

# Immigration to Vancouver: Economic Windfall or Downfall?

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David Foot's *Boom, Bust and Echo* has the subtitle *How to Profit from the Coming Demographic Shift* as its hook<sup>1</sup>. But, when I proudly point to this book as evidence of scholarship turning into a best seller the common complaint from middle aged central Canadian readers is that their property values are still in the doldrums and reading *Boom, Bust and Echo* gives them no clue as to what to do. A careful reading of Foot's book suggests that in fact *both* winners and losers will arise under a changing age population distribution in Canada. And so it is with immigration. But in the immigration arena the goals are more than the venal objective of profits; there are winners and losers across the economic spectrum in the labour market, housing market and in terms of the public treasury. Thus, immigration for some is a WINDFALL and for others a possible DOWNFALL. This economic readjustment owing to immigration in turn induces strong reactions in terms of political rhetoric as well as adjustments in the economy<sup>2</sup>. As I have argued earlier, the economic impact and the political and popular reaction to immigration varies by region in Canada and we have yet, another force at work to raise political tension across the land. It is the task of the Metropolis Project to research the impact of immigration by major immigrant receiving cities in Canada and throughout the world. Vancouver's Centre of Excellence on Immigration and Integration or RIIM will research the impact of recent immigration on Vancouver's economy, its families, the educational system and greater Vancouver's physical infrastructure<sup>3</sup>. In the economic domain - a domain in which I specialize - we plan to cover the impact of immigrants on Vancouver's international trading patterns, levels and source of tourism, contributions to the treasury and adjustments in Vancouver's labour market. Currently the economic research group in the Centre is concentrating on the impact of immigrants on Vancouver's wage structure as well as the changing structure of expenditure patterns in Vancouver owing to immigrant arrivals. The following outlines the specific **economic** topics that we are researching this year at Riim ([Figure 1](#)) along

with the discussion papers ( [Figure 2](#) ) that are available on the internet ( <http://www.riim.metropolis.net/> ) or by subscription. This evening I will limit my talk to RIIM's more recent economic analysis on wages and expenditure patterns to identify some potential and actual economic winners and losers in Vancouver's on going immigration process. Any policy implications from these findings will of course be given *gratis*.

We start our narrative with some basic facts.

First, it must be noted that British Columbia and particularly Vancouver's population growth is driven by in-movement. In fact, British Columbia has had the fastest growing population in Canada with a 2.5% growth rate over the last two years<sup>4</sup>. This was twice as fast as the nation-wide growth during this period (1.2%)<sup>5</sup>. In 1995, British Columbia received 37, 192 (net) immigrants with 87 per cent destined for greater Vancouver<sup>6</sup>. In the first quarter of 1996 British Columbia received 11,750 immigrants which placed on an annualized basis will lead to approximately 47,000 immigrants in 1996. This inflow is only slightly less than the record year of 1994 when 48,529 immigrant arrivals were recorded for the province.

But this recitation of numbers disguises the true immigration phenomenon in British Columbia . We must first note that British Columbia and Vancouver now attract a larger percentage-24 percent (circa 1996/1)- of a declining total absolute immigration flow to Canada<sup>7</sup>. This share statistic is very telling since it suggests that Vancouver is becoming a relatively more attractive destination for immigrants than either Toronto or Montreal . Given this new pattern we must address one central question: "Is this rising share to British Columbia an outgrowth of deliberate immigration policy or a consequence of the growth in the Vancouver economy ?

The economic impact of immigrants to Vancouver-at least in the short-run-has a great deal to do with the immigrant's human and financial capital. In fact T. Sowell argues persuasively that the uniform world-wide success of certain ethnic groups-for example Jewish immigrants- is a direct outgrowth of their accumulation of human capital<sup>8</sup>. Canadian immigration policy which has been gradually changed in emphasis has widened the human capital gateways while shrinking the entrance points that do not require a human or financial capital assessment to enter. [Table 1](#) divides British Columbia's and other provinces immigrant gateways into categories such that human and financial capital pre-requisites can easily be identified.

Table 1 Immigrant Landings by Class of Entry: 1995

Province	Family	Refugee	Assist	Independ	Entrep	Self	Investor
Quebec	9,565	5,999	506	8219	1276	199	682
Ontario	44,342	16,812	17,266	30,934	3386	1210	939
B.C.	15,127	1,969	7,869	11,670	3,399	954	2,942
Canada	76,659	28,088	29,181	57,392	11,363	2,834	5,153

Source; Statistics Canada, *Population Estimates July, 1996*. The Daily Sept. 26, 1996

The economically assessed entry gates which assess the human and financial capital possessed by immigrants include: the independent, entrepreneurial, self-employed, investor and assisted relatives gateways<sup>9</sup>. In 1995, 62% of British Columbia's immigrants passed through the economically assessed gates while in Ontario only 46 % were economically assessed in 1995. [Figures 3, 4](#) and [5](#) illustrate British Columbia's differential experience with immigration through the various entry gates. In short, British Columbia has a greater concentration in the assisted relatives (points assessed) and moneyed gateways which leads to its 62% share of economically assessed immigrants.

But is this economically dominated flow a result of policy or owing to chance.? I would argue that British Columbia's high share of economically assessed is self perpetuating to a limited degree. A long standing

Asian presence in Vancouver, coupled with a growing economy induced Asians to move to Vancouver and the resulting growth led to a further increase in moneyed and skilled Asian immigrants. The dynamics have been researched elsewhere in detail<sup>10</sup>.

Returning to British Columbia's dynamic population growth an often forgotten component is internal migration from the rest of Canada. While this internal movement fluctuates with the business cycle Statistics Canada reports that the (net) in movement to British Columbia from the rest of Canada for 1993-94 and 1992-93 was approximately 40,000 and 30,000 movers respectively<sup>11</sup>.

In sum, British Columbia grew by 92,000 people between July 1<sup>st</sup> 1995 and July 1<sup>st</sup> 1996. Only 37,192 or 40% of these new British Columbia's came from offshore. On the other hand, 60% of British Columbia's population growth was due to 29,291 migrants from the rest of Canada with the remainder of British Columbia's population growth owing to births (25,517). There are several lessons which can be drawn from these numbers:

1. British Columbia's recent population growth is fueled by migration (72 %) with only a little over one half of these movers originating from offshore.
2. In the absence of movement British Columbia's population growth would be trivial or .07 % per annum.
3. Finally, the attraction of British Columbia for immigrants is growing relative to the rest of Canada.

Furthermore, I would argue that of these three sources of population growth immigration is a unique growth component for at least three reasons. First, unlike the other two forces of birth and internal migration; the size of the immigration flow is subject to policy. Secondly, international immigration by its very nature of selectivity may not mirror the resident population in several dimensions and this difference can have substantial implications on the local economy in terms of growth and equity. Finally, double selection takes place with international movement. The immigrant herself self-selects into the process when she decides to move. In addition, the Canadian government through its existing policy then, selects a second time from this pool of potential immigrants<sup>12</sup>.

Given this population growth, especially via immigration, where does this lead us in terms of analyzing the fate of possible economic winners and losers?

Jeffrey Williamson (1974) has argued that North American economic development was partially driven by the demand effects produced by the newly arrived immigrants<sup>13</sup>. In short, immigrants induced changing expenditure patterns which in turn redirected investment into new industries. However, in the 1980's a Canadian study was unable to detect immigrant induced consumption effects Canada-wide<sup>14</sup>. The question now is: Are the critical immigration conditions present today in Vancouver to induce this immigration led growth via a change in the Vancouver's pattern of consumer expenditures ?"

Stylized facts of changing consumption patterns and prices abound. For example, the Vancouver Sun and others had argued that Vancouver housing prices rise and fall due to immigration ebbs and flows ? Is this actually true? What of the rest of the local economy? Are the clothing or transport markets affected by immigrant flows ? If markets do change owing to the underlying economic-immigration forces then at least one central pre-condition would exist to yield economic winners and losers.

[Table 2](#) illustrates one possible conditional expenditure projection or scenario which will produce economic winners and losers as the Vancouver economy restructures.

Table 2 Annual Actual and Predicted Growth rates in Vancouver Expenditures by Place of Birth of Consumers 1991-99

Commodity	Canadian Born	All Imm	UK/USA European	Asia Imm	Pre - 81 Imm	Post - 80 Imm
Food	7.5	5.8	0	12.8	-1.3	4.5
Shelter	10.6	7.4	0	25	-1.6	6.3
H.H. Oper.	11.8	7	0	20	-1.2	8.4
Furnishings	18	17.1	0	35	-4.2	6.3
Trans	28.5	14.4	0	41	-3.2	11.9
Clothes	16.5	14.4	0	26	-1.6	7
Health	9	4.7	0	3.3	-1	2
Pers. Care	12.6	4.4	0	9.8	-0.86	4
Recreation	18	10.8	0	16.3	-1.6	7
Reading	9.9	8.1	0	22.5	-1.8	6
Tobacco	4.2	2.1	0	25	-2	4.3
Alcohol	9.9	8	0	25	-2	4.3
Security	15	13.5	0	65	-3.2	5
Gifts	15	13.5	0	65	-3.2	5

Source: DeVoretz "Economic Growth and Immigration in Vancouver" Association of Professional Economists of BC, Sept. 1995.

[Table 2](#) is a product of combining two prior pieces of information. First, we must have a knowledge of current consumer tastes by foreign-birth status and next we must predict income growth for various immigrant cohorts. This information is provided elsewhere [15](#).

[Table 2](#) answers the question:

"How would a post 1980 immigrant from Asia spend her household money in Vancouver in the 1990's if we knew her willingness to spend out of her growing income across 14 major expenditure groups?"

If we reconfigure [table 2](#) into [figure 6](#) we can more easily identify the potential "gainers and losers". Clearly those entrepreneurs servicing the housing, transportation, furnishings and security or gift needs of new Vancouver consumers will gain over the next five years. Competition should easily adjust to these changes but those entrepreneurs who can most quickly overcome the 'transactions' costs will be the gainers. Those who do not adjust lose out economically [16](#).

One personal illustration of the negative effect of growing transactions costs under an immigration fueled environment should demonstrate one source of economic *loss*. When I recently purchased some jewelry in Langley I noticed that the store's primary (and original) outlet was in Richmond.

I commented: "My your business in Richmond must be booming?"

The store owner said emphatically;

"No, Business is bad.....we just shut the Richmond store".

I was dumbfounded and asked: "What was the problem?"

She replied that "My Richmond customers did not speak English well enough for me to serve them ?

For lack of a Mandarin and/or Cantonese speaking salesperson in Richmond this jewelry store owner lost an outlet in the economic shuffle. Other examples in which the "transaction costs" inherent in these changing patterns are more subtle and difficult to absorb thorough contracting are abundant. Real estate sales,

financial and health services as well food merchandising require both knowledge of tastes, language and require a special locational advantage.

B.C. Telephone's venture into the competitive Asian long distance or overseas phone market produces a case in which the difficulties and subtleties of absorbing transaction costs are borne out. In order for B.C. Telephone to compete in these markets seniority rules in B.C. Telephone's labour union had to be by passed to permit new workers with Mandarin or Cantonese language skills to service the Asian Richmond market. This led to contention over seniority rights which have never been completely resolved. Even the prospect of guaranteed jobs and a share of new jobs did not convince B.C. Tel's union of the efficacy of bypassing their seniority rules.

The Bank of Nova Scotia has been more successful in overcoming its transaction costs with its introduction of a Punjabi speaking branch in the Newton area of Surrey. This latter event allowed the Bank of Nova Scotia to gain in two ways. First it was better able to serve its existing Indo-Canadian immigrant customer base while simultaneously absorbing former members of an Indo-Canadian credit union.

Finally, the *bête-noire* of the Vancouver cable market- Rogers Cable-provides a most interesting example of a mainstream agent extracting the maximum potential profits from the changing ethnic markets while minimizing its transactions costs. Rogers recent application to the CRTC envisions a multi-ethnic over the air TV station servicing Korean, Japanese, Italian, Vietnamese, Filipino, etc. ethnic groups Roger's recent submission correctly noted that English is the *lingua franca* of the lower mainland and thus English will be used as super titles on Roger's proposed channel while one of the various targeted ethnic languages is spoken on air. This simultaneous dual language ability means a wider audience can be reached; new arrivals, more assimilated immigrants and of course mainstream Canadians are now potential viewers. This inclusive reach for audience will raise Rogers advertising rates as well as prevent encroachment on Rogers traditional mainstream advertisers.

In sum, I have presented three examples of mainstream Canadian firms reactions to the changing expenditure patterns implied by [figure 6](#). These examples include; one loser (jewelry firm) one small winner with some loses (B.C. Tel) and one potentially large winner (Rogers). The lesson to be learned is that the biggest potential winners from this dynamic change in Vancouver are dominant mainstream monopolies who can quickly overcome their transactions costs.

What of the winners and loser in Vancouver's labour market ? Again the impact of immigration is not obvious. Workers can gain jobs and/or increase their wages as well as lose jobs or suffer from wage competition depending upon the type of immigrant flow to Vancouver. Examples abound, but we can illustrate two possible outcomes with the aforementioned B. C. Telephone case and an 'insider-outsider' case closer to home, namely at Simon Fraser University.

Current research being conducted at RIIM by Sam Laryea indicates that the introduction of new immigrants into urban labour markets can raise, lower or leave unchanged the wage rate of the Canadian-born portion of the labour market. What the actual impact of immigrants on jobs or wages will be explored below. But first let us address the counter-intuitive notion that an immigrant can raise the wage rate of either previous immigrants or a member of the existing Canadian-born labour force. If immigrant entry is permitted on the basis of that immigrants must provide either human capital, financial capital or alleviate a labor shortage then, it is conceivable that both wages and employment opportunities of the resident labour force will rise. An example will make this clearer. In the 1980's and early 1990's Norwegian's emigrated to Sechelt and they brought capital from Norwegian banks and human capital from their experience with fish farms. Since Canadian banks do not loan money on inventory -especially fish inventory- the entrance of Norwegians and their capital is the key to this story's outcome. With the introduction of Norwegians and their capital into Sechelt previously unemployed native-born Canadians with few skills were now given jobs and their wage

rate effectively rose from zero ( many were on welfare or unemployment insurance). In addition, the new Norwegian immigrant managers (as well as Canadian-born managers ) had their earnings rise. Of course, the halcyon days of fish farming has ended. This is not the place to argue over the efficacy of aquaculture<sup>17</sup>. Rather it is an example of immigrants with venture and human capital raising the wages and employment opportunities of both immigrants and low wage Canadian-born workers.

Now to the intermediate case which arises when we consider the so called 'insider-outsider' problem. In this case the insider group or the Canadian-born is the highly paid unionized and the outsider group consists of unskilled immigrants. Under these conditions a coalition of insiders with employers will allow immigrants to enter the firm to keep the total wage bill low and allow wage (and profit) increases to resident workers (and owners).

This example appears exotic and perhaps, too contrived to exist in the real world. An yet, when Simon Fraser University recontracted out its cleaning services a few years ago the cleaning workers who were largely immigrants -the outsiders- were rehired by the new contractor at a lower effective wage in the context of union environment.

One question arises: Why didn't insiders- in other words other Simon Fraser University unionized employees prohibit this recontracting? I would argue the insiders perceived a mutual economic gain over time.

The third case of immigrants causing unambiguous job loss or wage suppression is clearly the most commonly held view. In short, this view argues that immigrants enter and lower Canadian-born wage rates and/or cause job displacement. However, this last case will *only occur* if the immigrants do not bring accompanying human or financial capital. We must remember our earlier set of stylized facts which contradicts this perception. Sixty two per cent of Vancouver's immigrants were screened for human or financial capital assets prior to admission making this case of wage suppression unlikely.

The question of winners and losers in the labour market in fact reduces to deciding which case; wage gain, wage loss or insider-outside is the most prevalent. I turn to the recent tests conducted at the Centre by my student Mr. Sam Laryea to determine the most prevalent case. When you estimate the relationship between the percentage of foreign-born labour in an industry and its effect on the Canadian-born workers wages then in 23 industries Canadian-born workers' wages actually rise ! In only 8 industries do wages for the Canadian-born worker actually fall. In the remaining 20 industries no significant wage effect is detected<sup>18</sup>.

One question begs to be answered. If in fact the majority of workers in urban Canada are neither winners nor losers in the labour market and economic opportunities abound in the goods market place why do the majority of Canadians-even in Vancouver- feel we have too many immigrants entering society?

I close with some political-economic analysis of this question. The economic benefits of immigration are well known and substantial to many *immigrants*; higher wages, jobs and the social safety net. The benefits to *Canadian-born* residents however are either unknown (rising wages or profits in the marketplace) or these benefits are so diffused throughout the economy ( Economic Council 1992) that the exact recipients are difficult to define. On the other hand, the small group of resident Canadians which absorb the economic *costs* of immigration in the labour or goods market vigorously disseminate these costs since their impact is precise and well known.

Given this asymmetry- well defined costs and unknown or diffused benefits- those who suffer the costs of immigration dominate the debate. It is the role of economic research to identify, quantify and aggregate the net economic benefits, albeit large or small, to fuel informed debate. We plan to conduct this research over the next six years at the Centre of Excellence to provide arms length information to debate policy options.

You can follow our progress by turning to our web page <http://www.sfu.ca/riim> periodically and arrive at your own conclusions about the net economic benefits of Vancouver's immigration.

It is my personal view that the foundation of a sound immigration policy is one that requires in the short-run that immigrants on average pay for themselves by conferring net benefits on the resident population. In Vancouver with greater than 60% of its immigrants currently economically assessed there exists some preliminary evidence in two markets to support the view that net benefits flow to the general public with more winners than losers.

Thank you for your attention. I will answer any questions or in the absence of questions give you a test.

### Notes:

1. David K. Foot, Boom Bust and Echo Macfarlane, Walter and Ross (Toronto:1996)
2. Don J. DeVoretz "The Political Economy of the Canadian Immigration Debate: A Crumbling Consensus ?" March, 1996. See <http://www.sfu.ca/riim/comment/cdnclub.htm>
3. A complete description of the research topics is found on [www.sfu.ca/riim](http://www.sfu.ca/riim).
4. Statistics Canada, Population Estimates July, 1996. The Daily Sept. 26, 1996
5. Ibid.
6. Source: British Columbia Statistics, Immigration Highlights, Issue 95-4.
7. The total Canadian landings for 1994-96 (estimated) are 217,763; 210,974 and 200,000 respectively.
8. T. Sowell, Migrations and Cultures, Basic Books, 1996. Also, D. DeVoretz and J. Dean " The Economic Performance of Jewish Immigrants to Canada: A Case of Double Jeopardy ? See <http://www.sfu.ca/riim/paper/deand/jewimm.htm>
9. In brief, the independent and assisted relatives are assessed for their economic suitability with a "points" test. The passing grade in the recent past has been 70 + points out of 105 required for admission. The investor, entrepreneur and self-employed have a financial component to gain entry. The refugee and family groups are not assessed for their economic prowess (DeVoretz, 1995).
10. D. DeVoretz (ed.) Diminishing Returns: The Economics of Immigration Policy (Toronto:1995)
11. Op. Cit. Statistics Canada
12. S. Akbar in D. DeVoretz (ed.) Diminishing Returns: The Economics of Immigration Policy (Toronto:1995) demonstrates that for example a fraction of potentially eligible family members actually select themselves for the family reunification immigration process.
13. J.G. Williamson, Late Nineteenth Century Development: A General History Cambridge: Cambridge University Press,1974.
14. W. Marr Consumption and Savings Patterns of the Foreign-Born in Canada, Institute for Research on Public Policy, 1987.

15. See D. DeVoretz, "Economic Growth and Immigration in Vancouver" Association of Professional Economists of BC, Sept. 1995 for details of the computations.

16. All of these myriad of customs and formalities that constitute the transactions costs have now become the basis of book by R. Ng, Customers From Afar (Success Publication: Vancouver,1996)

17. The fact that bankruptcies in the BC fish farm business ultimately helped to cause the closing of two major Norwegian banks is irrelevant for the labour market impact in British Columbia.

18. Wages declined in the following industries: Agriculture, metal mines, mining services, machinery industries, insurance, miscellaneous manufacturing, health and welfare, and provincial administration. Wages for the Canadian-born rose with a greater percentage of foreign-born labour in the following industries: minerals, quarries, food and beverage, wood, rubber and plastic, paper, metal fabricating, transport equipment, chemicals, transport, and federal and local administration.