Intelligence MEMOS

From: Mikal Skuterud and Parisa Mahboubi

To: The Honourable Marc Miller, Minister of Immigration, Refugees and Citizenship Canada

Date: April 17, 2024

Re: SHRINKING CANADA'S NPR POPULATION: HOW BEST TO DO IT

Canada has in recent years witnessed an unprecedented and unsustainable surge in its non-permanent resident (NPR) population. In response, Minister of Immigration Marc Miller recently announced a target to cut the NPR population to five percent of the overall population in three years. While the government has multiple policy levers at its disposal to achieve this target, they have complex tradeoffs. It is critical that the benefits and drawbacks of each approach are weighed to ensure that policy benefits the economy and does not exacerbate what the Bank of Canada has called Canada's "productivity emergency."

Between January 1 of 2022 and 2024, Canada's NPR population roughly doubled from 1,356,622 to 2,661,784. This astonishing growth means that NPRs accounted for 6.5 percent of the Canadian population on January 1, 2024, up from 3.5 percent two years earlier.

We calculate that the government's 5 percent target requires that the NPR population be reduced by 22 percent over the next three years or by 7.4 percent per year (see Figure and online Appendix). Including growth apart from temporary immigration, this implies annual population growth rates of 0.74 percent over the 2024-2027 period, which is dramatically lower than the 3.2 percent rate in 2023.

How to achieve this reduction in the NPR population?

The crux is how much to shrink the NPR population by facilitating the transition of NPRs to permanent resident (PR) status, as opposed to reducing inflows of new NPRs. There is, of course, a third way – increasing outflows of NPRs from Canada – but this requires changing the expiration dates of existing visas, which is politically impractical.

There is no question that drawing more PRs from the existing NPR pool is the politically expedient option. As we have emphasized elsewhere, a key risk of a growing NPR population is a swelling undocumented population. Targeting NPRs who are most likely to overstay their visas mitigates this risk. According to a recent Scotiabank report, the percentage new PRs who transitioned from a study or work permit was 36 percent in 2023. Increasing this rate further will go a long way in reducing the NPR population – but it comes at a cost.

Every PR slot allocated from an NPR slot is one less slot available to a candidate applying from abroad. Furthermore, with growth in college-level foreign student enrolments and expansions in the Low-Wage Stream of the Temporary Foreign Worker Program, the NPR population includes migrants who would struggle to clear the hurdle of the economic-class selection system known as the Comprehensive Ranking System (CRS). The government will, therefore, be tempted to create new ad-hoc PR pathways that bypass the CRS to enable PR transitions of lower skilled candidates. But this undermines the integrity of the skilled immigration system and risks luring entries of new lower skilled migrants to try their luck.

A particularly tempting option for IRCC is to increase PR admissions through Provincial Nominee Programs (PNPs). Candidates who receive a PNP nomination are given 600 points in the CRS ensuring that they outcompete other candidates with stronger human capital characteristics. Increasing PNP admissions goes a long way in appeasing provinces and local business lobbies clamoring for lower-skilled labour to meet their labour needs. This surely explains the growth in PNP programs, which accounted for 40 percent of economic immigration in 2023, up from 26 percent 2016. Yet these trends are not well-aligned with productivity and economic growth objectives, which should be a policy priority now.

Figure:

Number and Population Share of Non-permanent Residents

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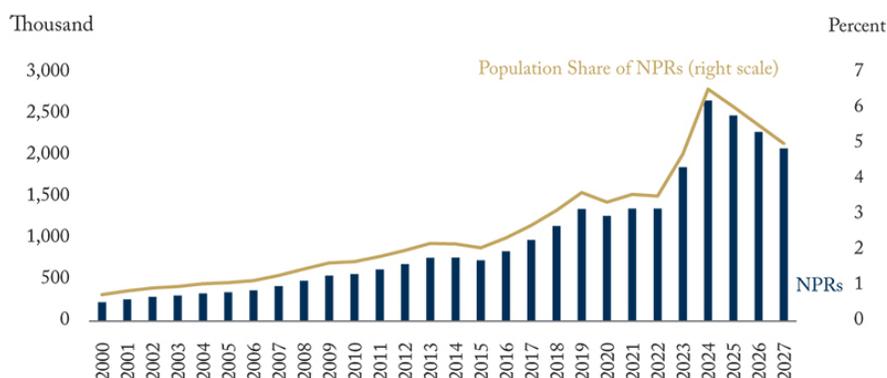
The best option is to simplify the economic immigration system by offering a single pathway to economic-class immigrants that uses the CRS to select candidates who are expected to have the highest future earnings in Canada. In addition, we recommend enhancing the set of human capital characteristics used in the CRS to include information on fields of study, names of postsecondary institutions where postsecondary credentials were obtained (quality matters to eventual outcomes), and previous earnings levels. This will improve effectiveness of the CRS in screening candidates and potentially enable the government to simultaneously increase immigration intakes and the average quality of new immigrants.

To the extent that the government does not rely on PR transitions to reduce the NPR population, it will need to find ways to reduce annual entries of new NPRs. While the government's instinct may be to introduce caps on the number of permits issued, as they have already done with study permits, those are blunt instruments that risk imposing barriers on high-potential candidates and hampering Canada's ability to attract top talent.

Our preference is to focus policy first and foremost on curtailing study and work permits for migrants whose skills do not align with Canada's productivity goals. Relying exclusively on the CRS to select immigrants, as opposed to ad-hoc PR pathway programs and PNP nominations that bypass the CRS, will send a clear message to lower skilled migrants that study and work permits are not a ticket to PR status.

Nonetheless, it may be that some direct measures to constrain new NPR entries are necessary. The government has recently announced measures to reduce new entries, including revisions to work permit policies and adjustments to Post-Graduate Work Permits (PGWPs). However, further measures could be considered to reduce annual inflows.

The government also plans to limit the percentage of a business's workforce that can be comprised of low-wage temporary foreign workers (TFWs) from 30 percent to 20 percent, but this still exceeds the 10 percent limit that existed before 2022 and the healthcare and construction industries are exempted. Admissions of low-wage TFWs is always a problem when local unemployment rates are rising. The government would be wise to reimpose moratoriums in regions where unemployment rates exceed 6 percent.

The government has also announced that it will reduce the number of study permits issued by 35 percent over the next two years.[1] However, they are offloading the responsibility for allocating the permits to provinces, which raises concerns that the rationing of permits will impede the ability of top universities to recruit the talented students with the eventual potential to drive economic growth. Since 2015, there has been a sharp decline in the share of international students enrolled in U15 universities and an explosion at community and career colleges. Prioritizing the institutions that produce the best outcomes for their graduates, in terms of transition rates to permanent residency and future labour market earnings, is critical ensuring Canada's foreign student strategy serves the economy well.

Finally, Canada can alleviate the bulging NPR population by sending a clear message to NPRs that overstaying visas is not a viable strategy to gain PR status. Estimates suggest there are 300,000 to 500,000 undocumented migrants in Canada, and the government plans to allow them all to apply for permanent status. This sends the wrong message and risks incentivizing NPRs to overstay their visas.

NPRs can also opt to leave the country. However, in the absence of a data system for capturing exits from the country this outflow cannot be well monitored. This is a first-order problem. According to Statistics Canada, the outflow of NPRs in 2023 was 1.3 percent of the population (about 537,000 persons). However, this estimate simply assumes that NPRs leave the country on the day their permits end, if not in the process of renewal. Not a reliable method.

As Canada recalibrates its immigration policy, it must do a delicate balancing act between reducing the NPR population and ensuring the soundness, effectiveness, and sustainability of the measures implemented. We encourage the government to focus on increasing high-quality NPR-to-PR transitions and curtailing NPR entries while ensuring the emigration of NPRs when their permits expire and preventing a rise in the undocumented population.

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1   *Permits for students at the secondary level and in Master's and Ph.D. programs will be exempted.*

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