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ECONOMIC GROWTH AND INNOVATION

Improving Canada's Immigration Policy

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- As labour markets change, the question arises whether Canada's immigration policy – and our "point system" in particular – is doing a good job of identifying potential immigrants who will fare well on arrival in Canada.

- Our analysis of Canada's experience indicates that the immigrant selection system is doing its job. However, a continued focus on economic-class immigrants is warranted, as is favouring immigrants with more education, in particular a completed university degree.

- Our findings also indicate that more weight – more points – should be given to younger immigrants, because they are likely more able to adapt and to prosper in the domestic labour market.

Canadian immigration policy has new challenges in the face of changing demand in the labour market. With widespread layoffs in 2009, and shifts in Canada's industrial structure that affect its occupational requirements, the question arises whether Canada's immigration point system is up to the job of enhancing the prospects of both immigrants and the domestic economy. For their part, future immigrants will need to fit into an increasingly complex, knowledge-based and service-based, skill-oriented economy. This *e-brief* assesses whether the current system is effective at identifying immigrants who are likely to succeed on arrival, and explores possible improvements.

We do so by examining how the Canadian point system, and other major policy levers, affect the skill charac-teristics and the subsequent earnings of immigrants to Canada. We find that by assigning more points to desirable attributes, the point system has been working as intended and attracts the intended applicants. While the point system should maintain its emphasis on education attainment, we recommend a revised age-points formula that gives more points to younger age cohorts.

Skilled Immigration and the Point System

To put skilled immigrants in context, total immigration flows into Canada increased from 174,000 in the late 1990s to 262,000 in 2005, before falling back to 237,000 in 2007. This total inflow generally ranged between two-thirds and three-quarters of a percentage point of Canada's population.

Box 1: The Canadian Point System in 2009

The Canadian point system assesses economic class applicants on the basis of various labour- market skills or attributes deemed valuable to the economic advancement of the applicant and to the value of the Canadian economy. Points are awarded for the following factors:

1. Education points are based on credentials and years of study. Maximum points are given for a graduate university degree and at least 17 years equivalent of full-time study, down to 5 points for a secondary school educational credential (maximum points: 25).

2. English and French language ability (maximum points: 24).

3. Work experience in the applicant's stated occupation (maximum points: 21).

4. In the case of age, as of 2007, maximum points are assigned for applicants in the age interval 21-49, then are reduced for progressively younger and older ages outside this interval (maximum points: 10).

5. A confirmed offer of employment (maximum points: 10).

6. Adaptability (maximum points: 10).

When all assigned points are added up, they must exceed the pass mark of 67 points (out of a possible 100).

Immigrants to Canada arrive under several main categories: family class, economic or independent class immigrants, humanitarian class or refugees, and a small mix of other categories. We focus on the second category, which is the group intended to address the skill needs of the economy and to which the point system applies (see Box 1). It is the largest category of immigrants, composing around 55 to 60 percent of the total, and ranging in number from 100,000 to just over 150,000 per year. This group includes the principal applicant, who is evaluated under the point system, and accompanying family members.

Evaluating Policies in Terms of Earnings of Skilled Immigrants

To evaluate immigration policy requires an objective criterion. We use the average earnings levels of newly arriving skilled immigrants.[1] We then evaluate immigration policies in two stages: the first looks at the effects of immigration policy levers on the skill characteristics of immigrants arriving in Canada; the second examines the effects of immigrants' entry-skill characteristics on expected earnings. The combined result indicates the effects of immigration policy levers on immigrant earnings levels.

Effects of policy and point system weights on immigration outcomes

As Beach, Green and Worswick (2008) show, it is possible to estimate the effects of key policy levers on the skill levels of landing immigrants. These policy levers are as follows: the total level of immigrant inflow in a year, the proportion of this total inflow that arrives as economic-class immigrants, and the maximum point system weights allocated to education and age.

In the case of education, we find that increasing the total inflow of immigrants significantly reduces the average education level of economic-class principal applicants, as more marginal applicants are admitted. On the other hand, increasing the proportion of a given inflow of immigrants arriving as economic-class immigrants significantly raises average education levels. And perhaps not surprisingly, increasing the maximum points allocated to education within the point system significantly raises the average education levels of arriving principal applicants.

Our analysis also indicates that boosting the total inflow of immigrants increases the average age of principal applicants within the economic class. Augmenting the economic-class share of immigrants tends to reduce the average age of incoming principal applicants. And an increase in the maximum points allocated for age, within the point system, reduces the average age of arriving principal applicants (Beach, Green and Worswick 2008). To sum up, the point system works as intended.

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1   While this is a limited criterion and focused on economic success, earnings data are relatively easily measured and available, and connect the analysis to a large established body of literature on immigrant earnings differentials and post-arrival earnings adjustment.

Table 1: Effects of Policy-Lever Changes on Average Entry Earnings of Immigrants

	Change in Immigration Levels	Change in Economic Class Share	Change in Wt. on Education	Change in Wt. on Age
Effect via Education				
Men	-2.00%	1.07%	2.28%	
Women	-2.11%	1.13%	2.40%	
Effect via Age				
Men	-0.14%	-0.27%		-0.082%
Women	-0.07%	-0.14%		-0.038%
Combined Effect				
Men	-2.14%	0.80%	2.28%	-0.082%
Women	-2.18%	0.99%	2.40%	-0.038%
Combined Effect ($ 2008)				
Men	$-977.6	$365.5	$1,041.5	$-37.5
Women	$-703.8	$319.6	$774.9	$-12.3

Note: The above figures are the difference between the first full-year average earnings of landing immigrants with the indicated policy change vs. without the change.
Source: Authors' calculations

Effects of immigrants' entry-skill characteristics on expected earnings

How have immigrants to Canada done in terms of labour market earnings as a function of their skill characteristics at time of landing? The effects of education and work experience on immigrants' earnings depend on: i) the general returns to these skill levels in the Canadian labour market for workers as a whole; and, ii) any discounting of these returns for immigrants who obtained their skills and training abroad.[2] The latter effect may reflect a lack of appropriateness of the skills for the Canadian labour market and a lack of recognition of foreign skills by domestic employers.

In Table 1, we illustrate the how changes in the four policy levers affect immigrants' entry earnings for the full calendar year following arrival.[3] The rows in the table break down the results by sex, and by the channels through which the policy-lever effects operate. The first column shows the results from an increase in the total level of immigration by 100,000 landings per year. The second column is an increase in the economic class share by 10 percentage points. And the last two columns correspond to increases in the maximum points allocated within the point-system schedule to either years of education or age at time of arrival by 10 percentage points (out of 100).

Increasing the total level of immigration reduces entry earnings of new immigrants by about 2 percent. But increasing the economic-class share raises entry earnings by about 1 percent, and increasing the point system weights on years of education raises entry earnings by 2 percent to 2.5 percent.

The influence of the age channel on entry earnings is very minor – it is close to zero – while the channel through education appears powerful. The education channel works well because of the effectiveness of the point system in raising education levels of arriving immigrants and because of the powerful effect that education has on workers' earnings levels. In percentage terms, the effects are slightly stronger on female than on male immigrants because of females' higher rates of return to education in the Canadian labour market.

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2 This second stage of the analysis follows the standard human capital model whereby workers' earnings are the outcome or dependent variable of a regression equation and level of education and amount of work experience (related to age) appear – along with other possible determining factors – as major determining factors.

3 Details of the specific calculations of these two stages of analysis can be found in Beach, Green and Worswick (forthcoming).

Translating these percentage effects into dollar terms gives the figures in the bottom rows of the table. They show that, at about a thousand dollars per year for men, the largest entry-earnings effects of the alternative immigration policy levers are the weights on years of education within the point system.

Two extensions of these results may be considered. In the first, one can look at the effect of increasing immigration by 100,000 persons a year solely through the economic-class stream. The result is a net decline in men's entry earnings of 1.23 percent (or by $561 per year) and in women's entry earnings of 1.05 percent (or by $340 per year).

The second extension looks at the case of Citizenship and Immigration Canada increasing the number of maximum points allocated to education from 12 to 16, such as in 1993, where the extra 4 points were awarded for completion of a university bachelor's degree. The result is that men's entry earnings are estimated to rise by 2.68 percent (or $1,224 per year) and women's by 2.82 percent (or $911 per year).

Implications and Conclusion

The following conclusions about Canada's immigration policy for skilled workers extend from the results:

- The substantial increase in the proportion of economic-class immigrants over the last 15 years has raised the average entry earnings of landing immigrants. Hence, Canada should continue to retain a high proportion of economic-class immigrants as part of its policy objectives.

- Increasing the points-weight on education – both years of education and completion of a university degree – has also raised the average entry-earnings levels of arriving immigrants. These weights on education should be retained.

- The points-weight on age has weak earnings effects. But this in part reflects the symmetric way that age points are allocated, with equal point declines outside the 21-49 year age interval. This contrasts with, say, the New Zealand system where maximum points are allocated for younger age groups (20-29 years) and then decreased for successively older-age intervals (up to age 55) – an asymmetric age-points formula. Canada should consider a similar asymmetric formula because it provides much stronger policy incentives to bring in younger, more adaptable immigrants.

Canada's point system works reasonably well in attracting economic-class immigrants. If Canadians want to enhance their immigration system to produce immigrants who do better economically after arrival, immigration policy should shift more weight to the economic class of immigrants, and assign more points to younger potential entrants. The benefits would flow to both new immigrants and the Canadian economy as a whole.

References

Beach, Charles M., Alan G. Green, and Christopher Worswick. 2008. "Impacts of the Point System and Immigrant Policy Levers on Skill Characteristics of Canadian Immigrants." In Barry R. Chiswick, ed., *Immigration: Trends, Consequences, and Prospects for the United States. Research in Labor Economics.* 27: 349-401 . Amsterdam: Elsevier JAI Press.

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