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SOCIAL POLICY

Improving Immigrant Selection: Further Changes Are Required Before Increasing Inflows

by
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- As Canada's population ages, growth in the country's workforce will eventually be driven almost entirely by immigration. This has led to calls that Canada should increase its immigration targets from around 250,000 immigrants to around 400,000 immigrants per year.

- However, recent evidence suggests caution. In determining whether, or how, to raise immigration levels it is vital to consider average labour market outcomes of newly arrived immigrants – outcomes that in recent years have been poor when compared to those of the Canadian born.

- Reforms currently underway to improve the selection process of immigrants – such as revisions to the skilled immigrant point system to better attract younger immigrants with higher levels of language fluency – should improve outcomes. These reforms should be expanded upon and allowed to take effect before any proposed increases in immigration targets are acted upon.

In the coming decades, Canada's low birth rate and aging population will dramatically change the country's labour force. The babyboom generation will retire, skill shortages will arise, and immigration will be the prime driver of workforce growth. In this context, adding working-age individuals to the Canadian labour market is likely to have significant economic benefits.

Essential Policy Intelligence

Indeed, there have been calls to expand the annual immigration level from roughly 250,000 today to 350,000 (approximately 1 percent of the population per year) and to as high as 400,000 per year (Friesen 2012).

Whether and how to do so is conditioned by the observation that recent immigrant cohorts have had limited economic success in Canada. The wage differential of recently arrived immigrants versus Canadian-born workers has grown over time, and it is no longer obvious that recent immigrants can close this gap within their working careers. Hence, there is reason to be cautious about expanding immigration levels.

In recent years, however, the Government of Canada has overhauled elements of the screening process for potential immigrants, which should lead to improved economic prospects for new immigrants. These changes should better screen applicants' credentials prior to arrival by: (i) emphasizing a more rigorous evaluation of language skills; ii) increasing the number of younger immigrants admitted; and, iii) putting less importance on foreign work experience that domestic employers may not value.

Other changes and announcements, such as the rapid elimination of processing backlogs and the creation of an "Expression of Interest" system for new skilled worker applicants – which would give employers a clearly defined role in choosing among a pool of potential immigrants – have the potential to improve the economic outcomes of new immigrants to Canada.[1] Successful implementation of these changes should allow immigrants to make greater contributions to a productive economy and could, over time, allow for a gradual expansion in annual immigration targets.
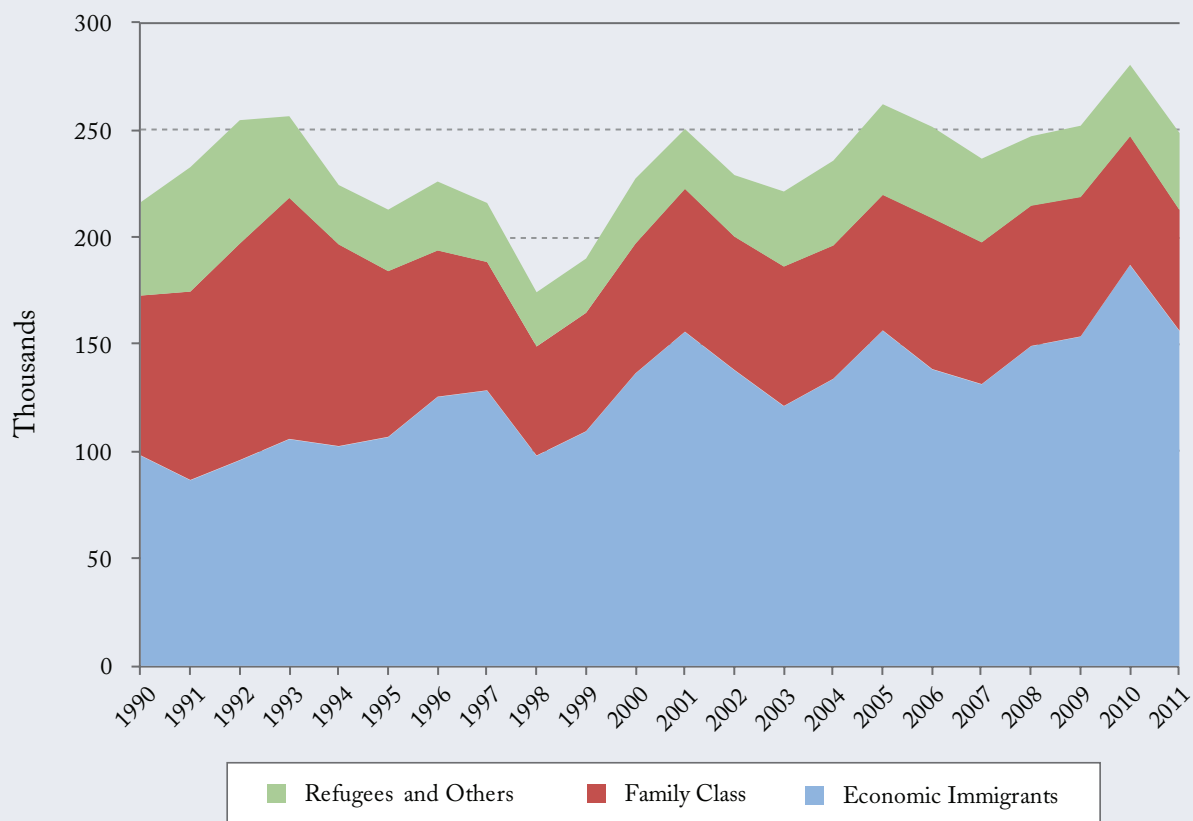
Canada's Immigration Targets

Canada accepts immigrants at a rate of roughly 0.7 percent of the population – around 225,000 to 250,000 persons per year – and has done so nearly every year since the early 1990s.[2] While immigration policy is driven partly by family reunification as well as humanitarian goals, economic goals are central: in 2011, roughly 63 percent of all immigrants, about 160,000 in total, came in through "economic class" categories (Figure 1A).[3] The largest group of primary applicants (not associated family members) came, as Figure 1B shows, from those arriving through the federal skilled worker screen (37,000) – where points are awarded to potential applicants based on their skills. The inflow also includes immigrants nominated by provinces (15,000) as well as entrants via the Canadian experience class (4,000).

Choosing Immigration Targets

Whether new arrivals are helping boost the domestic standard of living is central to policy decisions over the number of immigrants we accept each year (Drummond and Fong 2010). Therefore, the success of Canada's

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1   Budget 2013 announced that the federal government would pursue an "Expression of Interest" system to allow Canadian employers, provinces and territories to select from a pool of applicants. This innovation would allow us to select the stronger applicants in the potential pool of immigrants, quickly process applications and improve Canada's competitiveness in the increasingly competitive international market for skilled immigrants.

2   Canada's annual immigration rate makes it one of the highest immigrant-receiving countries among developed nations – only Australia allows more annual arrivals relative to its population.

3   The expansion and implementation of the federal temporary foreign worker program has received a great deal of attention of late. This is an important area for research and policy debate but is beyond the scope of this short brief.

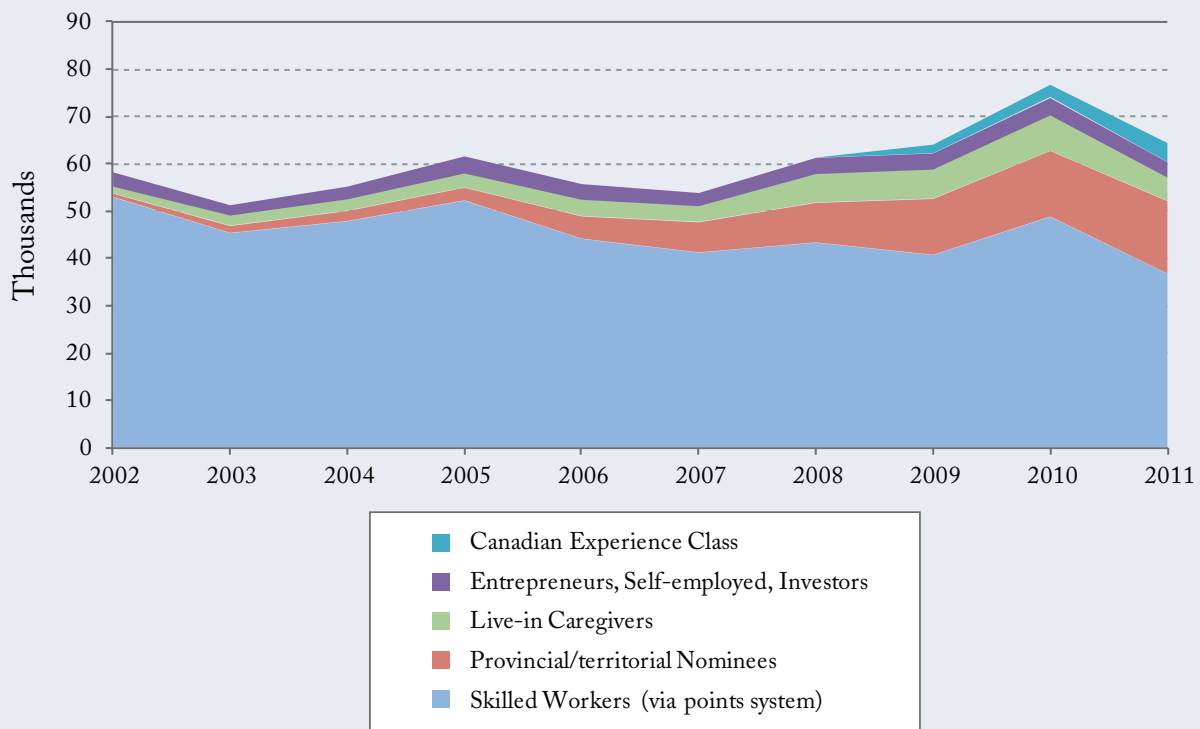**Figure 1A: Permanent Residents by Category, Canada, 1990 to 2011**

Note: Economic immigrants are generally skilled workers, but can be subdivided into categories as seen in Figure 1B. Family class immigrants are closely related persons of Canadian residents living in Canada. And refugees are immigrants escaping persecution or those facing torture or punishment abroad.

Source: CIC Facts and Figures 2012.

immigration program should not be assessed based on whether the economy has expanded as a result of the new additions, but rather on whether or not productivity and efficiency – gross domestic product (GDP) per person – are rising as a consequence.[4]

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4   Remarkably little research has been carried out on the optimal annual level of immigration, leaving government officials with little to go on when formulating targets. Most of the economic literature has focused on the economic performance of immigrants. The few Canadian studies that have tried to measure the impact of immigration have focused on the narrower question of what is the impact of immigration on wage rates, where the evidence is mixed. Other studies attempt to model all the complex effects that an increase in immigration can have throughout the receiving economy (see Dungan, Fang and Gunderson 2012). Considering the literature as a whole, compelling evidence that an expansion in the level of Canadian immigration will lead to economic benefits (especially at the per capita level) is lacking.

Figure 1B: Primary Applicants among Economic Class Migrants, Canada, 2002 to 2011

Legend:
- Canadian Experience Class
- Entrepreneurs, Self-employed, Investors
- Live-in Caregivers
- Provincial/territorial Nominees
- Skilled Workers (via points system)

Source: CIC Facts and Figures 2012.

Determining the "ideal" targeted level of immigration for Canada would require a detailed analysis beyond the scope of this study, and is a subject on which no studies elsewhere have been definitive. One question that arises in the course of evaluating the ideal is the net fiscal impact of migration, which most reports find to be centrally dependent on immigrants' degree of labour market integration (Jean et. al, 2010). Accordingly, an economically appropriate level of immigration may reasonably be informed by an understanding of the recent employment results of new arrivals.

A large increase in the annual immigration level, if admitted through Canada's skilled worker point system, necessarily would imply that the marginal immigrant admitted would be drawn from a lower part of the skill distribution. This means they would have, on average: (i) lower levels of education; (ii) education and training that are less likely to be equivalent to Canadian education; and, (iii) weaker English or French fluency.[5,6]

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5   For a formal representation of these ideas, see the immigration model of Kugler and Sauer (2005), which was applied to Canadian and US skilled immigration by McDonald, Warman and Worswick (2011).

6   At low levels, the marginal net return to an additional immigrant admitted in a year is high, making it a net positive to marginally expand the level; however, the marginal return decreases as the immigration level continues to increase resulting in the marginal return ultimately becoming negative. It is at the point where the marginal net return to an additional immigrant admitted is equal to zero, that the optimal immigration level is found.

Essential Policy Intelligence

Consequently, as the annual level of immigration goes up, we would expect to see lower incomes in Canada for the immigrants admitted on the margin. Nonetheless, if we were to observe modest to little change in immigrant incomes as the number of arrivals increases, there could be a strong argument to increase annual targets.

Evidence of Immigrants' Labour Market Outcomes

Since 1980, however, there has been a negative relationship between the annual level of immigration and employment outcomes of immigrants. For example, a 100,000-person increase in the annual immigration level (say from 250,000 to 350,000) would, based on historical figures, lower the average earnings of the newly arrived immigrants by about $1,173 per year for immigrant women and $1,681 for immigrant men[7] (Beach, Green and Worswick 2011).[8]

Yet it may be the case that the poor economic outcomes of recent immigrants to Canada are driven not by the annual level of immigration to Canada being too high, but are in part a product of selection criteria for skilled workers that do not screen immigrants as well as possible.[9] An improvement in the criteria used to select immigrants could lead to an improvement in economic outcomes of new immigrants and this could create a setting in which an expansion in the annual immigration level would make economic sense.

Reforms in Progress

Because immigrants to Canada have not always been selected from the upper part of the skill distribution of potential immigrants, more effective selection policies would have led to better earnings outcomes of immigrants in Canada. Beach, Green, and Worswick (2011) proposed the following changes to improve immigrant selection: i) increasing the emphasis on language fluency in English and French; ii) assessing foreign educational credentials prior to admission; iii) placing greater weight on the selection of younger adult immigrants; and, iv) clearing up the immigration backlog to reduce the likelihood that strong applicants will not emigrate to another country.[10] A number of the recent changes made by the federal government are consistent with this policy direction (see Table 1).

Recommendations

Current immigration targets should be maintained as we observe how effective the changes to the immigrant selection regime have been in improving the economic outcomes of new immigrants to Canada. But the

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7   Original estimates for males and females have been converted from 2008 dollars to 2012 dollars using the annual Consumer Price Index for Canada.

8   Given the increased competition among OECD countries for skilled immigrants and especially given the proposed new point system for the US, the magnitude of this negative relationship between the average skill level of economic immigrants admitted each year and the annual immigrant intake to Canada could be even larger in the future.

9   Other factors that are relevant in explaining the recent outcomes of new immigrants to Canada include the business cycle (see, for example, McDonald and Worswick 1998), and the decline in earnings for new Canadian-born, labour-market entry cohorts (see, for example, Green and Worswick 2012).

10   See also Picot and Sweetman (2012) and Ferrer, Picot and Riddell (2012).

Table 1: Areas for Reforming Immigration Policy and Policy Responses

Proposed Reforms*	Changes Made
1) Emphasize the importance of language fluency in the point system's weights on skills and use an objective approach to assessing applicants' proficiency.	Language fluency will now be assessed by approved tests prior to an immigration application. The points awarded for language fluency have risen from 24 to 28 points (out of a total score of 100).
2) Maintain current levels of Economic Class immigrants and assess the acceptability of their foreign educational and professional credentials before they arrive.	Economic Class immigration targets have fallen modestly, from around 57,000 to 55,000 per year, in 2012 and 2013, respectively.
3) Adopt an asymmetric weight scheme for age in the point system.	Instead of giving maximum points for age to all applicants between the ages of 21-49, maximum points will now be awarded to those aged 35 and under, with diminishing points awarded from age 35 to age 46.
4) Reallocate points away from work experience and toward younger age in the point system.	The total number of points awarded for work experience has fallen from 21 to 15. The maximum total points for age has risen from 10 to 12 (out of a total score of 100 points).
5) Do not count immigrants arriving under the Canadian Experience Class system as admissions under the Federal Skilled Worker Program.	Though the 2013 immigration levels plan makes room for the rapid growth of the CEC, admissions under this category still count towards skilled worker totals.
6) Review the skills of applicants arriving under the Provincial Nominee Program and either cap such admissions or allow the cap to fluctuate with the unemployment rate.	An evaluation of the provincial nominee program was completed, yet no clear direction has been taken on what limits should be drawn for the number of immigration applicants under this stream (targeted at 42,000 in 2012 and 2013).
7) Clear up the immigration backlogs and processing delays.	The backlog of immigration applications was reportedly around 600,000 at the end of 2012, which is down from a backlog of over a million applications in 2008. Progress on this score is not without controversy: limits to new applications have been put in place, and many older applications have been cleared without processing – a move that is being challenged in the courts.
8) Restructure the point system to allocate more weight to blue-collar skills; and facilitate a more balanced occupational and skills mix among incoming workers.	In January 2013, the Government of Canada began to accept applications for a new Federal Skilled Trades Stream (up to a max of 3,000 in 2013). Budget 2013 also mentioned the intention to move to an "Expression of Interest" system for processing immigration applications, which would allow Canadian employers, provinces and territories to select from a pool of applicants.

Source: *Beach, Green and Worswick (2011).

following, practical measures to further bolster immigrant selection could allow for expanded immigration targets in the future:

- Delays in processing applications must be cleared up for reforms to the screening process to take effect. The size of the initial backlog has been falling – and the changes needed to accelerate its elimination will not be without controversy, as evidenced by the move to clear out old applications without processing them.[11]

- A better evaluation of an applicant's skills should occur before arrival. Early evaluation is the distinguishing feature of Australia's immigration system and a similar approach here would require the cooperation of regulatory bodies for professional occupations, a formal process for evaluating degrees and certificates, and a greater role for Canadian employers to help select potential immigrants.[12]

- Allow the Canadian Experience Class (CEC) stream of admission to continue to expand. The CEC program aims to enable easier immigration for foreign students with recognized Canadian credentials as well as for skilled temporary foreign workers with domestic work experience. It admitted 2,545 persons in 2009, 6,027 in 2011, and targets 2013 admissions of 10,000 persons. Because this program is designed to overcome the point system's current shortcomings with respect to pre-screening foreign education and work experience, admissions under this plan should be allowed to grow independent of economic class targets.

Conclusion

The poor labour-market outcomes of recently arrived cohorts of immigrants in Canada are well-documented. They mean immigrants are not performing as well as their predecessors from earlier cohorts, or as well as the Canadian born (Green and Worswick 2012). If immigration is to play a more important role in offsetting demographic pressures and filling future labour shortages, reforms to the way in which we screen immigrants should be allowed to continue, processing backlogs must fall, and cautious steps must be taken when increasing immigration levels.

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11   This reform, while contributing to the reduction in the overall backlog in recent years, is currently being challenged in court.

12   Credential evaluation is a challenge in the Canadian context given the coordination challenges between both federal and provincial immigration policies and the large role of provincial regulatory bodies in the field of education; however, progress in this area is key to improved outcomes of new immigrants to Canada. A requirement for credential assessment was recently implemented as part of the re-opening of the Federal Skilled Worker Program in May 2013, and the "Expression of Interest" system was announced in Budget 2013 (see footnote 1 for more).

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