

Title: Temporary Foreign Workers and Regional Labour Market Disparities in Canada.

Author(s): Dominique M. Gross and Nicolas Schmitt

Contact addresses & emails: Dominique M. Gross, Graduate Public Policy Program, Simon Fraser University, Harbour Centre, 515 West Hastings St., Vancouver, BC, V6B 5K3, dgross@sfu.ca
Nicolas Schmitt, Department of Economics, Simon Fraser University, 8888 University Drive, Burnaby, BC, V5A 1S6, schmitt@sfu.ca

WP Number: 09-05

Research Question: Do temporary foreign workers have an impact on the Canadian labour market? Specifically, has the TFW program adversely affected labour market prospects for long-term residents by maintaining a wide distribution of unemployment rates across provinces?

Importance: One often cited advantage of temporary foreign worker (TFW) programs is that they allow employers to fill excess demand in low unemployment areas without too long delays at the going wage, thereby avoiding the risk of slowing down economic growth. At the same time, adjustment in wages across regions is seen as an efficient way to allocate labour and regulate labour market imbalances spatially. Canada has always experienced high unemployment variations across provinces and factors such as EI characteristics, provincial minimum wages or social spending have been identified as contributors to these differences. However, in recent years, Canada has experienced a particularly prosperous period and yet there has been little change in relative unemployment rates across provinces. At the same time, the TFW program underwent substantial changes such as its extension to low-skill workers and a continuous relaxation of hiring conditions for employers. The implications of expanding the TFW program is then a trade off between avoiding a slowdown in some local economies and preventing wage adjustment that stimulate inter provincial mobility and convergence of unemployment rates.

Research Findings: The main result of the paper is that the recent extension of the TFW program to low-skilled individuals has indeed had detrimental effects on the spatial adjustments of labour markets in Canada. The inter-provincial adjustment mechanism through wage and mobility has been slowed down by the expansion of the temporary foreign worker program to unskilled occupations in 2002 and the more relaxed hiring rules. Hence, the policy change has had a long-term impact on the labour market perspective of resident workers

Implications: The TFW program is accompanied by a labour market test, but clearly the costs imposed on employers through the conditions for obtaining an LMO have not been high enough to encourage them to attract workers from high unemployment provinces before applying for authorisation to hire temporary foreign workers. A higher cost for access to TFWs such as a higher application fee would have decreased the discrepancies in provincial unemployment. Some countries like Singapore do have fee for use policies for TFWs to avoid long-term adverse effects on the national market.