programs designed to make housing more affordable, particularly in the urban areas where they tend to settle. Again, it could be argued that these are fairly conservative assumptions.

In total, the difference in the average per-capita amount of benefits of recent immigrants is \$414 (shown in the last row of table 3). This is equal to the \$18,042 in total benefits received by recent immigrants minus the \$17,628 received by other Canadian residents.

## The net fiscal cost

The net fiscal cost imposed on other Canadian residents by recent immigrants through provisions of the welfare state can be calculated by adding the lower taxes paid by recent immigrants to the higher spending benefits, that is, the \$4,916 in lower taxes plus the \$414 in higher benefits for a total net fiscal benefit of \$5,329. This estimate of the per-capita net fiscal cost in 2010 of recent immigration over the period from 1985 to 2009 is the most important finding of this paper. Note that it results primarily from the lower taxes paid by recent immigrants and not from higher fiscal benefits from greater spending.

There are two possible estimates for the number of recent immigrants in the country in 2009 who were admitted over the period from 1985 to 2009. The first comes from the NHS itself. According to it, there were 3,696,683 recent immigrants arriving between 1985 and 2009 who were still in the country in 2010. If this is multiplied by the per-capita cost, the total cost of recent immigrants in 2010 would be \$19.7 billion (excluding immigrants admitted in 2010 and not residing in the country for the complete year). Alternatively, the second estimate of recent immigrants comes from the administrative data from Citizenship and Immigration Canada. It shows that 5,307,597 immigrants were admitted from 1985 to 2009. This figure is higher than that from the NHS because it includes all immigrants who legally entered the country and makes no allowance for those who subsequently emigrate. It is also based on administrative data that is comprehensive and not subject to sampling errors like the NHS. If this administrative figure is multiplied by the per-capita cost, the total cost of recent immigrants in 2010 would be significantly higher at \$28.3 billion.

Further, if you add the 1,298,449 immigrants arriving between 2010 and 2014 from the administrative data, the total fiscal cost of immigration would be increased by another \$6.9 billion, yielding an estimated range of \$26.6 to \$35.2 billion.

Barring a miraculous improvement in earnings, the net fiscal cost of recent immigrants will continue to grow as more immigrants are admitted. At a per-capita net fiscal cost of \$5,329, the 260,000 to 285,000 planned immigrant admissions announced by the Immigration Minister for 2015 should add another \$1.4 billion to \$1.5 billion to the cost, with a similar increment coming every year thereafter as long as the high targeted level of immigration is maintained. All this is, of course, subject to the proviso that there is no dramatic further improvement in the labour market performance of new immigrants that is sufficient to offset their growing numbers.

## Conclusions

The net fiscal cost of immigration has continued to increase in spite of the extremely ambitious immigration policy reforms introduced by a Conservative Government committed to ensuring that immigration produces benefits and not costs for Canada. Reforms to immigrant selection like those introduced since 2006 by the Conservative Government can be, and have been, successful in reducing the per-capita cost of immigration. Nevertheless, based on the results so far, it is hard to see how such reforms can produce large enough reductions in the per-capita fiscal cost of newly admitted immigrants to stem the growing absolute net fiscal cost of mass immigration. This is because the improved selection criteria only apply to the principal applicants admitted and not to the related family class immigrants who are much more numerous and tend not to be as economically successful.

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