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Temporary Canadian Migration: Quo Vadis?

by

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Abstract: Temporary immigrant movement to Canada has an extensive history in both the unskilled and skilled sectors. The central question posed by this paper is whether this modern movement is in the public interest of resident Canadians. I use two criteria to assess this question. First, does this temporary movement reduce the wages of displaced resident workers at the lower end of Canada's income distribution? Next, do temporary immigrants make a net contribution to Canada's treasury? The available evidence suggests that there may exist some wage and employment effects in some sectors from temporary movers but that in general, given their short tenure, most temporary immigrants would make a net positive contribution to the treasury. Thus, a mixed picture emerges on the economic success of Canada's temporary worker program in the 1990s.

Key Words: employment authorization, FTA, foreign labour, immigration policy, NAFTA, temporary immigration

I. Introduction

The distinction between permanent and temporary immigration is a concept owing more to legal minds than to the lexicon of behavioral scientists. In 19th century Canada, the prairies were partially settled by Canadians who temporarily resided in the United States. For these 19th century Canadian yeoman movers, the United States-Canadian border (then under dispute) was not a barrier. Canadian sojourners moved to the Dakotas to farm until the Canadian prairies were fit for settlement and then trekked north to Canada (Bicha 1965). Americans joined them in this northern movement, and when some Americans became disappointed in Canada they returned home to the United States. This movement was voluntary and predicated on the possibility of being temporary.

Dales (1964, 1966) outlined a more significant historical example of Canadian temporary emigration, which has modern-day themes. From 1896 to 1914, the first large-scale immigration to Canada occurred and, Dales argued, this movement in turn deflected both earlier European arrivals and Canadians themselves to the United States.¹ In effect, Canada became a 19th century entrepôt for European temporary immigrants whose ultimate destination was the United States. Pope (1964) expanded this entrepôt view by suggesting that Canada was often a third choice for European migrants who eventually continued their sojourn to either the United States or Australia in the early 20th century. In other words, some early Canadian European immigrants were opportunistic sojourners and when land was available in the United States or Australia they moved on to these two countries.

In short, Canadian immigration historically has had a substantial temporary component generated by European sojourners or Canadian temporary movers.² It must be emphasized

¹ One economic consequence of this movement, according to Dales, was a larger Canadian economy due to the increased labour force. However, Dales further argued that Canada's income per head was lowered as the skilled emigrated to the United States. Chambers and Gordon (1966) vigorously dissent from this interpretation since they suggest cheap European labour to Canada coupled with a high manufacturing tariff allowed Canadian industry to develop as the Canadian west was opened by immigrants, who in turn purchased these manufactured goods.

² Beaujot (1991) has also noted that return migration by European immigrants to Canada is an ongoing feature of Canada's permanent inflow creating yet another source of temporary movement.

that this temporary movement was an impermanent status created by the immigrants themselves who decided to return home or move on after their temporary stay in Canada or the United States (Borjas and Bratsberg 1996).

In the post-1965 modern era, however, legislative changes in the United States (circa 1965) effectively halted both Canadian temporary and permanent immigrant flows to the United States until 1990.³ Immigrant policy changes in the early 1990s though, led to another substantial increase in the number of temporary movers between Canada and the United States. Unlike previous temporary movement, both United States and Canadian immigration policies now explicitly dictate the terms of this temporary movement with a series of legal restraints.⁴

Table 1 documents the tenfold increase in temporary Canadian professionally trained movers to the United States between 1989 and 1996 under a recently signed trade agreement (NAFTA). In fact, to place this temporary movement in perspective, it should be noted that the 34,681 temporary admissions of Canadians to the United States in 1996 were seven times greater than the number of permanent admissions of Canadians to the United States in 1996.⁵

³ Thus, DeVoretz and Maki (1983) found no evidence to support the entrepot thesis for the 1967-1981 period.

⁴ In particular, trade agreements such as NAFTA and its predecessor legislation, the FTA, have instituted special legislation to facilitate temporary bilateral movement between the two countries.

⁵ These admissions are of unknown duration, but under current US legislation can be renewed indefinitely. See DeVoretz (1998) Table 3, p. 23.

Table 1: Flow of Canadian Non-Immigrant Workers and Their Families to the United States under Both FTA and NAFTA

Year	1989	1990	1991	1992	1993	1994	1995	1996
	<u>Canada-U.S. Free Trade Agreement (FTA)</u>							
Professional Workers under FTA(TC)	2677	5293	8123	12,531	16,610			
Spouses and children of FTA workers	140	594	777	1271	2386			
						<u>North American Free Trade Agreement(NAFTA)</u>		
Professional Workers under NAFTA (TN)						19,806	23,904	26,987
Spouses and children of NAFTA workers (TD)						5535	7202	7694

Source: *United States Department of Justice, Statistical Yearbook of Immigration and Naturalization Service*, various years.

Note: Admissions under the FTA began January 1989 and ended December 31, 1993. Admissions under NAFTA began January 1, 1994.

The counter flow of Americans to Canada under the same treaty regulations, as expected, is smaller (see Table 2); in fact, this American movement to Canada is only twenty-five percent of Canadian–United States temporary flow. One obvious explanation of this small United States–Canadian temporary flow is the smaller Canadian economy. However, the relative attractiveness of the United States economy and the possibility of the conversion to a more permanent status may have much to do with the larger Canada to United States temporary flow (DeVoretz and Laryea 1998).

Table 2: Flow of Workers to Canada under both the Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA).

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997
	Canada-U.S. Free Trade Agreement (FTA)					North American Free Trade Agreement (NAFTA)			
Traders	26	29	20	14	9	12 (0)	9 (0)	6 (0)	6 (1)
Investors	31	41	41	59	28	22 (0)	33 (0)	17 (3)	26 (4)
Intra-Company Transferees	896	1596	1531	1793	1899	2272 (11)	2216 (18)	2286 (31)	2470 (40)
Professionals	1807	3284	3966	5173	6245	7339 (24)	7629 (80)	9055 (137)	10,800 (135)

Source: Unpublished Data provided by Citizenship and Immigration Canada.

Notes: The numbers are based on employment authorizations. The numbers in parenthesis indicate those workers coming to Canada from Mexico.

Table 3 directs us to a modern day version of the entrepôt view of Canada. In this case, Canadians move to the United States on temporary visas especially created for their movement, and later convert their status to a permanent one. For example, in 1994, 3,334 Canadians on temporary United States visas (students, workers and intracompany transferees) converted their temporary status to a permanent status while in the United States. One dramatic example of conversion is intracompany transferees that over the reported period (1989-1995) account for 8,598 conversions.

Table 3: Percentage of Non-Immigrants from Canada Changing Status to Permanent U.S. residents

Category	1989	1990	1991	1992	1993	1994	1995	1996
Exchange visitors	2.01	1.94	1.25	1.90	1.78	1.5	.88	2.24
Intracompany transferees	13.68	12.92	7.72	30.72	31.63	27.78	22.84	37.05
Temporary Workers	4.89	5.30	6.20	13.32	13.37	9.28	7.74	11.59

Students	3.02	4.09	2.78	3.16	4.16	3.81	3.94	5.82
Visitors for Business	0.23	0.37	0.46	0.31	0.37	0.30	0.26	0.62
Visitors for Pleasure	24.50	20.54	11.21	14.92	21.22	24.35	24.20	31.63
Fiancées	94.89	98.54	88.19	95.18	83.83	94.18	99.52	83.05

Source: United States Department of Justice, Statistical Yearbook of Immigration and Naturalization Service, various years.

The stylized facts contained in Tables 1 to 3 yield several questions about the nature of modern temporary movement.

- Is temporary immigration a substitute for or complement to (quasi) permanent movement?
- Can an unambiguous nation-wide economic case be made for an expansion in the temporary immigration to Canada?
- What are the economic costs of temporary Canadian immigration to the United States?
- Who is the net beneficiary of the bilateral United States-Canada temporary movement?
- What are the relative economic merits for Canada of temporary versus permanent movement?
- What is the distribution of economic costs and benefits to temporary movement in the Canadian labour market?
- Does temporary movement to Canada suppress wages or enhance wages of resident Canadians?
- Does temporary movement to Canada displace or create employment for resident Canadians?

What Canadian industries are most sensitive to labour force impacts of temporary movers?

II. Theory

The above questions focus on economic issues, and in order to evaluate the economic merits of a temporary immigration policy I propose an evaluation technique owing to Rawls (1971) and Berry and Soligo 1969. Berry and Soligo argued that if a proposed immigration policy measure improved, on average, the welfare of the resident population then, the particular immigration policy under consideration met their criteria for acceptance.⁶ DeVoretz (1995) following Rawls has extended the Berry and Soligo view by arguing that only immigration policies which, at least, improve welfare of the bottom half of the resident population should be considered welfare improving.

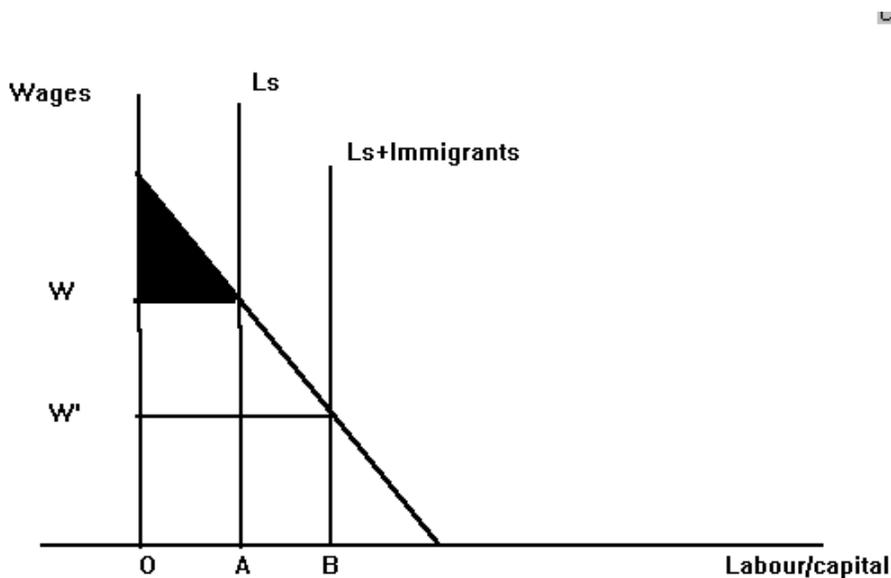


Figure 1: Static Harberger Triangle with immigration

Figure 1, which contains the static elements of a Harberger triangle, illustrates the case of immigrant entry, which raises GDP, and simultaneously re-allocates income to the capitalist while lowering the resident wage rate. In other words, as A-B immigrants enter, resident wages are lowered (W') whilst the original returns to the capitalists (shaded triangle) increase.

⁶ For example Canada's 1896-1914 immigration policy failed the Berry and Soligo test since according to Dales although immigration led to a greater gross national product, income per capita fell.

An immigration policy that led to this outcome would be welfare improving in the Berry and Soligo sense. Under the DeVoretz rule, however, an immigration policy that led to Figure 1 should be halted.

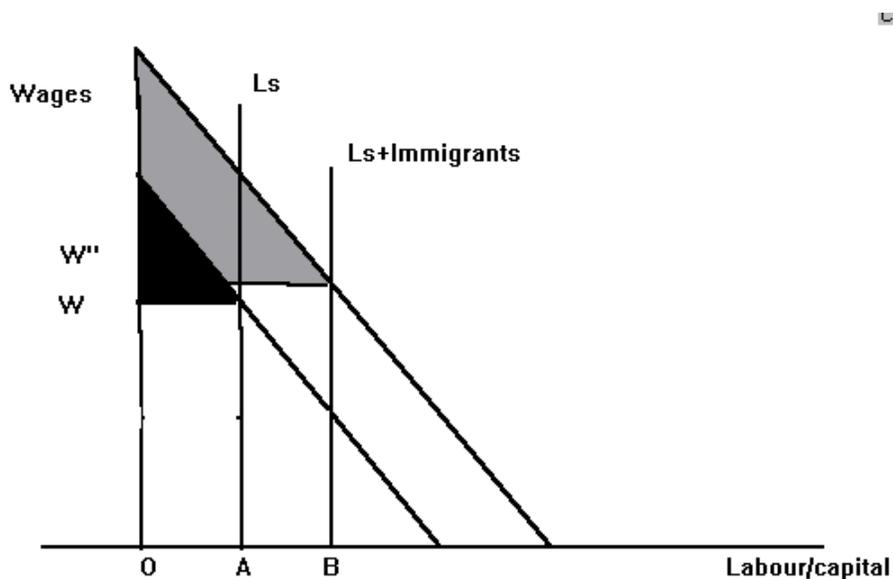


Figure 2: Dynamic Harberger Triangle with Immigration

Figure 2 illustrates a case in which immigration is welfare improving for both capitalists and resident wage earners and satisfies the DeVoretz rule. Under this optimistic scenario, A-B immigrants enter with either a complementary skill set, or new technical knowledge or embodied human capital or some combination of these factors. Under these optimistic conditions the demand curve for labour shifts to the right since the marginal productivity of foreign-born and native-born labour is raised by the immigrants possessing the above-cited complementary inputs. If the demand curve shift is greater than the supply curve shift then, temporary immigration leads to an increase in wages for both resident and immigrant workers with a simultaneously rise in the capitalists' share.

In the absence of negative externalities or perverse intergenerational public finance transfers, a temporary immigration policy which led to outcomes similar to Figure 2 are to be preferred to outcomes depicted under Figure 1.

In sum, Figures 1 and 2 provide the policy maker with an evaluation technique to choose amongst alternative temporary immigration policy measures based on their outcomes.

III. Analytical Constructs

Canada, as well as other countries import temporary labour across a wide spectrum of skills and industries.⁷ Historically Canada's agricultural sector has relied on unskilled temporary workers. Thus, starting with unskilled temporary workers I ask: Does the importation of temporary immigrant agricultural labour yield the results depicted in Figures 1 or 2? The stylized production conditions for this sector are that agricultural output is intensive in land use and unskilled labour while using complementary domestically supplied management (skilled) labour and labour/capital inputs. Given a constant agriculture price then, additions of immigrant labour will raise agricultural output and both the wages paid to domestic (management) labour and the returns to landowners will increase. Furthermore, no domestic unemployment should result from this importation of unskilled temporary agricultural workers since, at the prevailing wage, potential Canadian-born agricultural workers will not enter the labour agricultural labour force.⁸

Thus, in this case, Canadian GDP increases, but for the lowest income group, i.e. resident unskilled workers, wages and employment are unaffected. In short, both the Berry and Soligo and DeVoretz criteria are met when temporary immigrants enter the agricultural sector.

One negative externality, which may reduce the size of the above gain, is owing to the foreign remittance effect. In short, foreign agricultural workers remit moneys, and this remittance has a negative balance of payments effect for Canada. However, if a portion of the agricultural output of temporary workers is exported, then temporary immigrant workers may

⁷ Canada's temporary visa category admits a wide range of skills from refugees with presumed minimal skills to world class artists and athletes.

⁸ Canadian rural labour has access to both family and public support (welfare or unemployment insurance) thus their entry wage rate (reservation wage rate) is higher than the prevailing unskilled agricultural wage. Under these conditions, no unemployment of resident unskilled agricultural labor will result if the unskilled domestic reservation wage exceeds the total cost of foreign labour (opportunity wage rate plus employer taxes on imported labour).

generate foreign exchange earnings in excess of their remittances, so that overall, Figure 2 still obtains.

How can we verify whether the stylized facts exist to support the above case? I suggest that answers to the following questions will direct us:

1. Does the agricultural reservation wage for Canadian workers actually exceed the effective foreign temporary wage?
2. What are the absolute remittances of the foreign-born in this sector relative to the sector's foreign earnings?

A second useful analytical construct is to visualize a sector (or sectors) that produces non-tradable services using unskilled foreign temporary labour. Examples of this sector would include household services—maids, child minders, etc.⁹ The case for a welfare-improving situation (i.e. Figure 2) under increased temporary immigration in the household sector requires that the opportunity cost of the erstwhile Canadian-born maid/child minder or parent be positive. This condition implies that the Canadian-born female labour force participation rate must rise as a consequence of importing temporary labour. If this condition does not hold, then the increased foreign caregivers or maids will yield only a change in consumption patterns and not a rise in Canadian production; thus Figure 1 will hold.

Again it should be noted that temporary foreign service workers remit cash home and this places an externality on the Canadian balance of payments. Given this externality, some increased domestic output (export earning or import substituting) must result through increased Canadian female labour force activity. Thus, not only must foreign labour release Canadian labour to produce output, but some of this activity must produce foreign exchange to offset their remittance effect.

To deduce which case holds, Figure 2 or 3 with the introduction of temporary foreign-born household labour, we pose a second set of research questions:

1. Is there a measurable difference between the domestic reservation wage for household services and the foreign-born effective wage?

⁹ Canada's legislation has historically permitted temporary workers to the household sector—largely nannies from the Philippines—to enter Canada with potentially renewable visas.

2. What is the size of the remittances of foreign-born household labour?
3. What is the trade-off between foreign-born labour and increased Canadian female labour force participation rate?

The third relevant temporary foreign-born intensive sector is the export (NAFTA-driven) knowledge, manufacturing and service sectors. The movement into Canada (and out) of highly skilled temporary workers is the key feature of this sector and is largely reflected in the movement described in Tables 1 to 3. NAFTA legislation expedites entry of a circumscribed class of American (and potentially Mexican) immigrants to Canada. These immigrants must be professionals, intra-company transferees, business visitors, traders or investors. The key difference for certification of NAFTA temporary movers and other temporary visa holders is that the required employment authorization is omitted for NAFTA temporary movers. These authorizations usually take several months but can be bypassed for those who qualify for NAFTA temporary worker permits. The underlying rationale for dropping these labour market tests under the NAFTA legislation is the supposition that a version of Figure 2 holds when NAFTA workers enter the Canadian labour market.¹⁰ The central question is, in fact, does this view hold empirically? Furthermore, if it does not hold, should we reconstitute employment authorizations to insure that Figure 2 holds? Finally, is this movement needed if trade proves to be a substitute for temporary or permanent migration flows? We attempt to answer these questions below.

NAFTA was intended to widen the scope of trade between the three member countries, and standard trade theory suggests that trade in goods should reduce the incentives to move since factor prices would tend toward equalization. The first laboratory in which the trade-migration hypothesis can be tested empirically is post-war Europe. Faini and Venturini (1993) report that the completion of the internal market within Europe did not accelerate migration. In fact, the maintenance of trade barriers in textiles and agriculture continue to entice eastern European movers to Western Europe. But, what of North America with an explicit legal temporary worker program and large trade in services which could induce

¹⁰ This flexible temporary bilateral movement envisioned by the NAFTA accord is based upon dynamic trade theory, which envisioned highly skilled complementary inputs moving among the three NAFTA members

movement amongst highly skilled workers? Will it follow the European example or produce unique results with trade and temporary immigrants being complements?

We need empirical tests on factor complementarity and wage compression to answer the above questions. Akbari and DeVoretz (1992) offer us information on vulnerable Canadian industries. Table 4 reports 11 of the 59 industries in which they found recent (1991) labour market displacement with increased permanent foreign-born labour that did not require (as temporary NAFTA movers) employment authorization.

Table 4: Ratio of Foreign-born to Total Labour Force Selected Largest Canadian Industries: 1991.

Description	SIC #	Absolute #(000s) foreign-born	Percent of foreign-born
Meat and Poultry	101	12.7	28
Bakery	107	12.3	30
Food (Misc)	108	10.6	27
Plastics & Fabricating	165	11.2	32
Men's Clothing	243	19.0	45
Women's Clothing	244	21.0	51
Household Furniture	261	13.6	34
Universities & Colleges	806	39.0	31
Hardware tool & cutlery	306	9.2	38
Metal Stamping	304	10.0	29
Machine Shops	308	7.5	32

Several features of these selected industries are important to note. First, although many of the selected industries are characterized by an unskilled labour force using labour-intensive techniques (e.g., bakeries, clothing, and food processing) many groupings are highly skilled (e.g. universities, machine shops, metal stamping.) Thus, no generalization appears a priori for this subset of industries other than the pre-selected degree of concentration of foreign-born workers. Why a heavy concentration of foreign-born workers in this disparate set of industries would cause displacement is open to speculation.

raising the productivity of immobile inputs in the respective countries. This is tantamount to an outward shifting of the demand curve for resident labour as in Figure 3.

Table 5 yields several pieces of information. First, comparing rows 1 and 2 indicates that the impact of immigrants on Canadian-born employment is invariant to when the immigrants entered. Thus, if post-1990 temporary immigrants reflect the skill composition of post-1986 permanent immigrants and enter these 59 foreign-born-intensive industries, we can conclude that every one percent rise in temporary workers will lead to two-thirds of one percent decline (-.67) in Canadian-born employment.¹¹ Given the above results, the actual degree of displacement between Canadian-born and foreign-born workers can be calculated for this subset of 59 foreign-born-intensive industries. For example, in the meat and poultry, clothing, and university industry groups, the absolute marginal displacement of Canadian-born workers for each one percent rise in their immigrant labour force is respectively, 214, 582, 268 Canadian-born.¹²

In addition to labour displacement, temporary immigration can lead to higher or lower wages for the resident labour force as depicted in Figures 1 and 2 respectively. We now turn to the econometric evidence in order to sort through these wage outcomes.

Laryea (1997) shows that permanent immigration to Canada circa 1991 had a positive impact on the wages of Canadians. The estimated wage elasticities suggest that a 1% increase in the overall share of foreign-born labour results in a 1.1%, 1.3% and 1.4% increase in wages for all Canadians, Canadian males and Canadian females respectively. However, when the data was disaggregated by industry, wage suppression was detected in the primary, transportation and storage, and retail and wholesale trade industries. The elasticities ranged from a low of 0.6% in the primary industries for the female sample, to a high of 5.9% in the transportation and storage industries for the male sample.

Again we tentatively conclude that if temporary workers to this industry have the same occupational distributions as the permanent workers, then wage compression would appear in the primary, transport and trade sectors. In sum, based upon current econometric evidence, a wide range of industries face either labour displacement (59 industries) or wage depression (3

¹¹ Also, capital is still not a significant complementary input to either recent or earlier immigrants. Finally, old and more recent immigrants are not substitutes for one another.

¹² Clearly, the degree of displacement depends directly upon the labour-intensive nature of the industry and the absolute number of Canadian-born workers in the industry. In general, across the pre-selected 59

major sectors) from an increase in temporary workers, which mirror the characteristics of permanent immigrant inflow circa 1990 to these industries.

IV. Public Finance Effects

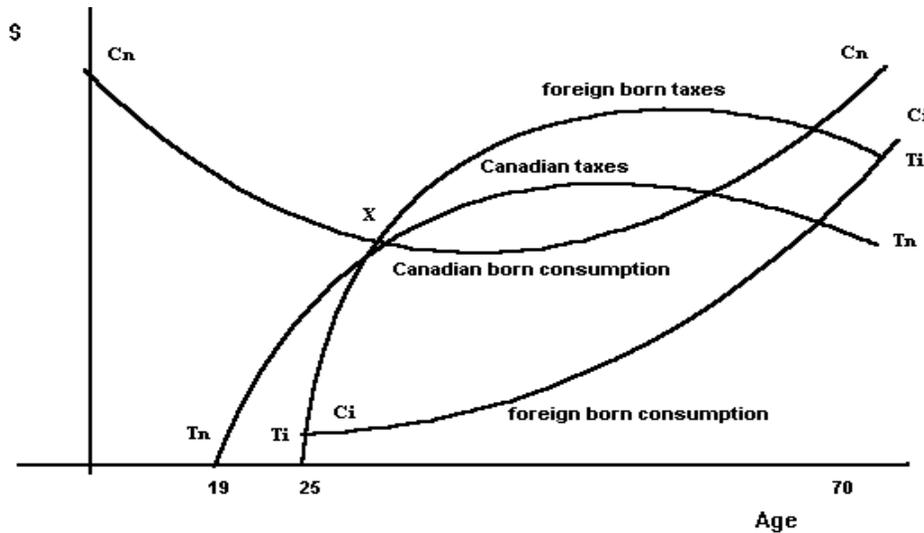
The above analysis and the associated research questions focused solely on labour market outcomes. The impact of temporary immigrants on public finance issues must be explored to complete the analysis and answer the question: Does temporary immigration benefit the Canadian taxpayers? This analysis will also allow us to address the subsidiary issue of the substitutability of temporary versus permanent immigrants.

J. Simon (1984) argued that the only case for (or against) permanent (or temporary) immigration arose from the answer to the following public finance question: Are immigrants net contributors to the treasury? If the foreign-born simultaneously consumed less public services and paid more taxes than the native-born population, then immigrants subsidize the resident Canadian population. Under this condition, both Simon's rule and the Berry and Soligo criterion are met, and more temporary immigrants are welfare improving.

Figure 3 depicts the normally argued life-cycle nature of public goods consumption and associated tax payments relative to the native-born.

industries, a one percent rise in foreign-born labour would have reduced Canadian-born employment circa 1990 by 2,543 workers.

Figure 3: Life-Cycle Public Finance Experiences for Canadians and Foreign-born



The life cycle of the two populations—foreign-born and Canadian—determines whether there exists a net transfer from the foreign-born population to the Canadian. In the case depicted above, the outcome is clear—the foreign-born pay more in taxes than they use in public services as they enter Canada at a prime income-producing period (after age 20). Moreover, the foreign-born consume moderate amounts of public services until late in life. Hence, the positive public finance transfer.

In the case of temporary immigration, the outcome depends on skill level and earnings of the temporary movers. Thus, Simon's public finance criterion for immigrant entry may not be satisfied with temporary migration. From a public finance viewpoint, therefore, no clear case, for or against, can be made for temporary immigrants from a public finance calculation.

V. Conclusions

In sum, if we invoke two stringent criteria for temporary immigrant entry—the DeVoretz and Simon criteria—several results emerge. First, temporary movement into the agricultural

and unskilled service sectors are welfare improving for Canadians. Next, the case for welfare improvement in the manufacturing sectors with the admission of temporary workers is mixed. In over 66 major industries, temporary workers with similar characteristics as their permanent counterparts would either lower resident wages or displace Canadian workers.

Finally, from a public finance criterion, skilled or highly skilled temporary immigrants would be welfare improving for the Canadian taxpayer, but unskilled temporary workers may not meet this criterion.

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