BUSINESS COUNCIL OF ALBERTA

Safeguarding support for immigration

Avoiding unintended consequences of rapid population growth

January 2024

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Report Citation

"*Safeguarding support for immigration: Avoiding unintended consequences of rapid population growth.*" Business Council of Alberta. January 2024.

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Land Acknowledgement

In the spirit of truth, reconciliation, and respect, we honour and acknowledge the lands upon which we live and work as guests, including the traditional territories of the First Nations in Treaties 6, 7, and 8 and the citizens of the Metis Nation of Alberta. We thank the First Peoples of this land, which we now call Alberta, for their generations of stewardship of the land, and we seek to walk together in the spirit of truth and reconciliation to build a shared future for all in Alberta.

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The Bottom Line

- Popular support for immigration can waver when sudden population growth is perceived to harm Canadians' quality of life. Recently, **housing prices and healthcare system inadequacies have soured public sentiment on immigration.** This threatens the long-term benefits immigration can bring.
- Canada's population has surged over the last couple of years. While permanent resident targets have played a part, the **growth has been driven primarily by temporary workers and international students.**
- Unless the country's capital stock and public services improve at the pace needed to match recent population growth, **Canada's absorptive capacity to welcome newcomers will struggle and per capita prosperity will decline.** These are fundamentally supply-and-demand problems.
- Canada needs a renewed focus on (1) **solving the challenges plaguing housing and health care capacity** that long predate our recent population growth; and (2) distinguishing between **how our immigration system can help solve absorptive capacity issues**, and how it currently isn't.

Introduction

Canada's successful history of immigration attests to the benefits that we all experience when newcomers contribute their rich cultures, diverse perspectives, skill sets, and human capital to the country. Done well, immigration can be a driver of prosperity for all Canadians. And not just economic prosperity, but social prosperity, too.

For over two decades, successive Canadian governments have enjoyed broad public support for their immigration policies. But as we are presently seeing, this support can be fragile.

When Canadians don't feel their lives are becoming more prosperous, and when essential goods and public services are coming under stress, they are more likely to question whether large population increases, as we're presently experiencing, are warranted. In particular, we are seeing public discontent brewing as housing becomes more unaffordable, health care services struggle to meet the public's expectations, and cost-of-living pressures mount.

Without public support for immigration, we risk losing democratic legitimacy for pursuing the many benefits that immigration creates for all of us. A negative feedback loop can form. It can be difficult to reverse, and it can give a platform to voices that oppose immigration for nefarious and bigoted reasons.

As such, we must make sure our immigration system—for all its benefits and strengths—isn't unintentionally exacerbating challenges that, when left unaddressed, can erode support for prosperity-driven immigration.

It's about how many *and* how fast, *not* who

Canada's population is growing rapidly. And, for the most part, this is a good thing. It drives demand for goods and services; it opens up business opportunities for budding entrepreneurs; and it creates job openings for sectors that must grow to meet increased consumer demand.

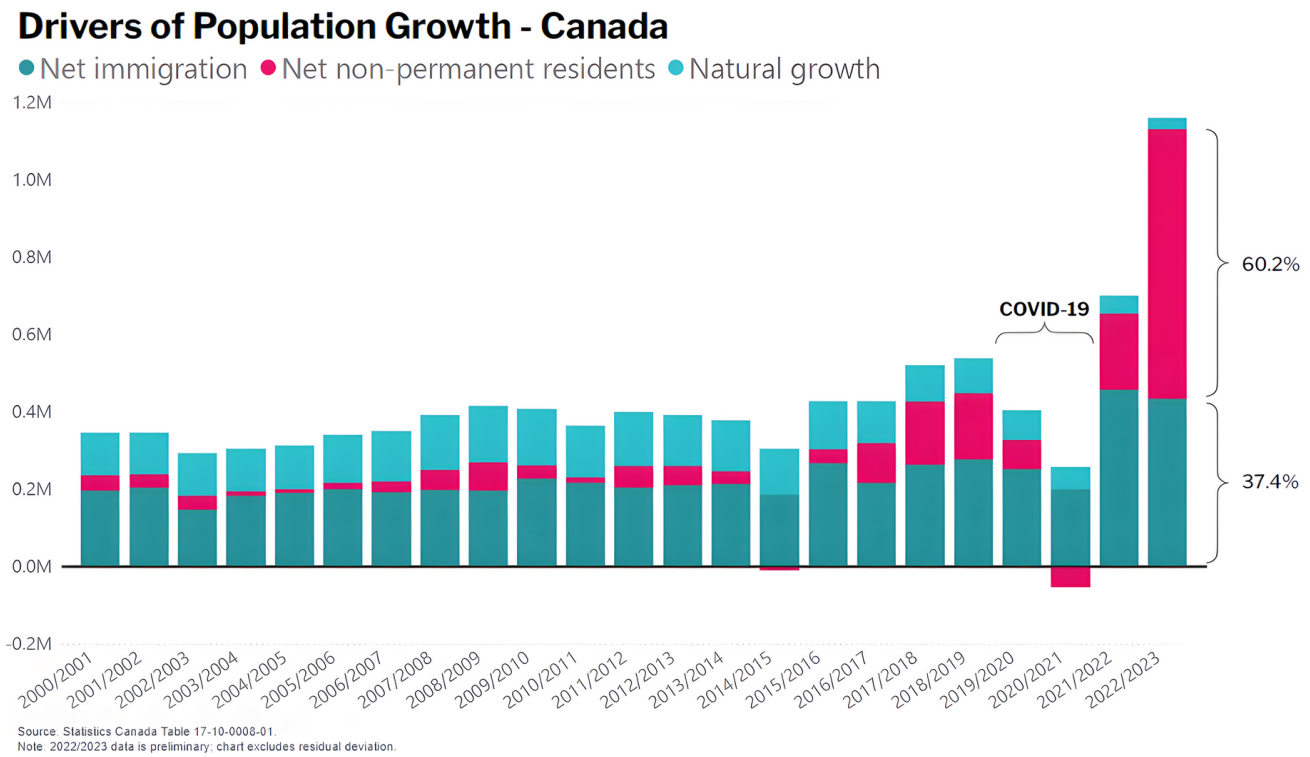
However, Canadians are concerned about the country's absorptive capacity for newcomers—in other words, whether Canada's physical infrastructure and social supports are growing quickly enough to keep pace with how quickly our population is growing.

So how fast is Canada's population growing and what is driving that growth?

According to Statistics Canada, Canada grew faster than any other G7 country in 2022/23 and was among the top 20 fastest-growing countries on the planet in 2022. As Canada's birth rate falls, newcomers have come to account for nearly 98% of our population growth. Of these newcomers, only 37.4% (433,480) were from net in-migration (new immigrants minus emigrants) of permanent residents (PRs).

The other 60.2% (or 697,701) were non-permanent residents (NPRs)—the primary category driving Canada's population growth in recent years. NPRs include temporary foreign workers (mostly in the International Mobility Program, but also the Temporary Foreign Worker Program), international students, and asylum applicants.

Unlike with annual PR admission targets, the federal government sets no limit on the number of NPRs admitted each year. This is why Canada's annual population growth has grown so significantly in the last couple years—our NPR intake is exploding in size relative to the targeted growth rate of PRs. And what's more, some experts suggest that government statistics drastically undercount the number of NPRs that remain in Canada after their visas expire.



Source: Statistics Canada Table 17-10-0008-01.
Note: 2022/2023 data is preliminary; chart excludes residual deviation.

The bottom line is this:

Canada's population is growing at a rate faster than most of us have ever seen in our lifetimes. As a result, many Canadians are concerned about whether we can effectively absorb these newcomers while also ensuring that infrastructure and public services can meet the needs of a growing population. As public opinion polling corroborates, this is about how many people our nation can absorb in short order, not about who is driving the growth or where they're from.

Absorptive Capacity

Rapid population growth can stress many different facets of Canada's physical and social infrastructure. We need to invest in the roads, bridges, schools, machines, and public services needed to keep pace with our growing communities. When population growth is driven by immigration, there is also the need for immigrant supports, language training, and other integration services. And adding more people means more housing, more teachers, and more medical professionals will be needed as well.

But this paper can't focus on every possible area that is impacted by rapid population growth. Instead, we'll take our cue from the federal government's new immigration strategy, which specifically points to the importance of "integrating housing, health care and infrastructure planning, along with other important services, into Canada's immigration levels planning, in close collaboration with provinces, territories and municipalities." Accordingly, this commentary will approach the subject of absorptive capacity by focusing on housing affordability and health care delivery—two areas that are top-of-mind for many Canadians these days.

What is absorptive capacity?

In this paper, absorptive capacity refers to the ability for Canada's physical infrastructure, institutions, and social programs to adequately respond to population growth such that this growth is democratically acceptable and produces collective benefits. When the population growth rate exceeds Canada's investment rates in the tools and resources immigrants need to succeed when they get here, the per-capita standard of living can decline and public support for immigration can falter.

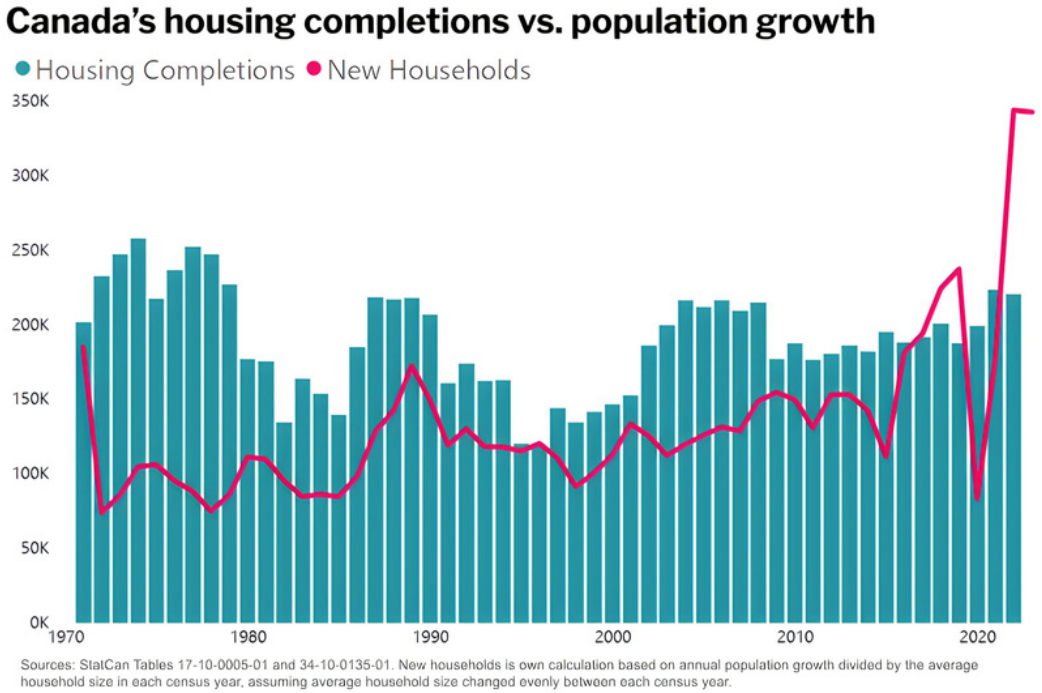
Housing Affordability

Recent public polling indicates that the cost of housing is the primary reason people are concerned with the pace of Canada's immigration growth. It isn't surprising, then, that the largest swing in national attitudes toward immigration last year occurred in Ontario and British Columbia, the epicenters of housing unaffordability in Canada.

However, it would be a mistake to blame Canada's housing affordability problem solely on immigration. The trend of new housing units getting built relative to Canada's annual population growth has been slowly going in the wrong direction for many years. Adding to that problem, the average number of people living in each dwelling is falling:from 3.5 in 1970 to 2.4 in 2021. Both put natural pressure on the availability and affordability of homes.

That said, the mismatch in supply versus demand is much more acute now than it has been in years, and it has gotten precipitously worse since about 2016/17 when NPR categories of population growth started expanding. In 2022, Canada grew by 1,050,110 people, but only 219,942 housing units were completed. Assuming the average household size remained at 2021 levels, that means Canada underbuilt homes by 217,604 units in one year alone.

As a result, a supply shortage relative to demand is driving housing prices higher. The Canada Mortgage and Housing Corporation (CMHC) estimates that Canada needs to build 5.8 million more units by 2030 to restore affordability. Right now, we're on pace to build 2.3 million more homes by that time—a shortfall of 3.5 million homes.

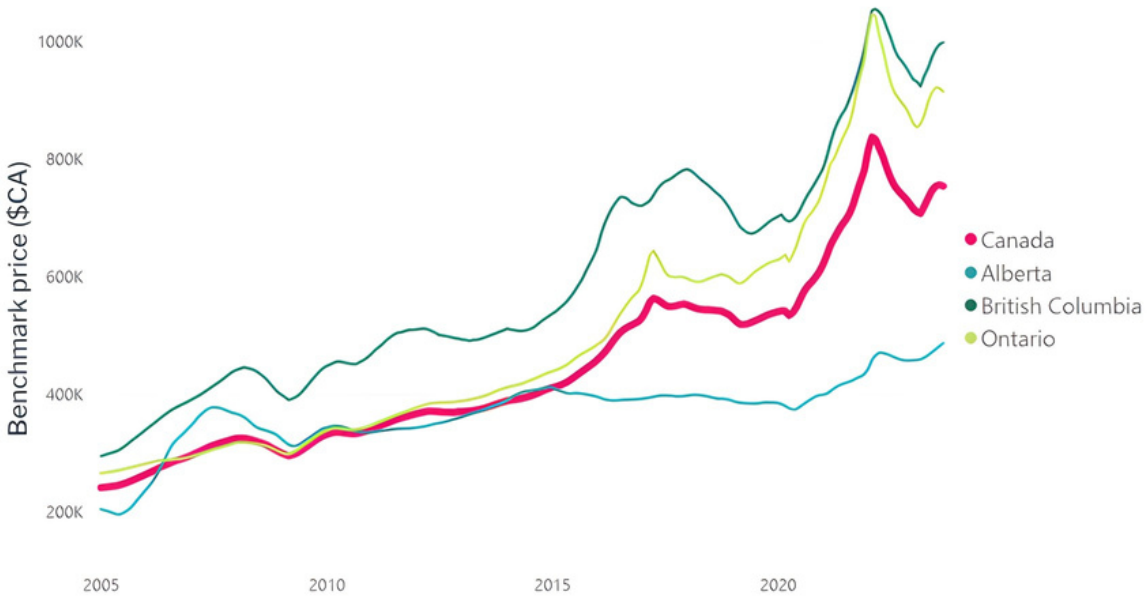


This fundamental supply-and-demand imbalance does not bode well for home prices now and into the future. The national housing benchmark purchase price has increased 43% since the start of the pandemic, but even more in Toronto and Vancouver where people are moving to surrounding areas and out-of-province at increasing rates.

This is driving up prices in communities that were much more affordable even a few short years ago.

In Alberta's case, housing remains relatively affordable compared to much of BC and Ontario. Yet even as interest rates begin to slow demand and lower prices in Vancouver and Toronto, Alberta's benchmark prices are rising because so many people are migrating to the province not just through immigration, but also from other parts of Canada where the cost of living is higher. While prices aren't rising everywhere in the province, Calgary's single-family home market prices are rising enough to increase Alberta's overall average.

Composite housing benchmark price, seasonally adjusted



Source: The Canadian Real Estate Association. Latest data Oct. 2023

Rental markets are facing similar supply shortfalls. Canadian cities have seen rental vacancy rates fall dramatically since the pandemic ended, corresponding with Canada's recent population growth. As a result, consumer price index data shows that Canadian renters are paying 16% more than in March 2020. Since many existing renters benefit from rent price controls, this means the burden of a national 16% price increase is borne predominantly by new renters whose rents better reflect the tight supply of rental units available on the market.

Newcomers are greatly impacted by shortages in rental accommodations, especially since NPRs, who are driving the majority of Canada's recent population growth, are approximately four times as likely to rent as non-immigrants. As of 2021, nearly one-third of NPRs lived in unsuitable housing as defined by the National Occupancy Standard—about triple the proportion of the rest of the population. In other words, NPRs both contribute to the shortage in rental accommodations, and are victims of it. Moreover, this situation has no doubt worsened as the NPR population has ballooned since 2021.

Of course, physical supply of housing isn't the only contributing factor to rising costs. Higher interest rates are making housing development more expensive. A shortage of construction workers, spiking development charges, and material cost inflation have also led Canada's residential construction price index to significantly outpace general inflation since the pandemic. And a future wave of retiring construction industry workers won't help the situation. According to BuildForce Canada, 20% of the nation's construction workforce is due to retire by 2032.

Health care

Absorptive capacity concerns aren't limited to housing. Canadians are also worried about whether we can preserve the quality of key social programs like health care as the population grows rapidly and more people require services.

Last May, BCA published a report detailing national health care spending trends. It showed that since 1975, public spending on health care as a share of GDP has been steadily trending higher. Provincial budget allocations to health care have increased from approximately 25% to 40% on average, and the average amount of inflation-adjusted public dollars spent per person on health care has steadily increased since 1975.

Despite this trend, Canadians are increasingly reporting they have no access to a primary care provider. More than 20% nationwide say they don't have a family doctor or a nurse practitioner. In British Columbia, Atlantic Canada, and Quebec, this increases to 27%, 31%, and 31%, respectively. As the population ages and people live longer than ever before, these numbers are likely to rise even further unless we see a significant increase in the number of doctors and nurses practicing in Canada; and without significant investments to ensure our healthcare infrastructure can keep up with demand.

But as Canada's population grows faster than it has in decades, meeting the needs of today isn't enough. Newcomers, like anyone else in Canada, require access to quality and timely medical care. Organizations like the Canadian Medical Association cite recent population growth as one of the reasons why health care providers are struggling to keep up.

Immigration already plays a big role in supplying health care professionals that Canadians rely on. But with an estimated 500,000 health care sector workers already over the age of 55, a retirement wave is coming. Addressing this wave is necessary, as is ensuring we have the health care professionals we need to meet the growing demands of an aging population. Now more than ever, immigrant selection strategy must attract the health care workers we need, and barriers preventing professionals from practicing in Canada must be removed. Without improvements, healthcare systems are likely to face increased pressures in the future.

Are these absorptive capacity challenges short-term or long-term problems? And does it matter?

Canada has experienced other population booms in the past, including the post-War baby boom and several immigration waves at the beginning of the 20th century. In all cases, the population growth rate was far higher than what we're seeing today. So, if we've successfully brought in proportionately more people in the past, why is it different now? Have things changed? Or are absorptive challenges transitory and we can expect future benefits to outweigh the cost of temporary adjustments?

There is empirical evidence to suggest that, historically, immigration in Canada has led to stronger business productivity—and it becomes more pronounced after several years. Furthermore, Statistics Canada research indicates that the children of immigrants tend to outperform their Canadian-born peers in education attainment while maintaining similar labour market outcomes. Therefore, we can't discount the possibility that productivity improvements may manifest several years (or more) after migrant waves occur.

Having said this, there is good evidence to suggest that, at least in the seven or eight years since 2016, Canada's capital stock has flatlined and has not kept pace with population growth. This means that Canada is not investing in physical infrastructure, machinery and equipment, and intellectual property products fast enough to allow a growing population to increase the average person's economic well-being.

Even if this recent trend improves over the long term (and there's no guarantee it will), the short-term absorptive capacity challenges people are experiencing still need to be addressed to maintain public support for immigration.

What can be done?

To paraphrase Dr. Mike Moffatt of the Smart Prosperity Institute, Canada cannot be a high-growth and a low-growth country at the same time. What does he mean by this? In short, Canada's population is growing quickly, but the investments needed to absorb this growth elsewhere in the economy—like in the housing market and in health care—aren't keeping up.

So, to solve this problem, Canada has to either…

- slow down its population growth rate to match sluggish investments elsewhere in the economy (demand-side solution);
- increase the capacity for our economy and institutions to meet the needs of a rapidly growing population (supply-side solution); or
- some combination of the two.

How, then, do we get the balance of supply-side and demand-side solutions right?

While this commentary won't presuppose policy solutions, here are a few important considerations when developing policy:

The longstanding supply-side malaise should not be blamed on newcomers.

While there are certainly short-term absorptive capacity challenges with recent, rapid population growth, Canadians shouldn't accept our longstanding failure to address housing supply and improve health care as the reason to reduce immigration rates. This would be a kneejerk reaction and a misdiagnosis of broader, more longstanding problems.

The problems that have constrained housing supply and health care improvements have existed for years independent of recent immigration level increases. That said, supply-side solutions like increasing the speed and quantity of housing construction won't happen overnight. If absorptive capacity challenges intensify in the near term, public support for immigration could wane further, but this doesn't excuse turning a blind eye toward finding long-term supply-side solutions.

On the other hand, demand-side actions like reducing immigration levels take less time to have an effect. But if done improperly, they are an exceptionally blunt policy tool that can lead to unintended consequences. At best, cutting immigration would only slow the rate at which supply-side problems are getting worse. At worst, they will actually magnify those problems since a significant portion of our health care and construction workers, for example, are immigrants.

Emphasize immigration selection strategies that improve absorptive capacity in key areas…

As alluded to above, immigration can actually be part of the solution to our absorptive capacity challenges. If we need more health care professionals to avoid hospital closures or to address family physician shortages, immigration should target qualified professional newcomers in these fields. Similarly, if a retirement wave in the construction industry looks poised to limit the housing supply Canada desperately needs, immigrants can help fill this labour shortfall.

The issue here is that many immigrants coming to Canada are unable to work in their chosen profession because Canada struggles to recognize foreign credentials. There is little to be gained by attracting foreign doctors, nurses, and skilled tradespeople if, once they arrive, not only can they not immediately work in their field, but the time and cost of acquiring the necessary accreditation are prohibitive.

…but not as a way to address the core hurdles to improving absorptive capacity

That said, immigration cannot be the be-all, end-all solution.

For one, newcomers to Canada aren't only contributors to and/or producers of the goods and services we all need; they're also consumers of those very same goods and services. New immigrants and their families deserve affordable places to live and access to quality health care just like everyone else.

Second, unless the core challenges preventing homes from getting built and health care from being improved are addressed, the benefits of better, more targeted immigration won't be realized.

For example, even if we do better at recognizing foreign credentials, increasing the number of construction workers or doctors immigrating to Canada won't solve the impact that (A) interest rates, slow permitting, development fees, and land use restrictions have on housing starts; or (B) the limited number of beds and residency training spaces available in hospitals and clinics has on the system's capacity to treat patients.

In other words, policymakers need to take a more holistic view of the root problems causing absorptive capacity challenges. While it may be tempting to think about these challenges through the narrow lens of immigration, there are significant and far broader challenges and hurdles within our existing economic and policy structures that need to be addressed.

If slowing the population growth rate is necessary, NPRs—not PRs—is probably the best category to scale back.

Dramatic population growth adds to absorptive capacity concerns, regardless of where that growth comes from. That said, if there is a need to slow population growth, it makes sense to do so in areas where the current pace of growth wasn't anticipated—specifically, the recent rapid increase in non-permanent resident (NPR) admissions.

From July 1, 2022 to July 1, 2023, Statistics Canada estimates that 697,701 NPRs came to Canada, a 46% increase from the year prior and the largest year-over-year increase since comparable data were collected. Of these NPRs, the vast majority are temporary workers, international students, or both.

Many of these temporary residents come to Canada with the hope that Canadian work or study experience will help them qualify for permanent resident status, a situation that Canada's immigration points system encourages. Many pursue a college degree or certificate, apply for a post-graduation work permit, and work to increase their chances of attaining PR. There is some strategic merit to this setup because individuals with Canadian experience have an easier time integrating into Canada's workforce and culture. These strategic benefits are worth pursuing.

However, NPRs are coming to Canada at a rate much faster than PR targets are increasing, and unlike for new PRs, there is no cap on the number of NPRs that can come to Canada. Mathematically, therefore, a much smaller share of recently admitted temporary residents will attain PR status than in previous years.

This situation is created by a number of perverse incentives that Canada's immigration system isn't well equipped to handle. For example, we're seeing colleges—especially in Ontario—that, in search of higher international student tuition payments, utilize shady recruitment tactics abroad to accept international students at an unprecedented rate. Similarly, temporary workers who rely on their ongoing employment to attain PR can be placed in vulnerable positions where they may not feel comfortable approaching their employer to address poor working conditions or unfair wages.

Policymakers need to urgently address issues like these. Not only do they lead to the risk of exploitation of people coming to Canada seeking a better life, but they also chip away at popular support for immigration generally because sudden, unplanned, and unconstrained growth in NPR admissions contributes to Canada's absorptive capacity challenges—especially when it comes to accessing a finite supply of rental accommodations.

It is incumbent on policymakers, then, to ensure that NPR admissions grow at a pace that is beneficial both to those who come to Canada, and those already living here. Right now, this balance is off kilter. Recent amendments to student visa requirements by the federal government indicate that this challenge is on their radar.

Governments need to coordinate to address absorptive capacity.

Absorptive capacity challenges touch on federal, provincial, and municipal government responsibilities. The federal government is responsible for setting PR admission numbers and for issuing temporary resident visas. It also plays a large role in funding settlement services for newcomers. Provinces are responsible for funding and providing many of the social services we all rely on. Municipalities are delegated important land use planning powers that greatly impact local housing conditions. And they all play a role in developing policy that can either enable or constrain our

our capacity to respond to population growth.

Because governments' responsibilities over the conditions that create absorptive capacity challenges are so intertwined, inter-jurisdictional alignment is crucial. If the federal government is increasing the rate of population growth faster than the provinces and municipalities are able or willing to respond; or if the provinces are stalling housing construction and failing to adequately fund health care as newcomers arrive, absorptive capacity issues will arise.

While the federal government's new immigration strategy admits that more intergovernmental coordination on housing and health care is necessary alongside immigration levels planning, the strategy is unclear about how it will address these challenges. Nevertheless, this admission is at least a step in the right direction

Conclusion

Canada's population is growing rapidly while the economy's capacity to absorb this growth fails to keep pace. This is not a recipe for improving Canadians' prosperity nor for creating a fair environment in which newcomers can thrive. And what's more, unless our absorptive capacity improves in a hurry, Canada risks losing its longstanding public support for immigration. Immigration brings too many benefits to all Canadians for us to risk throwing the baby out with the bathwater.

Our absorptive capacity challenges aren't without precedent. Canada has grown at a faster rate in the past. Our challenge going forward will be to learn how to carefully pull the supply-side and demand-side policy levers to help maximize the benefits immigration can bring. We can't let our failure to enact supply-side solutions to lead to poorly-thought-out demand-side solutions. But at the same time, we can't ignore some demand-side solutions that aren't aligned with a prosperity-driven immigration strategy—one that can help everyone in Canada, new and old, to thrive.

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