From Crisis to Community: Syrian Refugees and the B.C. Economy

Highlights

- About 2,500 Syrian refugees are expected to arrive in B.C. by the end of February, 2016.
- Over the next 20 years, these refugees will have contributed an estimated minimum of $563 million in local economic activity.
- Immigrants tend to strengthen economies, specifically of their local communities, since their consumption of goods and services are often purchased within their community networks.
- Immigrants across Canada have a history of helping to grow the local economy. In Halifax, the Lebanese community is estimated to have created about 3.6 local jobs for each immigrant.
- Immigrants tend to be highly entrepreneurial as they are about 30% more likely to start a business than non-immigrants.
- Refugees report higher rates of self-employment than both other immigrants and those born in Canada.
- Significant immigration does not necessarily decrease wages or increase unemployment, and when it does the effects are small.
- Among the 1,924 government assisted refugees who settled in Metro Vancouver between 2010 and 2012, 65% settled either in Surrey, Coquitlam or Burnaby.
- Refugees tend to take great advantage of the settlement services and the possibility to delay their entry into the job market. As a result, the level of labour-market participation and earnings for this group tends to be more favourable than might be expected, given their lower level of education upon arrival.
- Even though there will be a financial cost to settle the refugees, it must be taken into account that immigrants have children, integrate over time, change the structure of the labour market and support a strained public pension system. The long-term fiscal impact of accepting refugees is typically positive.

Recommendations include:

- Coordinate refugee settlement and housing policies.
- Remove barriers to the success of immigrants in the labour market by encouraging local employers to value the skills and educational credentials, and pre-migration labour market experience.
- Provide settlement services such as English classes, cultural acclimation services, counselling and labour market orientation. These will help not only the refugees provide for themselves, but will provide the local economy with employable, productive members.
- Ensure that refugees can take full advantage of settlement and training programs within the first years of their arrival in order to start their career advancement on a solid trajectory.
- Implement policies/programs which educate employers to the personal and societal damages of discrimination (based on race, religion, ethnicity, national origin, etc.) against refugees and the effect discrimination has on the local economy.
Introduction

As part of the Canadian government’s plan to welcome 25,000 Syrian refugees to the country before the end of February, 2016, it is expected that about 2,500 of these individuals will settle in B.C. with the majority in the Metro Vancouver area. The decision to accept these refugees in Canada, as in most cases globally, has been made largely in light of humanitarian concerns for the wellbeing of people who have had their lives completely disrupted by the Syrian civil war since 2011. While these concerns are laudable, and important to many people in their own right, this report examines the economic impact this community will have on the B.C. economy.

Canada has the highest per-capita immigration rate in the world and immigration plays a key role in Canadian culture. It has helped shape the economies of Canadian cities, particularly in the last few decades. Immigration to Metro Vancouver comprised about 68% of population growth in the Metro Vancouver area in 2014. Economies are made up of people and organizations. Without people, they disappear. Canada has seen its birth rate among domestic women fall below the 2.1 births per woman “replacement rate”. Without some other source of population growth, the population would decline, putting systems like the old-age pension system and the economy as a whole in jeopardy, as in some European countries. As populations increase, either through replacement-rate births, immigration, or both, economic activity increases. This is a long-term empirical fact of economies around the world. We see countries with substantial immigrant inflows such as the US, Germany, and of course Canada, doing relatively well economically compared to more closed economies.

Magnitude of economic benefits to the local economy

One way of looking at the impact of refugees on economic activity is to multiply the average total income by the number of refugees. This exercise provides a rough estimate of total money injected into the economy. The values of the table to the right are estimated based on Longitudinal Immigration Database (IMDB) 2005 figures and adjusted by Canadian CPI (Consumer Price Index) to 2015, and assuming that:

- The income growth rate will be 3.7% per year (based on income growth rates of previous refugees who arrived in Canada between 1989 and 2004).

<table>
<thead>
<tr>
<th></th>
<th>By 2016-2019</th>
<th>By 2020</th>
<th>By 2025</th>
<th>By 2030</th>
<th>By 2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Annual Total Income ($)</td>
<td>18,807</td>
<td>19,499</td>
<td>23,363</td>
<td>27,993</td>
<td>33,539</td>
</tr>
<tr>
<td>Annual Total Economic Activity ($ millions)</td>
<td>21.63</td>
<td>22.42</td>
<td>26.87</td>
<td>32.19</td>
<td>38.57</td>
</tr>
<tr>
<td>Cumulative Total Economic Activity ($ millions)</td>
<td>86.51</td>
<td>108.94</td>
<td>234.07</td>
<td>383.99</td>
<td>563.62</td>
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The table indicates that within ten years the refugees are expected to earn an average annual income of $23,363 per capita, and that they will be associated with at least $27 million worth of economic activity in just the year 2025. That corresponds to $234 million of cumulative economic activity between 2016 and 2025. Twenty years from now (2035) this community will have been associated with as much as $563 million in cumulative economic activity since their arrival. This gives a sense of the scale of the impact of refugees on the consumption of goods and services, housing, etc. Immigrants tend to strengthen economies, specifically of their local communities, since their consumption of goods and services are often purchased within their community networks.

Out of this income, they will be contributing some tax dollars to public goods such as the judiciary, street lights, national defense and fire departments. Many publicly funded goods such as national defense also benefit from an increased tax paying population because of economies of scale. When Canadian babies are born or immigrants move to Canada, additional national defense is not required, because national defense covers the whole country, regardless of the size of the population. However, with more taxpayers splitting the bill, the burden on each taxpayer becomes smaller.
Potential local implications

Very little data exists about the actual socioeconomic and demographic profile of the Syrian refugees coming to B.C. There has not been very much data collected on post-secondary educational attainment in Syria before the civil war, and certainly not after it started.

Existing literature considers data on refugees and other classes of immigrants from countries other than Syria, or data on Canadian citizens of Syrian origin. Combining the analyses from these studies can help to predict the profile that Syrian refugees might have, and what the economic effects they could have on the local economy.

Data collected by the Immigrant Services Society of BC on government assisted refugees (GAR) indicates that of the 2,128 GARs destined for B.C. between 2010 and 2012, 1,924 (90%) settled in Metro Vancouver, particularly in Surrey (26%), Coquitlam (22%) and Burnaby (17%).

Newly arrived GAR usually choose to stay in cities and neighborhoods where there is an established community of people from the same country. For instance, if Syrian communities are already present in Surrey, the Syrian refugees will likely be attracted to these communities. When moving to a foreign country, the comfort of being near people who share common language and culture can be significant. Having someone who speaks the same language, who has prior experience navigating daily life, familiar labour markets, and who can impart their wisdom to newly arrived immigrants, can help to make the transition into their new lives less difficult.

An important study that uses the Longitudinal Immigration Database for 1989-2005 shows that refugees (government assisted or privately sponsored) to Metro Vancouver have been on average less educated, less likely to know an official language (English or French), more likely to be self-employed, and more likely to receive social assistance, in comparison to immigrants from other classes (family class and independent class). This result is in line with the implementation of the Immigration and Refugee Protection Act (IRPA) in 2002 that shifted the focus of Canada’s refugee resettlement program away from those with an “ability to establish” in Canada to those “most in need of protection,” as determined by the United Nations High Commissioner for Refugees (UNHCR).

The Syrian refugees coming to B.C. are selected abroad and are part of two distinct groups: those who are sponsored by the Canadian government (GAR) and those sponsored by private groups (privately sponsored refugees or PSR). Both groups are provided with enhanced settlement services, compared with all other immigrants. The assistance includes income support for their first year in Canada. During this time, they usually take language training classes and use other orientation services.

With the possibility of delaying entry into the labour market, both government and privately sponsored refugees can adjust to life in Canada. Since immigrants face greater challenges when they first arrive, this adjustment period helps refugee-immigrants improve their language proficiency and confidence as they enter the labour market. This helps to explain a surprising finding in a study by Hiebert (2009) that university-educated refugees who came to Canada, even without previous official language proficiency, ended up earning more than those who were admitted in any other class of immigrants. As seen above, the settlement services available to refugees seem to significantly help, since the level of labour-market participation and earnings for this group is more favourable than might be expected, given the lower level of education upon their arrival.
Refugees are eligible for travel-cost loans of about $10,000 to $15,000 which come with an interest rate of less than 2%, but can become a significant burden to individuals who have been unemployed for months or years and are just starting out in a new labour market. While the Syrian refugees will be exempt from paying these loans, Canada is the only country in the world that charges interest on refugee travel loans.\textsuperscript{10}

Various characteristics of immigrants who arrived in Metropolitan Vancouver from 1989 to 2004, in 2005

<table>
<thead>
<tr>
<th>All ages</th>
<th>Age 25-64</th>
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</thead>
<tbody>
<tr>
<td>All Immigrants</td>
<td>Refugee (GAR/PSR)</td>
</tr>
<tr>
<td>Total</td>
<td>320,025</td>
</tr>
<tr>
<td>University education (%)</td>
<td>27.2</td>
</tr>
<tr>
<td>Knowledge of an official language (%)</td>
<td>50</td>
</tr>
<tr>
<td>Female (%)</td>
<td>51.8</td>
</tr>
<tr>
<td>Reported employment earnings (%)</td>
<td>61</td>
</tr>
<tr>
<td>Reported self-employment earnings (%)</td>
<td>12.4</td>
</tr>
<tr>
<td>Average total income, all ($)</td>
<td>18,905</td>
</tr>
</tbody>
</table>

\textsuperscript{1} GAR = government assisted refugee; PSR = privately sponsored refugee.

The graph above reports that the majority of registered Syrian refugees in Egypt, Iraq, Jordan and Lebanon are working-age adults from age 18 to 59. About a quarter of them are school aged, from 5 to 17 years old. There are roughly even proportions of males and females in each age group.

Evidence from a study using U.S. immigration data suggests that immigrants tend to be highly entrepreneurial as they are about 30% more likely to start a business than non-immigrants.\textsuperscript{12} For the case of Metro Vancouver, data on refugees from the Longitudinal Immigration Database corroborates the findings in the U.S., as the refugees report higher rates of self-employment than both other immigrants and those born in Canada. These new businesses, as we will see in the Halifax case below, employ both other immigrants and Canadian-born people, increasing the level of employment in the local economy.

Halifax example

One example of an immigrant community that has a positive local economic impact is that of the Lebanese community in Halifax. The size of the Lebanese community in Halifax was estimated to be between 4,500 to 7,000 people in 2011 (Lebanese immigrants or of Lebanese descent). The value of “major projects and other real estate developments” either completed or ongoing from 2005 to 2015 attributable to the community is estimated at $4 billion. Lebanese-created employment in the construction sector has directly or indirectly created 4,000 to 5,000 full-time jobs through their businesses. For each Lebanese immigrant in the 2011 census, an average of 3.6 jobs has been created by the Lebanese community.\textsuperscript{13}
Immigration effects on economic output

Foundational macroeconomic models have a lot to say about the role of population growth in economic output growth. From the early days of macroeconomics, population growth has long been seen as a significant determinant of increases in output.\(^\text{14}\)

Contemporary macro theory research often involves computer simulations of complicated models. There is computational evidence that immigration has positive effects on gross domestic product (the overall output of goods and services in an economy). Research using U.S. data shows that the domestic population saw gains from 1% of GDP from an immigrant population of about 10% of the U.S. labour force, to .28% of GDP from immigrants making up 15% of the U.S. labour force.\(^\text{15,16}\) Researchers using U.K. data have found the macroeconomic effects of immigration there include increased output and consumption per capita. Their simulations predict immigration to the U.K. from 10 countries which became new E.U. member states in 2004 could increase (annual) real GDP by up to 2.5%, real GDP per capita by up to .8%, total consumption by up to 2% and consumption per capita by up to about .4% over a baseline scenario where these immigrants do not enter the U.K. economy.\(^\text{17}\)

These results are consistent with the idea that an increase in population increases the “size of the pie” in an economy. First, increasing an economy’s labour to capital ratio (like going from one person per machine to two people per machine) increases the rate of return on firms’ investments in capital (here: machines). This higher rate of return gives firms a stronger incentive to invest in more capital (“capital accumulation”) until the original labour to capital ratio is once again attained (increasing the level of capital takes us back to the situation where we have one person per machine). Overall, the amount of labour and the amount of capital in the economy has increased, which increases output.

In terms of international trade, immigrants, as opposed to the domestic population, have greater knowledge and/or greater access to market opportunities in the countries they emigrated from. This explains the significant positive relationship between immigration and Canadian bilateral trade.\(^\text{18}\) For example, immigration from China has significantly increased over the last few decades, as well as trade between Canada and China.

Empirical effects of immigration on labour market outcomes

Evidence-based analyses show very little impact on wages for even substantial levels of immigration in the U.S., and in countries in northern Europe.\(^\text{19,20,21}\) The largest effects have been on lower-skill, lower-wage workers who could be displaced by workers in sectors like agriculture, manufacturing, and service industries, which make up 1%, 7%, and 82% of the Metro Vancouver area economy, respectively.\(^\text{22}\) The service industry is comprised of retail, transport, distribution, food services, professional services as well as other service-dominated businesses.

Canadians working in the relatively large service sector of Metro Vancouver have an advantage over immigrants who may compete for similar jobs due to their knowledge of the English language and Canadian culture. These and other non-technical skills are very important in determining success at service sector jobs.

As discussed, when the talent pool for positions is widened by the addition of immigrant labour, this can create supervisory positions for domestic workers needed to direct the efforts of foreign workers who may be at an earlier stage of developing their skills.

For those domestic workers who might theoretically be expected to see a wage decrease due to refugee labour being highly substitutable with their own labour, it is not likely that this would become reality. Wages are “sticky,” meaning because of accepted labour market practices and cultural norms, they are rarely, if ever, revised downwards. Everyone knows someone who has gotten a raise at their job, but one would be hard-pressed to think of an example of someone who has had their wages decreased simply due to supply and demand.

Local analyses of immigration’s effect on metropolitan areas reveal that significant immigration does not necessarily decrease wages or increase unemployment, and when it does, the results are minor.\(^\text{23}\) Economist David Card studied a 7% increase in the supply of lower-skilled labour in Miami (much larger in size than the projected increase due to Syrian refugees). He found that even this sizeable population of new immigrants did not have significant impacts on wages or unemployment.\(^\text{19}\)

From a broader perspective, there is a vast literature that analyses the economic effects of immigration on many different outcomes. Evidence from Europe and the U.S. suggests that cultural diversity in cities increases the local productivity and wages of natives.\(^\text{24,25}\) States in the U.S. with large inflows of less educated immigrants promote labour specialization such that domestic workers with lower
education tend to specialize in more communication-intensive tasks, freeing up more manual-labour-intensive tasks to possibly be executed by newcomers. As a result of this reorganization of production around efficient specialization, the economy enjoys efficiency gains in the form of increased productivity, higher employment and higher income per worker.22

When accounting for the sizes of cities, and the idea that immigrants tend to settle in cities with relatively strong economies, research finds immigrants tend to have a positive effect on the wages of domestic workers. This conclusion is consistent with those from a simulation-based nationwide study from Ottaviano and Peri, as well as an empirical study of wages in California by Peri.28,29

Evidence from immigration to Italy and the U.S. shows that an influx of lower-skilled female labour, providing household services, actually increases hours worked by domestic female workers.30

**Fiscal implications**

In terms of fiscal policy, a common question posed by policymakers and analysts is whether immigrants fully pay, through taxes, for the public services they use.

Research has shown that in the U.S., immigrants have a net positive fiscal effect. They pay more taxes than the value of benefits received from the government. While there is no guarantee every Syrian refugee will create a surplus for government coffers, there is very little evidence supporting the view they will have a negative fiscal effect as a community.31 The study of Lebanese immigrants in Halifax referenced above, estimates each university-educated immigrant provides the province with more than $90,000 in net tax revenue over their lifetime.32

An alternative approach to answering this question is doing a static cost-benefit analysis. Javdani and Pendakur carefully estimate that for the 2005/2006 tax year, immigrants arriving in Canada between 1970 and 2004, on average:

- Paid $2,696 less per capita than Canadian-born taxpayers in taxes
- Received $552 less per capita in benefits
- Contributed $1,692 per capita to public goods consumed by Canadians.33

Adding them together, the average per capita cost (to Canadians) of immigration was around $500 in the fiscal year of 2005/2006. This figure can be interpreted as a fiscal transfer from each Canadian-born person to immigrants, that is, how much money immigrants absorb in public services less the amount that they pay in taxes suitably adjusted for scale effects in public provision of services and life cycle effects in tax payment.

The authors argue this static accounting approach fails to provide a picture of the long-term effect of immigration on the economy. A more appropriate approach would be dynamic and would take into account the fact that immigrants have children, integrate over time, change the structure of labour market, and support a strained public pension system. Different examples of the potential spillover effects of immigration were mentioned here in this report, such as lower labour costs for firms, lower prices on consumer goods and services, new job opportunities for domestic workers, increased wages for domestic workers and increased job opportunities with higher business creation.

The study concludes that one substantial way to increase the relative fiscal contribution of recent immigrants, is to help remove barriers to the advancement of immigrants in the labour market, as they face greater disadvantages in comparison to Canadian born people.

There is a large literature on the wage gap between immigrants and natives that suggests the gap is due to disadvantages immigrants face in the labour market, such as discrimination and lower earning premium for education or work experience compared to Canadian born people.34 For example, one solution to reduce the under-utilization of immigrants in certain occupations that require significant credentials is to use service agencies to interpret immigrant qualifications (such as their education and pre-migration work experience) on behalf of employers.

**Housing implications**

Another way refugees, and immigrants in general, can affect local economies is through the housing market. Research on the experience of refugees in the Vancouver housing market indicates they are more likely to lack the resources needed to access adequate housing because they are constrained by the high cost of housing in the area and the lack of information about this market.35 This suggests Canadian born households are unlikely to compete with refugees in the housing market.

Research done by Philadelphia Federal Reserve Economist Albert Saiz estimates that for a 1% increase in population due to immigration, the average metropolitan area will see a 1% increase in rental prices/housing values. As the proportion of Syrian refugees coming to the Metro Vancouver area is much smaller than 1% and they face higher financial constraints than the average immigrant, it is likely they will not have an appreciable effect on rental prices and house values.36
Recommendations

Re-settlement, integration

- Bringing refugees here at a manageable rate, as planned, will help the economy adapt to the influx of people, as well as helping the refugee population as a whole adapt to Canada.

- Providing translators, English proficiency classes, cultural acclimation services, post-trauma counselling services and particularly education will help not only the refugees provide for themselves, but will provide the local economy with employable, productive members.
  
  - Any programs which help to provide useful skills to refugees should be well-funded and access to these programs should be ensured.
  
  - Ensuring refugees can take full advantage of settlement and training programs within the first two years of their arrival is crucial in starting their career advancement on a good trajectory.

- Lowering or eliminating interest charged on travel-cost loans to all refugees, as is being done for the incoming Syrian refugees, would lower the financial burden on refugee families and help to speed their integration/contributions to the local economy.

Housing

- Settling refugees in areas with lower rents and/or higher levels of available housing will help equalize rental prices in the area, and would minimize effects on current renters/homeowners.
  
  - Reconciliation of refugee settlement policies and government housing policies can streamline the transition from temporary to permanent housing.

Labour market

- Removing barriers to advancement of immigrants in labour markets is crucial.
  
  - Recognition of educational credentials from foreign countries will help speed the process of integration of refugees into Metro Vancouver labour markets.

- Implementation of policies/programs which educate employers to the personal and societal damages of discrimination (based on race, religion, ethnicity, national origin, etc.) against refugees and the effect that could have on the local economy.
  
  - When individuals are poor, refugee or otherwise, they tend to use more government services and pay less in taxes, creating financial burdens which must be carried by other taxpayers.
  
  - Policies and actions that help improve labour market prospects for Syrian refugees will not only help them to live better, more productive lives, but will also have positive effects on all Metro Vancouverites.

- Small business loans marketed to Syrian refugees would encourage business creation and increase refugees’ abilities to contribute tax dollars and create jobs for Metro Vancouverites.

Methodology

Secondary research and data analysis for this report were conducted by Eric Adebayo and Ricardo Meilman Lomaz Cohn, PhD students in the Department of Economics of Simon Fraser University. In addition to secondary sources, the researchers made contact with local organizations that work with immigrant and refugee integration. The research was conducted in November, 2015.
References


