Immigration in Canada: A General Equilibrium Analysis

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Abstract

This paper uses a quantitative general equilibrium model to analyze the impacts of immigration on the earning, welfare, and college attainment of native Canadians. To evaluate Canada's unique immigration policy, which explicitly targets highly educated individuals, first I calibrate my model to 1981 data. Then I simulate the 2008 version of the model economy in which the relative size of the immigrant labor force is larger and the proportion of college graduates among immigrants is higher. Following this, I run counterfactual experiments to analyze the increase in the relative share of immigrants and the shift in their composition. My findings suggest that the shift in the composition of immigrants towards college graduates results in a 6% point lower college attainment rate among natives. The impact of the increase in the proportion of college-graduate immigrants on the college premium among natives amounts to a slight increase. This result is an outcome of higher ability natives being selected into college education in response to having more college-graduate immigrants in the country. The welfare impacts of immigration are analyzed for the highest, lowest, and median ability natives. An interesting result in this analysis is that the shift in the composition of immigrants towards college graduates benefits all three types, including the highest ability individual who is a college graduate. The reasons for this surplus accruing to natives are an increase in the wage earnings of both college graduates and those with less than college education as well as the decrease in the tax rates on labor income.