

**A Canadian Evaluation Model for  
Unskilled Temporary Immigration**

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by

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**NOT TO BE QUOTED**

## I. Background:

Given Canada's current and future commitments to mobility provisions in various trade agreements (NAFTA, GATSS), a need to define a Canadian assessment model for unskilled temporary immigration is long overdue. NAFTA mobility provisions for highly skilled workers have taught us that caution is needed in predicting and evaluating the potential economic benefits from seemingly innocuous mobility provisions. In addition, there exist several temporary worker models for unskilled inflows around the world that suggest caution. Japan, Malaysia, the United States, and Israel all permit unskilled temporary inflows, and their experiences can direct Canada's critical thinking in this area.<sup>1</sup> In particular, Canada's current temporary worker model for the unskilled, while limited in numbers and scope, appears to be well served from a management viewpoint.<sup>2</sup> In other words, available evidence suggests that management problems such as disappearance, workers' rights, etc. as reported in Israel, Germany and the United States are not critical weaknesses of Canada's unskilled temporary worker program. However, efficient management alone should not be the sole objective of Canada's temporary worker program. Several broader economic goals must be met.

It has been argued elsewhere that the Rawlsian goal of maximizing economic gain to resident Canadians without reducing the welfare of the bottom fifth of Canadian society is one possible evaluation framework for an unskilled temporary worker program.<sup>3</sup> Given this

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<sup>1</sup> See, B. Lindsay Lowell, *Skilled Temporary and Permanent Immigrants in the United States*, RIIM Special Series, 99-S2; Thomas Straubhaar, *Temporary Workers: Some Evidence from Selected European Countries*, RIIM Special Series, 99-S3; Don DeVoretz, *Malaysian Immigration Issues: An Economic Perspective*, RIIM Special Series, 99-S4, and Zeev Rosenhek, *Migration Regimes, Intra-state Conflicts and the Politics of Exclusion and Inclusion: Migrant Workers in the Israeli Welfare State*, RIIM Special Series 99-S5

<sup>2</sup> See, David Greenhill and Jorge Aceytuno, *Managed Migration and the Seasonal Agricultural Worker Program*, RIIM Special Series 00-S7; and Bradley Pascoeg and Beverly Davis, *Canada's Temporary Foreign Worker Program: A New Design*, RIIM Special Series, 00-S8.

<sup>3</sup> See Don DeVoretz, *Temporary Canadian Migration: Quo Vadis?* RIIM Special Series, 99-S9. In this context it is argued that any immigration policy that increases the welfare of the resident Canadian population while not harming the lowest income group satisfies the Rawlsian criterion.

Rawlsian framework, it is still necessary to isolate the economic components of this general welfare principle, which could be affected by an increase in unskilled temporary immigrants.

The positive or negative impacts of immigrants in the labour market and on the treasury are often cited as welfare-assessment criteria to insure a positive Rawlsian outcome. In particular, the labour market outcomes of resident Canadians can be enhanced or harmed by the influx of unskilled temporary workers from either wage compression or growth and job displacement or creation. In Canada's public finance sector, temporary immigration can enhance the tax base and lead to a treasury gain depending upon the temporary immigrant's demand for public monetized services. In turn, the exact public finance outcome – gain or drain – depends on the temporary worker's stage in the life cycle as well as eligibility requirements for social programs.<sup>4</sup> Thus, economic theory as well as an analysis of cross-country comparative experiences must be scrutinized to model Canada's temporary unskilled immigration program in order to realize the Rawlsian goal of conditioned maximum net benefit to residents Canadians.

## **II. A Canadian Economic Model of Temporary Movers**

Current memoranda of understanding (MOU) reflect the myopic managerial model that has served Canada well in the past with its limited non-permanent foreign worker programs.<sup>5</sup> These memoranda reflect the apparent policy imperative of setting standards and conditions in the relevant labour markets. For example, floor wages (minimum wages), housing standards, food provision and maximum deductions for employer-provided benefits are all incorporated in these employer-state MOU conditions. These conditions in turn are presumed operational equivalents to insulating Canadian residents from wage or (un)employment effects and mitigating any impacts on the publicly financed health and social benefits package. However, two crucial questions are raised in this managerial approach. First: What is the optimum

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<sup>4</sup> See Don DeVoretz and Yunus Ozsomer, *Immigrants and Public Finance Transfers: Vancouver, Toronto and Montreal*, RIIM Working Paper Series, 99-06.

<sup>5</sup> These would include the seasonal agricultural, live-in caregiver and student visa programs. The latter visa, with respect to graduate students, allows controlled and limited entry into the university labour market with no mobility rights.

number of temporary immigrants in any sector or industry? Clearly, if all resident Canadians had a reservation wage that exceeded the minimum wage then that sector would consist of 100 percent temporary workers. In effect, Canadian residents under the current MOUs have been displaced from the labour force if their reservation wage exceeds the minimum wage. The second question asks: Why should domestic unskilled wage rates be compressed to the minimum wages under a MOU without any compensation to the affected domestic worker? If either labour displacement or wage compression occurs as a consequence of Canada's current or proposed temporary immigration program, then this clearly violates the Rawlsian-DeVoretz policy imperative that any gain from a temporary migrant policy must not impose costs on Canadians in the lower portion of the income distribution. Thus, there is a fundamental flaw in Canada's current temporary worker migrant program, which must be corrected.

The market offers an alternative to the current temporary migrant program that violates the Rawlsian-DeVoretz policy imperative. An auction market should be legally created to protect the value of Canadian jobs that are offered to foreigners on a temporary basis. Under the current management system, three of the four agents in the temporary worker market – the Canadian employer, a broker (if he exists) and the foreign worker – clearly gain under the current management system. In the case of the Canadian employer, s/he gains when a temporary migrant arrives in Canada if a Canadian worker is unavailable at the prevailing wage in the domestic labour market. In addition, the Canadian employer potentially gains from the presence of a foreign temporary worker if the prevailing wage is reduced as the labour supply increases. The foreign temporary worker gains if there exists a net difference between the world unskilled wage and the Canadian minimum wage. Finally, the broker (if he exists) earns rent from either (or both) the foreign worker and Canadian employer. Thus, if the transaction occurs, and a foreign worker arrives, then these three agents, employer, broker and foreign worker, all potentially gain at the expense of the Canadian worker.<sup>6</sup> The wage loss incurred by the Canadian worker equals the difference between his (her) marginal product and the minimum wage paid to a temporary migrant worker.

How is the only potential loser – resident unskilled labour – in the temporary migrant

transaction to be compensated? How large should this compensation be, and how many Canadian unskilled resident workers should be compensated? Furthermore, how many unskilled temporary workers should be admitted and in what occupations or industries? These are complex questions, which existing management agreements attempt to answer in an ad hoc way by proposing an orderly management system under existing MOUs. However, the market offers an alternative method to yield internally consistent answers to these questions.

In short, an auction market will provide the answers to these questions. I present a stylized version of an auction model below to point to both the equity and efficiency gains under this regime versus the inefficiency and inequity inherent in the contemplated Canadian model as depicted in the existing MOUs.

Under the Canadian auction scheme, all previously employed unskilled Canadian resident workers will be issued by Revenue Canada, as part of their tax statement, a voucher that entitles them to auction off the job(s) at which they worked in the preceding year to an approved list of foreign workers. This offer would be placed on the Temporary Hiring Unskilled Monster Board or THUMB.org on the Internet. The actual conditions of the auction – legal statements, any bonding or vetting – would be under the control of Revenue Canada. A small processing fee would be charged to the person who places the offer. Any potential broker or foreign worker would also pay a fee to Revenue Canada to use the service. These fees would be adjusted to insure that a cost-free (to the Canadian taxpayer) and orderly market appears. The fee should be set to provide an actuarially sound insurance fund to compensate for any malfeasance arising from fraud on the board and to insure validation of both job offers and the bona fides of the foreign bidder. Furthermore, full information on terms and conditions of successful auctions will be supplied daily to any registered Canadian who has a job offer on THUMB.org. This information will consist of the terms of successful auction transactions, i.e. number of hours sold, where, when and what industry and at what price. Thus, a Canadian unskilled worker can re-offer his voucher daily if there has been no previous taker or remove it from THUMB and continue to work if the offers fall below his

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<sup>6</sup> This condition holds if, and only if, the resident Canadian worker would have worked at some wage above the minimum wage and below the marginal product of that worker.

reservation price. Given that the voucher is only valid for a maximum of 365 days annually, the value of the voucher will fluctuate over a calendar year if the offered job is seasonal and as the number of calendar days declines. This possible rise (or fall) in the voucher price will possibly cause a futures market in vouchers to appear. For example, brokers could buy vouchers early in the calendar year and these brokers could then assume all the downside risk as they search the world for temporary foreign workers. The optimum solution on Thumb.org should arise daily as both forward and spot contracts appear under various job matches.

Even given this sophisticated auction market, short-run disequilibrium could still arise. For example, what if there are mismatches in the offer-bid process between foreign workers and individual Canadian unskilled voucher holders? Under these conditions, a secondary market would arise in which Canadian firms could buy vouchers from unskilled Canadians and re-offer them at a discount or premium to foreign workers for the terms and conditions that were originally negotiated by the Canadian firm and Canadian unskilled worker. If no transaction takes place either between individuals – potential foreign migrants and Canadian voucher holders – then a longer-run optimal solution arises. Continued short-run disequilibrium, i.e. inadequate foreign migrants, will lead the Canadian firm to relocate to where the foreign temporary worker resides. This result is a corner optimal solution when no temporary workers enter Canada.

In sum, this auction market will simultaneously provide a daily temporary wage rate for a specific job to a prospective temporary foreign worker, the yearly number of temporary visas offered (from zero to 100 percent) of all unskilled jobs previously held by Canadians and the location (in Canada or offshore) of the unskilled-intensive Canadian-owned firm.

What of industries or sectors that were previously 100 percent dependent on unskilled foreign temporary immigrants? An example might be services such as caregivers. Here the service firm cannot relocate abroad since the service provided by the unskilled temporary worker is tied to Canada. In this case, with no history of past unskilled Canadians in the job market, the auction market could still be used. The vouchers now would be issued to existing Canadian firms under the rationale that their low minimum wage rate had already diverted Canadian unskilled workers from this industry. Here a two-stage market would appear. The

first stage of the auction would be reserved for Canadian workers with a previous attachment to the labour market. The evidence for the latter would be a two-year old or less employment earnings stub or T-4 slip. In the first stage, the employer would offer a job and/or voucher to a Canadian in the form of an hourly wage and number of hours offered per year. The Canadian worker could either accept this job offer or buy the equivalent voucher from the firm and offer it on THUMB.org to a foreign temporary worker. This preserves the option value of the Canadian worker to take this previously unfilled job and/or usurp a portion of the rent that would normally accrue to an employer and or government in the case of a null labour market. If no offers are made by previously unemployed Canadian workers with attachment to the labour market, then the firm would lower its voucher price such that the net gain to the unemployed Canadian after the resale of the voucher to a foreigner is sufficient to induce a trade. In the extreme, the Canadian firm would pay the previously unemployed Canadian worker to take the voucher to complete the job match for the firm. In effect, the previously unemployed worker would act as a broker and search for the foreign worker with the prospect of earning a rent between the cost of the voucher and the lower contracted wage for the temporary foreign worker.

In sum, a temporary migrant worker voucher market conducted via a web-based job board would provide daily information on the price and number of temporary job offers. Moreover, in a world of free exchange, all agents gain. Employers, resident Canadian labour and foreign temporary workers would share in the efficiency gains. Thus, the Rawlsian-DeVoretz imperative of welfare improvement with no harm inflicted on the bottom fifth would be satisfied.

### **III. Issues**

In addition to satisfying the Rawlsian-DeVoretz welfare criterion, an ideal evaluation model for temporary migration must also address the following issues:

1. Types of Visas:
  - a) Optimal length of stay
  - b) Spousal sponsorship

- c) Minor sponsorship
  - d) Renewal from within or outside
- 2. Employment Authorization – Alternatives:
  - a) Individual or industry wide authorizations
  - b) Private firm issuance of authorization under an audit and bonded scheme
  - c) Government employment authorization with expedited service by fee class
- 3. Conversion Rights:
  - a) Mobility rights across firms, industries or broad occupational groups
  - b) Ascension to full mobility rights
  - c) Conversion rights from limited employment-earned benefits to generalized social benefits after an assessment period
  - d) Spousal working permits after an assessment period
  - e) Conversion to permanent immigrant status after an assessment period
- 4. Profile of economically ideal temporary migrant:
  - a) Age, marital status, gender and number of household members
  - b) Education or previous work experience
  - c) Language competency
  - d) Prior movement
  - e) Country/area of origin

Once each issue is settled by debate, the implied necessary side conditions arising from the resolution of these debates can be inserted in the contract or voucher offered in the auction market. As the conditions become more stringent, both the price of the voucher will rise and the number of temporary workers will decrease.