Intelligence MEMOS

From: Trevor Tombe

To: Provincial Employment Ministers

Date: June 29, 2020

Re: **POTENTIAL GAINS FROM PROVINCES EASING LABOUR MOBILITY BARRIERS**

Migration is central to Canada's economic development, especially in the West.

International immigration receives significant attention, but interprovincial migration is no less important. In normal times, according to the latest 2016 census data, more than 260,000 Canadians move from one province to another each year. Not all stay, and the volume of migration varies over time, but over the latest five-year period, nearly 830,000 Canadians made such a move – and Alberta was the top destination, with more than 226,000 moving into the province.

These interprovincial flows have added significantly to economic activity in Alberta. In a forthcoming C.D. Howe Institute research paper with Daniel Schwanen, I quantify the potential gains from labour mobility. One result is striking: had there been no interprovincial in-migration between 2011 and 2016, Alberta's economy would be nearly $17 billion (or nearly 5 percent) smaller.

The intuition is simple. Each migrant increases economic activity by (approximately) the amount they contribute to output. This is their "marginal product of labour." In Alberta, nominal labour productivity measured as GDP per worker is nearly $150,000 per year. If it were as simple as each person moving to Alberta creating the same economic benefit, each additional 1,000 workers would increase GDP by $150 million.

We go beyond this simple estimate and build on previous quantitative models that feature many complexities. Specifically, we account for differences between workers, sectors, and regions, for how "sensitive" workers are to migration costs, for trade between regions and sectors, and for diminishing returns from migration. That is, gains from migration to a region will diminish as more workers move in.

Going forward, migration may be central to how we recover from the COVID-19 pandemic and resulting economic disruption.

Some sectors are harder hit, as are some regions. Lower fuel demand and lower energy prices create a significant challenge for oil-producing regions like Alberta. Labour mobility across occupations, sectors, and regions is an important way in which economies can respond to shocks.

But such migration is not easy. Those with credentials and certifications from one province may be required to recertify if they move. It may require courses, examinations, or other steps to be completed. The difficulties differ by occupation, profession, and trade, to be sure, but despite recent progress the additional paperwork, time, and explicit costs can represent a meaningful barrier for interprovincial migration in Canada.

Provincial reforms to make moving across provinces easier has a number of benefits. In our analysis, we estimate large gains from lower migration costs.

If costs of moving into Alberta, for example, decline such that workers who move save the equivalent of $500 per year (or, roughly, half a percent of annual earnings), then roughly 30,000 additional workers will migrate to Alberta, and the overall provincial GDP increases $4.3 billion – or just over 1.2 percent. This is a substantial reduction in migration costs, but illustrates potential magnitudes – actual cost reductions will depend on the details of specific policy reforms.

Importantly, this scenario does not necessarily reflect reductions that literally save a mover $500 per year, but could also reflect large one-time up-front costs that, when expressed in annual terms, are the equivalent of $500 per year.

In any case, we illustrate several scenarios in the attached Figure. At the high end, reductions in costs equivalent to 2 percent of annual income would yield GDP gains and migration flows equivalent to what Alberta saw from 2011 to 2016. Overall, as a useful rule-of-thumb that holds across a range of scenarios, Alberta's GDP increases by more than $141 million per 1,000 additional workers that move in. Economic activity is not merely shifted between provinces, but aggregate national productivity also increases. Of course, national gains are larger if all provinces liberalize together, but gains exist even if a single province moves alone.

If Alberta's recovery from COVID-19 is sluggish due to low oil prices, net outflows of workers is a real possibility. But we estimate more than three-quarters of the variation in Alberta's net migration is due to changes in volume of in-migration. Making it easier to move into Alberta during this time may therefore help mitigate what would normally be a net outflow.

Flexible labour markets and easing potential barriers to mobility are an important consideration for governments, especially Alberta, as we recover from the Great Lockdown.

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GDP Gains in Alberta and Canada from Migration Cost Reductions