

# Labour Market Matters



## Special points of interest:

- While points-based systems are designed to select for immigrants at the upper-end of the skills distribution; a new study finds that such systems tend to have more influence on the lower end of the skills distribution.
- Recent changes to Canada's skilled immigration policy found to have improved economic outcomes of new immigrants.

*"[T]he labour market challenges facing recent immigrants to Canada with a foreign mother tongue are substantial in comparison to their Australian and U.S. counterparts, both in terms of wage outcomes and employment probabilities"*



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## Points-based systems found to have more influence on immigration flows at the lower end of the skills distribution than at the upper end

A growing body of research suggests that skilled immigrants, particularly those in the "STEM" fields (Science, Technology, Engineering, and Mathematics), are not only more innovative than their native-born counterparts but also have the potential to produce positive productivity spillovers for their native-born coworkers. This evidence points clearly to the urgency for national immigration policies that attract skilled migrants. Devising the optimal policy for the acquisition of skilled immigrants is a challenging task. While a point system modelled on the Australian and Canadian systems is held up as a solution to the large unskilled migrant labour flows of the U.S., the Australian and Canadian systems themselves appear to produce starkly different results. A study entitled **"Immigrant Skill Selection and Utilization: A Comparative Analysis of Australia, Canada and the United States"** ([CLSRN Working Paper no. 140](#)) by CLSRN affiliates Andrew Clarke (University of Melbourne) and Mikal Skuterud (University of Waterloo), find that while a points-based system may have the goal of influencing immigration flows at the upper end of the skills distribution – where economic growth potential is highest – in reality, such a system tends to have more influence on immigration flows at the bottom end of the distribution.

Using literacy test scores from the OECD's 2003/2006 Adult Literacy

and Life Skills Survey (ALLS) - a survey designed to enable inter-country comparisons of adult literacy skills, the researchers make three major findings. First, Australia's immigration reforms of the late 1990s appear to have substantially reduced the proportion of Australian immigrants with literacy levels below the threshold at which individuals are deemed functionally illiterate. Consequently, average literacy among all recent immigrants in Australia was, by the mid-2000s, significantly higher than in either Canada or the United States. Second, among immigrants with a foreign mother tongue, the upper half of the literacy skill distribution is virtually identical in all three countries. This result is inconsistent with both positive self-selection of immigrants to the United States and with the belief that a point system for the U.S. will raise immigrant skills at the upper end of the distribution. Third, there is no evidence that immigrants to either Australia or Canada earn a wage return to literacy that is different from their native-born counterparts.

The study finds that the labour market challenges facing recent immigrants to Canada with a foreign mother tongue are substantial in comparison to their Australian and U.S. counterparts, both in terms of wage outcomes and employment probabilities, and are pervasive across the skill distribution. To examine the role



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of labour market mismatch, the authors construct a measure of the required literacy skills of the occupations in which immigrants are employed, which they relate to the actual measured literacy skills of immigrants in the ALLS data. The results do not suggest that the exceptional wage disparities facing Canadian immigrants reflect greater occupational mismatch.

A possible explanation for the Canadian results is that they reflect firm, as opposed to immigrant, differences. The researchers suggest that the role of ethnic social networks may be more influential in the sorting of immigrants across employers in Canada resulting in Canadian immigrants being more concentrated in low-wage firms.

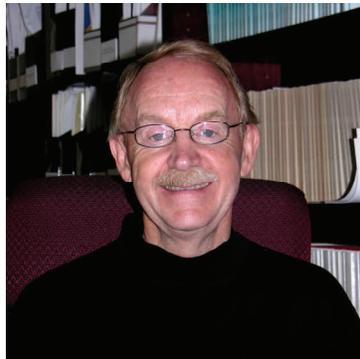
## Positive early results seen from recent changes to skilled immigrant selection policy in Canada

The Federal Skilled Worker (FSW) program is intended to effectively select immigrants based on their ability to establish themselves economically in Canada. The introduction of the *Immigration and Refugee Protection Act (IRPA)* on June 28, 2002 altered the selection system for skilled workers to respond to changing labour market needs associated with the rise of a more knowledge-based global economy. Beyond amending the selection system used in the FSW program through the IRPA, a number of additional programs have been created or expanded to achieve additional labour market goals, while the FSW program continues to focus on longer-run outcomes through the human capital model of selection.

A paper entitled “**New Directions in Immigration Policy: Canada’s Evolving Approach to Immigration Selection**” (CLSRN Working Paper no. 107) by CLSRN affiliates Ana M. Ferrer (University of Waterloo), Garnett Picot (Queen’s University) and W. Craig Riddell (University of British Columbia) examines the impacts of recent changes to Canadian immigration

policy, and analyses the preliminary results achieved by recent immigration strategies.

With the introduction of the IRPA, there was a shift away from occupation considerations in the selection of federal skilled workers and an increased focus on human capital. While some human capital selection criteria were strengthened (notably language and education), other changes also resulted, such as the decreased concentration in particular occupations and source countries. Initial results suggest that immigrants admitted under the new IRPA points system do better than their pre-IRPA counterparts, earning between 21% and 46% more than them.



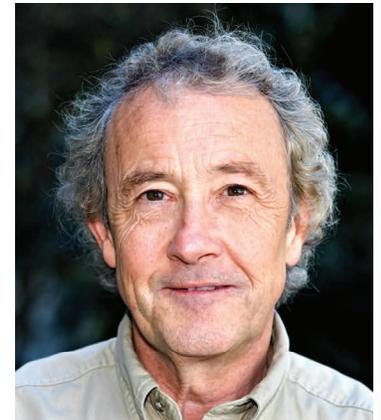
**Garnett Picot**  
(Queen’s University)

In addition to IRPA, skilled immigrant selection policy in Canada was recently altered through the growing prominence of programs such as the Provincial Nominee Program (PNP) – a program through which the provinces are playing an increased role in immigrant selection. The objectives of the PNP include locating more immigrants in the regions and provinces outside the three largest Canadian cities, and meeting the workforce needs of

employers in those provinces. While the share of immigrants entering through the PNP is increasing, the share entering through the FSW program is declining. Research has found that entry earnings of immigrants admitted under the PNP tend to be higher than immigrants admitted under the FSW program, but that earnings of FSWs tend to grow more rapidly during the first five years after arrival.

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In 2008, the Canadian Experience Class (CEC) was introduced – this program allows some skilled categories of temporary foreign workers with Canadian work experience, as well as international students who have a Canadian degree and at least one year of Canadian work experience, to apply to transfer their temporary resident status to permanent status without leaving the country. The CEC approach allows employers and postsecondary institutions a greater role in the selection process. Employers can influence the selection of immigrants by extending job offers and arranging temporary work permits. The CEC category can be viewed as taking advantage of the knowledge of employers regarding who would make a suitable employee. The Temporary Foreign Worker (TFW) program has also been used to respond to short-term



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labour market needs, especially in specific regions – and consists of many programs ranging from low-skilled seasonal workers, workers filling perceived shortages in unskilled or semi-skilled occupations, live-in care providers to very highly-skilled workers. The number of TFWs has grown dramatically during the 2000s. Research on impacts of the TFW program is very limited. Some evidence suggests the TFW program may enhance the ability of foreign-born workers to obtain recognition for their foreign acquired human capital; but while TFWs initially tend to have better earnings and employment outcomes than immigrants without previous human capital, this advantage seems to disappear four years after landing.

Early research has found that some of the recent innovations to Canada’s skilled immigrant selection system have improved economic outcomes of entering immigrants. This area of research is still in its early stages of development given that many of these policy changes are relatively new.



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### Endnotes

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