

# Economic Implications of Recent Changes to the Temporary Foreign Worker Program

Christopher Worswick

## Summary

- The policy changes to the Temporary Foreign Worker Program the federal government announced in mid-2013 make sense economically.
- There are ongoing concerns that temporary foreign workers may take jobs from young Canadians entering the labour market and lower-skilled Canadians.
- An annual cap on the number of temporary workers entering Canada should be implemented while additional reforms are considered.

## Sommaire

- Les modifications apportées au Programme des travailleurs étrangers temporaires, annoncées plus tôt cette année par Ottawa, sont justifiées du point de vue économique.
- Plusieurs craignent que l'embauche de travailleurs étrangers temporaires se fasse au détriment de jeunes Canadiens arrivant sur le marché du travail et de Canadiens peu qualifiés.
- Tandis qu'on examine d'autres pistes de réforme, il faudrait appliquer un plafond annuel au nombre de travailleurs temporaires qui entrent au Canada.

## The Temporary Foreign Worker Program under Scrutiny

IN LIGHT OF CANADIANS' HISTORICALLY STRONG support for immigration, it seems natural to think that this same openness should be extended to temporary foreign workers (TFWs). This, combined with the difficulties many firms can have finding suitable employees at the going wage rate, means that bringing in temporary foreign workers has the potential to be a win-win situation, benefiting the TFWs and the Canadian economy. However, considering the large global pool of less-skilled workers, many of whom might willingly come to Canada to find work, increasing flows of TFWs could have significant negative consequences for less-skilled Canadian workers.<sup>1</sup> In a nutshell, the economics of TFWs are not clear-cut.

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Recently, the federal Temporary Foreign Worker Program has come under scrutiny due to the controversial TFW hiring practices of certain Canadian employers. In December 2012, it was reported that the federal government had given HD Mining, a Chinese-controlled company, permission to hire 200 TFWs to work at its Murray River mine, near Tumbler, BC. It was also reported that BC Federation of Labour officials had seen documents indicating that over the ensuing four years, no Canadians would be hired at the mine and that it would be 15 years before TFWs were finished working there.<sup>2</sup> Naturally, the fact that the transition period to hiring Canadians was to be of such long duration raises two questions. The first is whether the company had truly made a good-faith effort to find Canadian workers. The second is whether HD Mining, in effect, wanted to create a foreign plant in Canada. In addition, media reports included allegations, which HD Mining denied, that the company required workers to speak Mandarin.

In April 2013, the spotlight was once again on the hiring of TFWs. Media reports stated that the Royal Bank of Canada (RBC) had laid off 45 employees, while apparently outsourcing the same work to foreign nationals employed by a consulting company, iGate.<sup>3</sup> The question naturally arose as to whether iGate was bringing in these TFWs to provide the same services to RBC at a lower cost. If so, this would appear to be inconsistent with the Temporary Foreign Worker Program rules, which clearly state that Canadian employers are only allowed to hire a TFW after advertising in Canada at the going wage rate. If iGate had advertised the work at the going wage rate, it is unclear why the laid-off RBC workers would not have applied and been hired.

Not long after these controversies, and as part of its broad and ongoing review of the program,<sup>4</sup> the federal government announced major changes.<sup>5</sup> First, employers will no longer be able to hire workers at wages of up to 15 percent below the level determined as part of the Labour Market Opinion (LMO)<sup>6</sup> as the normal wage for this type of job in a particular location in Canada. Second, the Accelerated Labour Market Opinion Process was suspended. Third, questions were added to employer LMO application forms to ensure that Canadian jobs were not outsourced to TFWs. Fourth, employers were required to present a “firm” plan for replacing their TFWs with Canadian workers over time. Fifth, the federal government introduced a per-TFW fee, to be paid by firms hiring temporary foreign workers, which is intended to cover its administrative costs. Sixth, it introduced a new provision that stated that no languages other than English and French can be listed as TFW job requirements. Finally, the government increased its authority to suspend employers who misuse the program from acquiring future TFW permits and LMOs.

On August 7, 2013, a number of these changes were implemented, including a processing fee of \$275 that an employer must pay for each TFW position requested through an LMO.<sup>7</sup> The language requirements, described above, were implemented with exceptions for cases where a different language is a clear job requirement (such as a foreign-language instructor). Finally, more extensive job advertising requirements were implemented to ensure employers adequately searched for Canadian workers before being granted permission to hire a TFW.

The focus of this paper is on these recent adjustments to the program. I critically evaluate four of these changes from economic and labour market perspectives: the elimination of the 15 percent wage rule; the introduction of a fee per TFW; the language requirements; and the potential exclusion of some employers from the program. To provide context, I first discuss the recent growth in the number of temporary foreign workers entering Canada, particularly since 2000, and then examine how the Temporary Foreign Worker Program might fit into the neoclassical model of a modern economy.

## Growth in the Number of Temporary Foreign Workers in Canada

THE SIGNIFICANT EXPANSION IN THE NUMBER of temporary foreign workers arriving in Canada is well documented,<sup>8</sup> but this has only recently emerged in public debates. In contrast to permanent immigration, there is no yearly limit or target for the number of TFWs admitted. Table 1 shows that

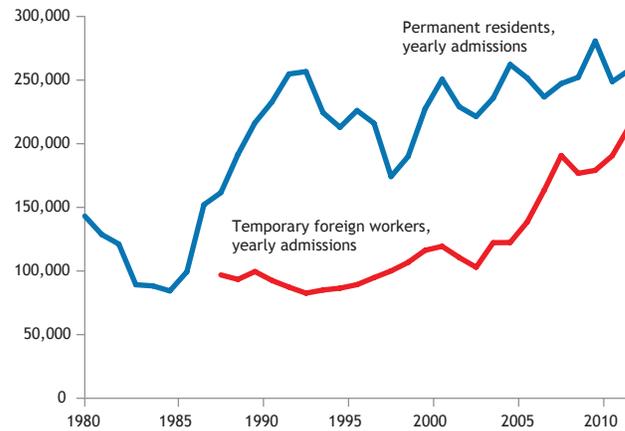
**TABLE 1.**  
Admissions of permanent residents and temporary foreign workers to Canada, selected years, 1980-2012

	Permanent residents	Temporary foreign workers
1980	143,141	—
1985	84,343	—
1990	216,452	99,572
1995	212,865	86,491
2000	227,456	116,250
2005	262,242	122,365
2010	280,689	179,075
2011	248,748	190,568
2012	257,887	213,573

Source: Citizenship and Immigration Canada (CIC), *Facts and Figures*, 2006 and 2012.

**FIGURE 1.**  
**Admissions of permanent residents and temporary foreign workers to Canada, selected years, 1980-2012**

Source: CIC, *Facts and Figures*, 2006 and 2012.



annual admissions of TFWs increased from 86,491 in 1995 to 213,573 in 2012. The table also shows that permanent immigration varied from 216,865 in 1990 to 257,887 in 2012.<sup>9</sup> Figure 1 shows admissions of TFWs relative to admissions of permanent residents since 1980. The TFW line is fairly flat over the 1990s but is steeper than the landed immigrants' line in the post-2000 period. This increased emphasis on TFWs has been driven, in part, by the federal government's conscious decision to help firms that face difficulties finding Canadian workers to fill certain types of jobs. This is understandable. But previous Canadian governments presumably faced the same pressures and, with few exceptions, expected permanent immigration and market adjustments to wages to ensure an adequate supply of these types of workers.

Table 2 demonstrates the high degree of heterogeneity within the TFW inflow. It is important to note that at least part of the recent increase in TFWs admitted is driven by international agreements, such as the North American Free Trade Agreement. In addition, a growing number of young workers are engaging in world travel and seeking work, for at least part of the time, while doing so. Of the 213,441 TFWs who entered Canada in 2012, 132,821 did not require an LMO; even within the group requiring an LMO, there is considerable variation in skill level. Because of their reciprocal nature, these agreements also benefit young Canadians, who gain valuable international work experience early in their careers.

**TABLE 2.**  
**Entries of temporary foreign workers**  
**to Canada, 2012**

	Number of entries	Proportion of total entries (%)
<b>TFW entries with Labour Market Opinions (LMO)</b>	<b>80,615</b>	<b>38</b>
High skill (NOC <sup>1</sup> 0, A, B)	28,150	13
Low skill (NOC C, D)	51,940	24
<i>Live-In Caregiver Program</i>	6,240	3
<i>Seasonal Agricultural Worker Program</i>	25,415	12
<i>Other low-skilled</i>	20,285	9
<b>TFW entries without LMOs</b>	<b>132,960</b>	<b>62</b>
Free trade agreements	24,485	11
Provincial/territorial agreements	4,350	2
Canadian interests	102,120	48
<i>International Experience Canada</i>	59,070	28
<i>Spouses of skilled workers/international students</i>	12,245	6
<i>Research, educational or training</i>	11,305	5
<i>Intracompany transfers</i>	7,240	3
<i>Others</i>	12,260	5
Permanent residence applicants in Canada	1,705	1
Others	300	0
<b>Total TFW entries</b>	<b>213,575</b>	<b>100</b>

Source: Adapted from data provided to the author by Citizenship and Immigration Canada, October 2 and 11, 2013.

Note: The total for TFW entries in this table is not the same as that in table 1 because the values in one of the tables provided by CIC were rounded to the nearest 5.

<sup>1</sup> National Occupational Classification.

## Temporary Foreign Workers and Immigration

PERMANENT IMMIGRATION SERVES OBJECTIVES SUCH AS population growth, demographic balance (bringing in young workers helps balance the age structure) and increased human capital. Support for recruiting TFWs typically relates to Canada's so-called skills shortages, particularly where firms face difficulties finding workers with the necessary skills or credentials. It is therefore worth thinking about how this might fit into a neoclassical model of a modern economy.<sup>10</sup>

When firms are unable to hire a particular type of worker at the market wage rate, it can be said that demand exceeds supply; this puts upward pressure on current wages. One could think of this as a situation where firms offer higher wages to induce workers to work for them as opposed to working for another employer. The other firms would also be expected to raise their wage offer. This upward movement of the wage rate will tend to reduce labour demand for

this type of worker, as some firms will want to hire fewer of these workers at the now higher wage (and likely hire other types of workers or invest more in capital instead); it will also increase the labour supply, as some of the workers in the economy with the skills needed may be willing to work at the now higher wage (perhaps older workers who have left the labour market and are now returning). Neoclassical theory predicts that this process should continue, with the wage rising until labour demand equals labour supply and the skill shortage no longer exists. In this context, it is unclear why the economy would need either permanent immigration or TFWs to solve the skills-shortage problem, since the wage adjustment should be sufficient.

Admitting a TFW is likely to be especially beneficial when the person will work in an occupation or industry that is facing a short-term increase in demand, and where either the longer-term prospects for demand are not great or most new workers entering the labour market do not have the necessary credentials to take up the job.

However, the wage increase needed to equalize the supply of workers and the demand for workers, in this particular market, could be large. If worker supply is not very responsive, firms may need to significantly reduce their demand for these workers. This could be the case for workers lacking a particular credential that is difficult to acquire quickly. It is even possible that firms might shut down operations if they are unable to find workers with the needed skills. This could have negative consequences for other workers with different types of skills who would otherwise be employed by the firm.

At first glance, there are strong similarities in the likely economic impacts of increased temporary migration and higher permanent immigration. Both increases would likely expand Canada's labour supply, meaning that more individuals would be prepared to take jobs for a given wage rate. In addition, both TFWs and immigrants would affect the Canadian economy in other ways, specifically in their purchasing of goods and services such as housing, clothing and food. Looking at the comparison more deeply, however, it is clear that important economic differences exist. First, the fact that TFWs' stay in Canada is intended to be short-term means that the benefits of their adaptation to the labour market (such as improved language fluency and social networks) are much less relevant than for immigrants. However, the TFWs are also less likely to be a drain on government resources: for example, they are unlikely to receive much in the way of settlement services, since they are not eligible for those funded by the federal government. They are also unlikely to receive government benefits such as social assistance if they are unable to maintain employment.

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educational credential that may not be available in Canada or where it may take a number of years before student enrolment patterns adjust to labour market trends. Nevertheless, it is important to note that filling these jobs with TFWs will eliminate the need to increase wage rates for these jobs. Consequently, the market signal of high wages in a particular occupational/educational field will not take place, thereby reducing the likelihood that young Canadians will train in these areas. Employers may thus become reliant on the TFWs.

In cases where there is no readily available supply of workers with the necessary credentials, however, a very large increase in the wage rate may be needed, in the short term, to induce workers with these credentials to enter the labour market. It may be that only retired workers can realistically respond to this market demand prior to, say, a change in enrolment patterns that eventually leads to the needed increase in supply. This is the sense in which a TFW program could be helpful in ensuring companies remain economically viable. Although immigrants with the relevant educational credentials could also fill this need, this longer-term commitment on the part of the receiving country is not needed. TFWs could provide the needed skills, while education programs, through changing enrolment patterns, prepare a future domestic supply of trained workers.

Our discussion has focused on so-called skills shortages, where workers with a particular skill or credentials are in high demand and the government uses a TFW program to meet that demand. It is also worth noting, however, that many TFWs are, in fact, relatively unskilled workers who come to take on the jobs that Canadians “do not want to do,” to quote a common expression. These jobs have traditionally included agricultural work, such as fruit picking, and other low-skilled jobs such as live-in caregiving and housekeeping in hotels. Once again, based on the neoclassical economic model, it is unclear why excess demand for workers would persist in these types of jobs in the absence of TFWs. The fact that firms would want to hire more workers than are currently willing to work at the going wage would lead to a bidding-up process, where these firms would offer higher wages to attract scarce workers. This would result in a movement of individuals into these jobs in response to the wage increase. But it would also lead to a decline in labour demand, as some firms may choose to not fill their vacancies, effectively reducing the number of workers they are willing to hire for this type of job. The latter effect could, once again, be fairly drastic for the industry. For example, without agricultural TFWs, many farming enterprises might not be economically viable if their owners needed to offer sufficiently high wages to induce Canadians to work for them. But, in the absence of the Temporary Foreign Worker Program, it is difficult to know how large these wage increases would need to be.

The risk that TFWs may take employment opportunities away from young Canadians should not be dismissed lightly. A large body of research has documented the difficulties that new labour-market entrants face when entering Canada's job market and how this has become increasingly challenging for more recent cohorts.<sup>11</sup> The kinds of jobs that are more and more likely to be filled by TFWs (such as less-skilled fast-food-industry jobs and hotel work) were traditionally first jobs for many young Canadians and/or supported them while they pursued post-secondary education. If employers are able to bring in TFWs rather than raising wages to induce young Canadians to take these jobs or perhaps move to regions where such jobs exist, this could mean that young Canadians may face even greater difficulties in becoming established in the labour market and accumulating the skills they need to move into higher-skilled occupations.

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The work ethic, as it pertains to the Temporary Foreign Worker Program is, in a sense, the elephant in the room. This is not explicitly addressed through the policy. However, based on interviews with employers, it seems central to employers' demands for TFWs and goes to the very issue of whether a TFW program makes sense. There are a very large number of low-income workers around the world who might rather live in a safe, affluent country such as Canada. Should they gain landed-immigrant status, they would also gain access to strong social programs and educational opportunities for their children. Given this, they would willingly come to Canada, and work harder and at potentially greater personal risk (say of injury) than would a similarly trained Canadian. Most employers would know this. And they may see an opportunity to gain extra profit by either advertising jobs at too low a wage (given the job requirements) or perhaps by being overly critical of Canadian applicants, so they could gain permission to hire a TFW who would be more productive. This is a classic moral-hazard problem on the part of the firm, since it is intentionally misleading the government by claiming to be open to hiring Canadians at the market wage, but instead taking actions (not observed by the government) that lead to unfilled positions and allow it to hire TFWs. Dealing with this moral-hazard problem is the greatest challenge regarding the Temporary Foreign Worker Program.

## Recent Changes to the Temporary Foreign Worker Program

IN CONSIDERING FOUR OF THE RECENT CHANGES that the federal government has made to the TFW applications program, I focus on the economic aspects of the reforms.

### The prevailing wage rate and the Labour Market Opinion process

Under the revised program, employers are no longer able to hire workers at wages up to 15 percent below the level determined as part of the ESDC Labour Market Opinion (LMO). That controversial rule, introduced in 2012,<sup>12</sup> allowed firms to hire a TFW after they had advertised for the job in Canada at a wage of up to 15 percent below what the government considered to be the going wage rate in the labour market, for that type of job, in that part of Canada.

The 2012 change was likely in response to concerns that ESDC may have overestimated the actual market wage rate. Given the challenges in determining exactly what the wage should be, in each region, for each occupation, one would expect some imprecision. If the estimate for a particular job came in lower than the wage at which the firm had advertised, then the firm would not have a reason to complain since it would have been allowed to hire a TFW. But if the estimate came in higher than the wage at which the firm had advertised, the government would tell the firm that it had advertised at too low a wage. This would upset the firm, because it would be prevented from hiring a TFW, even after it had perhaps advertised at the going wage rate.

In the scenario where the firm had acted in good faith, it would be understandable for the owners to be upset. But the government's response of allowing firms to hire TFWs even when the advertised wage had been up to 15 percent below the going wage rate (as estimated by ESDC) was an overreaction. It could also have led to a spiral down in wages in the affected labour markets, as David Green persuasively argued.<sup>13</sup>

The decision to eliminate the 15 percent rule was sensible. It is better for the government to be cautious, in the sense of too often turning down TFW requests, than to risk driving down wage rates over time by allowing firms who had advertised at too low a wage to bring in a TFW. A firm turned down for a TFW could respond by re-advertising the job at a higher wage – presumably the wage the LMO had indicated was appropriate for the job in that region. The position could be filled by a Canadian applicant or, if it were not, the firm could reapply for a TFW. In the latter case, given that the advertised wage would be higher during this second attempt at hiring a Canadian, the firm would likely have its TFW application approved.

### Employers' fees

In introducing a \$275 fee to be paid by firms hiring a temporary foreign worker, the federal government claims it is covering its administrative costs. Until recently, it did not charge firms when they applied to hire temporary foreign

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workers. This is unusual when you consider that governments often charge fees that are intended to recoup administrative costs. For example, each principal applicant under the Federal Skilled Worker Program must pay \$550, and the same amount for an accompanying spouse, as well as a \$150 charge for each accompanying child who is under 22 years of age, unmarried and not in a common-law relationship.<sup>14</sup> Given that preparing a Labour Market Opinion requires a certain amount of time, the federal government incurs a cost for each TFW application processed. Charging some form of fee therefore seems reasonable.

There are potentially some cases where no fee should be charged, and perhaps even some where firms should be subsidized to hire TFWs. This can occur where hiring a TFW yields benefits not only to the employer and the TFW, but also to other Canadians in what economists call a “positive externality.” This seems unlikely to occur, however, and one would need to find compelling evidence of a strong positive externality before such a move should be considered.

More realistically, there are reasons to believe that a firm’s decision to hire a TFW may involve negative externalities.<sup>15</sup> Economists generally argue that the costs and benefits of hiring TFWs are borne by the employers and the TFWs themselves. If the labour market is large enough, the decision to hire a particular TFW has no significant impact on other agents in the economy.

Although the academic literature on TFWs does not shed much light on these issues, a negative externality may result from hiring TFWs. This would occur in cases where jobs would otherwise have gone to low-wage, relatively less-skilled individuals, and when not hiring these individuals could lead them to end up on either employment insurance or social assistance. This would be a net drain on government finances and have a negative impact on other individuals in the economy. In this instance, it would make sense to charge the firm wishing to hire a TFW a fee that is actually greater than the administrative cost of processing the application. This would help to align the firm’s private incentive in the decision to hire a TFW with the public interest (which includes both the benefit to the firm and the cost of increased benefits being paid out to unemployed Canadians). There does not appear to be any research on this topic; this would be needed before the government could decide how high a fee it should charge. Nevertheless, the evidence seems to indicate that the fee should be at least as high as the administrative costs and perhaps higher.

The TFW fee could be used as a way to determine how reliant the firms are on TFWs. One could imagine a fee structure where the fee rises with the number of TFWs hired, in a given year, and with the number of years for which an

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employer hires TFWs. This would send employers the message that they should seek medium-term alternatives to hiring TFWs. It would also, perhaps, create an incentive for firms to either train Canadian workers or invest in new technologies that raise workers' productivity to the level where firms can reasonably operate while paying the higher wage that would be needed in the absence of TFWs.

### Language requirements

The federal government has recently stipulated that no languages other than English and French can be listed as requirements for a temporary-foreign-worker job, except in rare circumstances. The controversy over the HD Mining decision to employ only TFWs from China highlights the inherent risk of employers being able to advertise for workers with language skills other than English or French. This issue has received very little attention in the academic literature.

At first glance, it would seem strange to restrict the capacity for firms to define a job ad in a way that makes the most sense for their productive goals and processes. Take the example of an employer offering language training who needs to employ someone who can teach in a relatively obscure (in Canada) language. If this employer has advertised without success, among Canadians for someone with this skill at the going wage rate for an extended period of time, then it seems logical to allow it to hire a TFW for that position. Otherwise, the language-instruction service might not be economically viable within Canada. This would make the Canadians wanting/needing these services worse off. In that type of situation, advertising a TFW position with a language requirement other than English and French should be allowed.

The more controversial situation arises when a company, based in Canada but owned by foreign nationals, wants to hire a TFW who is fluent in a language other than English or French because it wants the home-country language to be the workplace language. Once again, at first glance and on economic grounds, it is not clear why one would want to restrict this activity. However, it is also unclear why the firm would not, instead, want to have the Canadian workplace operate in the dominant language of the local labour market (likely either English or French).

The underlying reason may relate to work effort and work ethic. Some employers note<sup>16</sup> that Canadian workers do not work as hard or are not as reliable as TFWs. It may be that the foreign operation is trying to artificially create an economic environment where it can use the language requirement to

justify hiring TFWs, not because it needs to operate in the foreign language, but because this requirement allows it to bring in TFWs, from its home country, who are more motivated to work hard and show up reliably than are the Canadian workers in the local labour market. This is plausible given the fact that the TFWs may be leaving very low-wage, international labour markets to come to a relatively high-wage one and may have a strong incentive to work hard in order to not be sent back home. In contrast, the local Canadian workers in these jobs may be paid wages that are low by Canadian standards and that may not be a lot higher than what they might receive in other jobs, or while receiving government benefits (such as employment insurance or social assistance).

Such potential abuse of the program constitutes justification for the new language requirements. Exceptions are needed for jobs in particular areas such as language training. But, in general, allowing firms operating in Canada to require language fluency in languages other than English or French risks exacerbating this moral-hazard problem. In particular, it would make it easier for firms to bring in TFWs who may tolerate breaches of the firm's obligations because they need to keep the jobs. These abuses could take the form of wage payments that are less than the agreed-upon rate, unsafe work conditions and unsafe housing conditions.<sup>17</sup>

### Suspending employers who misuse the program

The final change is the federal government's decision to increase its authority to suspend employers who misuse the program from acquiring future work permits and LMOs. As is well documented in the literature,<sup>18</sup> there are clear concerns that employers may improperly use the Temporary Foreign Worker Program. This could entail bringing in TFWs after laying off higher-paid Canadian workers. But it more often relates to employers who do not meet their commitments under the program to TFWs they hire. One of the challenges faced by the federal government is how to both police employer behaviour and punish employers who do not honour their commitments. Improvement is needed on both fronts and must be factored into the program's administrative costs. If the monitoring costs prove too high, then it may be necessary to end the program. But, if the federal government can adequately monitor employers' behaviour and pass these monitoring costs on to the employers in the form of administrative fees, then it is possible to have a TFW program that can benefit Canada while protecting TFWs. It should be noted that the federal government does not have full responsibility over employment and other related conditions TFWs face. Matters such as workplace safety and alleged discrimination are governed, to a significant degree, by provincial legislation and regulation.<sup>19</sup>

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It is important to recognize that TFWs are in a vulnerable situation, likely much more than Canadian-born workers are. If they arrive in Canada and face an abusive employer, they could choose to report it to the authorities. But this would likely lead to an end to their employment and a return to their home country. If the wage earned is much higher than what they would receive in their home country, then they might be prepared to tolerate an employer's inappropriate behaviour, since the net benefit to them is still high. This will especially be the case in situations where the TFW's ultimate goal is to gain landed-immigrant status through the Federal Skilled Worker Program, the Canadian Experience Class or a Provincial Nominee Program.<sup>20</sup> Although two-step (temporary to permanent) immigration makes sense in a number of ways, it also has an unintended consequence. The possibility of transitioning from being a TFW to being a landed immigrant increases the potential benefit to a TFW of having a job in Canada. Employers are likely to realize this, and an unethical employer could use this added leverage to his/her advantage (perhaps by requiring unpaid work from the TFW).

The decision to exclude employers who break the Temporary Foreign Worker Program's rules is definitely a step in the right direction. Employers who anticipate needing TFWs again in future years will worry about losing access to the program in those years. This should create a strong incentive for them to follow the revised program rules.

## Should Canada Have a Temporary Foreign Worker Program?

IN SPITE OF THE CONCERNS RAISED ABOVE, there is reason to believe that a limited, tightly monitored TFW program can be beneficial to Canada. The benefits are likely greatest in cases where firms need to hire highly skilled workers. In addition, the two-step immigration approach, where individuals come to Canada as TFWs, demonstrate that they are able to work and support themselves for a period of time, and then apply for landed-immigrant status, is an effective method of selection for a share of landed immigrants. Consequently, a limited TFW program is likely beneficial to Canada's overall immigration program.

The growth in the TFW numbers is a cause for concern, and its timing, which coincides with a weakness in the Canadian economy, is especially troubling. The introduction of a cap on the total number of TFWs admitted yearly would be prudent, so that the federal government could step back and re-evaluate

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whether a continued expansion of the program is warranted. In addition, the program should continue to be adapted so that it is flexible enough to help employers who have a genuine need to bring in foreign workers, but at the same time is sufficiently stringent and costly to ensure that employers who do not have a pressing need to hire TFWs choose instead to offer higher wages to attract Canadian workers.

This is not an easy balance to achieve in practice, but the movement towards charging TFW application processing fees to employers makes sense. However, it is crucial that we also factor TFWs' welfare into the equation. Although the current program no doubt personally benefits many temporary foreign workers, we cannot allow a program to continue where abusive employers repeatedly bring TFWs into Canada without incurring consequences for their actions. The new capacity for the federal government to bar employers who do not respect the rules from bringing in further TFWs is a step in the right direction. But improved monitoring of TFWs' working conditions is also needed. This monitoring should be factored into the program's administrative costs and be covered by employers' application fees. An added complication is the fact that responsibility for workplace monitoring normally falls to provincial governments, which will not receive a share of the federal TFW fee or be able to charge one of their own. Consequently, coordination between the federal and provincial governments is needed.

## Conclusions and Policy Recommendations

I HAVE REVIEWED FOUR OF THE RECENT CHANGES to the Temporary Foreign Worker Program and critically evaluated them from an economic perspective. First, the elimination of the so-called 15 percent rule, which allowed employers to hire TFWs at wages of up to 15 percent below the Labour Market Opinion of a job's going wage rate, is a definite improvement. Leaving the rule in place would likely have led to a downward pressure on wages in Canada and could have led to an ever-growing demand, on the part of firms, to hire TFWs.

The introduction of an application fee for firms that hire TFWs is also a sensible policy that can be justified on the grounds that the government needs to recover the administrative cost of running the program. However, if hiring TFWs pushes some Canadians who would otherwise have been employed onto government income support programs, this will create a negative externality. In this instance, it makes sense to recover at least part of the overall public costs through a fee. The size of the per-TFW fee could also be increased to reflect

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both the number of TFWs hired in a given year and the number of years the firm has hired TFWs, in a way similar to the experience rating of firms under an unemployment insurance system. This would send a strong signal that firms should not become reliant on TFWs and should instead hire and possibly train Canadians to replace the TFWs in the future.

The decision to require that only English or French be language requirements for TFW jobs (except in rare circumstances) is also a sensible change. The risk that employers could use other language requirements as a way of artificially creating a job vacancy that cannot be filled by Canadians, thus allowing the firm to bring in TFWs who may work in less safe work conditions than would Canadians, is enough to justify this restriction on employers' hiring practices.

Finally, the government's decision to potentially exclude some employers from continued participation in the Temporary Foreign Worker Program is a sensible one. The abuse of the program, by at least a minority of employers, is well documented.<sup>21</sup> The federal government needs to find a way to both punish transgressions and to create an incentive for employers wanting to continue to hire TFWs to abide by the program's regulations and their contractual obligations.

In summary, the recent policy changes to the Temporary Foreign Worker Program are consistent with what economic analysis would suggest for a program of this kind. However, further reforms are needed. As part of that process, a cap on the total number of TFWs permitted to enter Canada each year should be implemented to ensure the program does not grow too large while additional reforms are considered.

## Notes

1. Throughout this paper, when reference is made to Canadians, this should be interpreted as Canadian citizens and landed immigrants, since the main distinction of interest is between temporary residents and nontemporary residents, with the latter comprising both Canadian citizens and landed immigrants.
2. “B.C. Mine to Hire Only Chinese Temporary Workers for Years,” CBC News, December 12, 2012, <http://www.cbc.ca/news/canada/british-columbia/story/2012/12/12/bc-chinese-miners-documents.html>.
3. M. Barad, “RBC Criticized on Social Media over Foreign-Worker Outsourcing,” *Globe and Mail*, April 8, 2013, <http://www.theglobeandmail.com/report-on-business/top-business-stories/rbc-criticized-on-social-media-over-foreign-worker-outsourcing/article10840849.html>.
4. The federal government has carried out an evaluation of the Labour Market Opinion streams of the Temporary Foreign Worker Program. See Human Resources and Skills Development Canada (now Employment and Social Development Canada, or ESDC), Citizenship and Immigration Canada, and Canada Border Services Agency, *Evaluation of the Labour Market Opinion Streams of the Temporary Foreign Worker Program Final Report*, September 2012. [http://www.hrsdc.gc.ca/eng/publications/evaluations/skills\\_and\\_employment/2013/temporary\\_foreign.pdf](http://www.hrsdc.gc.ca/eng/publications/evaluations/skills_and_employment/2013/temporary_foreign.pdf).
5. Human Resources and Skills Development Canada, *Harper Government Announces Reforms to the Temporary Foreign Worker Program - Ensuring Canadians Have First Chance at Available Jobs*, April 29, 2013, <http://news.gc.ca/web/article-eng.do?nid=736729.html>.
6. For certain positions, employers may need to apply for a Labour Market Opinion (LMO) before being allowed to hire a temporary foreign worker. The purpose of the LMO is to show that a foreign worker is needed to fill the position and that there is no Canadian worker available to do the job. For a description of the entry streams that require a LMO, see ESDC, Citizenship and Immigration Canada, and Canada Border Services Agency, *Evaluation of the Labour Market Opinion Streams of the Temporary Foreign Worker Program*.
7. Employment and Social Development Canada, *Further Improvements to the Temporary Foreign Worker Program*, August 7, 2013, <http://actionplan.gc.ca/en/news/further-improvements-temporary-foreign-worker>.
8. A. Sweetman and C. Warman, “Canada’s Temporary Foreign Worker Programs,” *Canadian Issues* (Spring 2010): 19-24.
9. Citizenship and Immigration Canada, *Facts and Figures 2012* (Ottawa: CIC, 2013), <http://www.cic.gc.ca/english/pdf/research-stats/facts2012.pdf>.
10. Some authors have argued that there is no labour shortage in Canada, but rather the problem is a lack of worker mobility across regions and occupations. See K. McQuillan, “All the Workers We Need: Debunking Canada’s Labour-Shortage Fallacy,” *SPP Research Paper* 6, no. 16, May, 2013. (Calgary: University of Calgary School of Public Policy), <http://policyschool.ucalgary.ca/sites/default/files/research/mcquillan-labour-shortages-final.pdf>.
11. For examples, see P. Beaudry and D.A. Green, “Cohort Patterns in Canadian Earnings: Assessing the Role of Skill Premia in Inequality Trends,” *Canadian Journal of Economics* 33, no. 4 (2000): 907-36; D.A. Green and C. Worswick, “Immigrant Earnings Profiles in the Presence of Human Capital Investment: Measuring Cohort and Macro Effects,” *Labour Economics* 19, no. 2 (April 2012): 241-59.

12. Human Resources and Skills Development Canada, *Government of Canada Announces a More Efficient and Responsive Temporary Foreign Worker Program*, April 25, 2012, <http://nouvelles.gc.ca/web/article-eng.do?mthd=tp&ctr.page=1&nid=670919&ctr.tp1D=1.html>.
13. D. Green, "Foreign Workers: Filling Job Vacancies with Care," *The Globe and Mail*, May 1, 2012, <http://www.theglobeandmail.com/commentary/foreign-workers-filling-job-vacancies-with-care/article4103736/#dashboard/follows/html>.
14. Citizenship and Immigration Canada, *Fee Payment Form – Application for Permanent Residence*, <http://www.cic.gc.ca/english/pdf/kits/forms/IMM5620E.pdf>.
15. A classic example of a negative externality is a firm polluting as part of its productive process. In this case, the decision to expand production has a negative impact on the people living in the local area. Consequently, the government should account for these effects when deciding on whether to allow a firm to operate or on the types of emission a firm is permitted to make.
16. P. Tomic, R. Trumper, and L.L.M. Aguiar, "Housing Regulations and Living Conditions of Mexican Migrant Workers in the Okanagan Valley, B.C." *Canadian Issues* (Spring 2010): 78-82. Also, for an example of an employer expressing this sentiment, see G. Robertson, T. Grant, W. Stueck, C. Tait, K. Cryderman, and B. Curry, "The Long List of Canadian Firms That Have Sought Temporary Foreign Workers," *Globe and Mail*, April 13, 2013, <http://www.theglobeandmail.com/report-on-business/economy/jobs/the-long-list-of-canadian-firms-that-have-sought-temporary-foreign-workers/article11113782/?page=all.html>.
17. See, L. Goldring and P. Landolt, *The Impact of Precarious Legal Status on Immigrants' Economic Outcomes*, IRPP Study 35 (Montreal: Institute for Research on Public Policy, 2012).
18. See J. Fudge and F. McPhail, "The Temporary Foreign Worker Program in Canada: Low-Skilled Workers as an Extreme Form of Flexible Labor," *Comparative Labor Law and Policy Journal* 31, no. 1 (2009): 5-45.
19. See D. Nakache and P. Kinoshita, *The Canadian Temporary Foreign Worker Program: Do Short-Term Economic Needs Prevail over Human Rights Concerns?* IRPP Study 5 (Montreal: Institute for Research on Public Policy, May 2010).
20. On the quite extensive use of provincial nominee programs as a pathway to permanent residence for TFWs, see F. L. Seidle, "Provincial Nominee Immigration Programs: The Return of the Pendulum?" Paper presented at the Annual Conference of the Canadian Political Science Association, Victoria, BC, June 4, 2013.
21. See Tomic, Trumper, and Aguiar, "Housing Regulations and Living Conditions."

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## About the author

CHRISTOPHER WORSWICK is a full professor in the Department of Economics at Carleton University. He has published many academic journal articles on topics that include the earnings, unemployment, receipt of government benefits and labour supply of immigrants; and the effectiveness of immigrant selection systems.



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