Improving the Economic Integration of Canadian Immigrants

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Abstract

Immigrants tend to have substantially worse labour market outcomes than Canadian-born workers. This paper provides an overview of immigrants in the Canadian labour market, describing the key barriers that can arise when changing cultures and labour markets and that can hinder immigrants from realizing their economic potential. It then summarizes the efforts Canada has made to alleviate these barriers and highlights some persistent challenges going forward, such as the current state of foreign credential recognition (FCR) and cautioning against the rise of the two-step immigration scheme. Finally, it offers some insights for future policy, such as a more rigorous evaluation of Canada's Settlement Program, decreasing the disconnect between federal admission decisions and the perceptions of new immigrants by firms and regulatory bodies, and optimizing the points system.

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Introduction

Canada is a nation of immigrants. In 2021, about 26% of Canada's population and labour force were first-generation permanent residents, and another 18% of the population are "second-generation", the children of first-generation immigrants.[1] Immigrants are depended upon to fulfill labour demand, raise productivity and innovation, and generate population growth that widens Canada's tax base to support an aging population.

However, Canada, like many developed countries, faces a fundamental policy challenge in that immigrants perform substantially worse than native workers in the labour market. Studies typically find that new immigrants earn 35-50% lower than comparable Canadian born workers (Aydemir and Skuterud 2005; Oreopoulos 2011). In 2024, new immigrants had an unemployment rate of 11.1%, double that of those born in Canada (5.6%).[2] Immigrants also tend to work in lower paying, lower productivity firms (Dostie et al. 2023; Lehrer and Rawling 2025), and experience higher rates of occupational mismatch and over-qualification (Warman and Worswick 2015; Imai et al. 2019). For example, more than one-quarter of immigrants with foreign degrees work in jobs requiring at most a high-school diploma, which is more than double the over-qualification rate of Canadian born workers.[3]

This is concerning not only from an equality perspective, but because this comes at the cost of a lower tax base and productivity contribution. Understanding why immigrants fare as they do and how their outcomes can be improved is therefore critical to Canada's future economic success.

In this document, I begin by describing some of the key barriers immigrants face to economic integration. I group these barriers into 5 categories: Employer hiring practices, language barriers and skill transferability, occupational regulation, networks and co-ethnic segregation, and bargaining power. While distinguishing between these categories is helpful, we will see that they are highly interrelated.

After outlining the key dimensions along which immigrants and Canadians typically differ in the labour market, I then review the current landscape of Canadian immigrant integration policy, discuss persistent challenges, and propose some potential avenues through which policy may improve immigrant outcomes and their contribution to Canadian productivity.

Barriers to Immigrant Integration

Employer Hiring Practices

Description of barrier: Employer discrimination in hiring can make it difficult for immigrants to obtain job offers. Discrimination in hiring occurs when firms treat equally credentialled or acceptable job applicants differently on the basis of their country of origin.

Evidence: In a very insightful paper, Oreopoulos (2011) conducted a large field experiment where thousands of fictitious resumes were submitted to real job postings in Toronto. On these resumes, applicant characteristics such as name (foreign- vs English-sounding), education (foreign vs. Canadian) and work experience (foreign vs. Canadian), were randomized. The main result was that resumes with typically foreign names received less than half the number of call-backs as otherwise equally credentialled applicants with a typically English name. This suggests that a substantial component of poor immigrant labour market outcomes occurs before the interview stage even begins and may help explain a substantial portion of high immigrant unemployment rates.

While these patterns could be due to taste-based discrimination (economists' jargon for *racism*) on the employer's side, this need not be the only source of this discrimination. Employers may be less able to judge the quality of foreign education or experience, meaning they have less certainty over immigrant productivity. Since letting go of workers is difficult and costly, hiring immigrant workers becomes "riskier". Consistent with this, call-back rates increased markedly when foreign resumes listed at least one job inside Canada and almost doubled when all reported experience was Canadian. Interestingly, listing Canadian education on resumes had negligible effects on the call-back rate. In qualitative interviews with employers, it was found that a common concern over hiring foreign workers is over language and communication skills.

Main takeaways: Firms clearly have productivity concerns over immigrants relative to Canadian workers, leading them to heavily discount foreign experience. Whether this discounting is because (i) employers have an unfounded

[1] Statistics Canada. Focus on Geography Series, 2021 Census of Population. Statistics Canada. Table 14-10-0083-01 Labour force characteristics by immigrant status, annual, inactive

[2] Statistics Canada. Table 14-10-0083-01 Labour force characteristics by immigrant status, annual, inactive

[3] Statistics Canada, The Daily, Canada leads the G7 for the most educated workforce, thanks to immigrants, young adults and a strong college sector, but is experiencing significant losses in apprenticeship certificate holders in key trades: https://www150.statcan.gc.ca/n1/daily-quotidien/221130/dq221130a-eng.htm

implicit bias against immigrants, (ii) firms know that foreign experience is less valuable, or (iii) the uncertainty over its value makes them reluctant to hire, is an open question. That these concerns appear to be (at least partially) mitigated as immigrants accumulate Canadian experience suggests that Canadian experience overcomes informational deficiencies and that the initial placement of new immigrants could substantially affect their lifetime earnings and career trajectory. Put together, employer hiring practices can make it more difficult for immigrants to get their foot in the door when competing against Canadian-born workers despite having very similar credentials.

Language Barriers and Skill Transferability

Description of barrier: Lacking language fluency can also hinder economic integration. The inability to effectively communicate in English can be a hindrance in the application and interview stages of finding employment. But perhaps most importantly, an integral part of many jobs, especially in high-paying occupations, is effective verbal and written communication, implying other skills an immigrant may possess remain underutilized until their language proficiency catches up.

Evidence: Although Canada's point system for economic immigrants ensures new PRs possess a basic level of fluency, many immigrants still exhibit language difficulties. Xu and Hou (2023) document that for recent economic immigrants entering through Canada's express entry program, more than 80% did not have English or French as their mother tongue and about 1/3 had English or French proficiency below advanced levels. PRs entering through other (non-economic) channels, who make up nearly half of new PRs and who are typically not admitted via the point system, likely face even higher language barriers. For example, Lehrer and Rawling (2025) document that about 25% of all PRs working in Canada report having no knowledge of either of Canada's official languages.

Imperfect language ability can substantially hinder an immigrant workers career prospects and their ability to contribute to Canada's economy. We have already seen that imperfect language ability is a major concern of employers when making hiring decisions. Relatedly, Warman and Worswick (2015) found that, despite the average education of immigrants rising over time, more recent immigrant cohorts increasingly sorted into jobs requiring more manual and fewer cognitive tasks. This decline in returns to foreign education and experience was largely driven by a shift in source-country composition toward non-European, non-English countries, suggesting either that these countries are associated with poorer institutions (lower quality education) or that language barriers hinder the ability of immigrants to apply their skills. In favour of the latter interpretation, Imai et al. (2019) find evidence that language barriers affect the extent to which immigrants can transfer or apply cognitive skills to their post-migration jobs. In particular, they find that skilled immigrants in Canada often move from high-cognitive, low-manual skill jobs (like engineering) to lower-cognitive, higher-manual jobs (like driving), and that these initial skill mismatches are larger among immigrants with lower language proficiency.

One can understand the implications of language barriers on immigrant outcomes by understanding the causal effects of improving their language ability. For example, Foged et al. (2024) study a reform in Denmark which made refugees eligible for language training courses in the first three years following asylum to understand the causal impact of language training on newcomers. They found that this program, in which the average worker attended 200 hours of training, led to an immediate and long-lasting improvement in both employment and earnings. Specifically, refugees eligible for the training had 5pp higher employment rates and more than 20% higher earnings than those who were not eligible, with these effects persisting 15 years later. Similarly, Lochmann et al. (2019) study the impact of language training on immigrants to France, again finding substantial improvements in employment rates. These effects were strongest among highly educated immigrants, consistent with language barriers hindering the deployment of cognitive skills. Importantly, this study highlights that these effects are present for all types of immigrants, not only refugees.

Main takeaways: Despite language being a key component of Canada's point system for selecting immigrants, many arrive to Canada with imperfect English or French proficiency. Such language barriers can hinder the transfer of cognitive skills, leading to occupational mismatch and skill underutilization. Language acquisition is therefore key for immigrants to apply their skills, and evidence from outside Canada suggests that formal language training programs could significantly improve immigrant wages and productivity.

Occupational regulations

Description of barrier: Many studies find that immigrants significantly downgrade in their occupation when landing in the host country, and that a significant part of immigrant integration involves climbing into higher-paying occupations (Green 1999; Lessem and Sanders 2020). While part of the reason immigrants have a harder time accessing higher-paying occupations could be due to firm hiring practices and language barriers already mentioned, another barrier immigrants run into are lacking formal occupational certifications.

Evidence: In Canada, about 20% of Canadians work in regulated occupations, implying a formal certificate or license is required to legally perform the functions of that occupation (IRCC 2013). The standards and the set of occupations subject to formal regulations vary by province, but typical examples of such occupations include doctors,

engineers, lawyers, nurses and architects. Other occupations do not require a certification to perform that occupation but nevertheless may have certifications or reserved titles that are valued or expected by firms. An example of such an occupation would be accountants.

From the firm's perspective, occupational licences and certifications serve as evidence of a minimum threshold investment in occupational-specific productivity. Mandatory licenses, such as in healthcare professions, ensure a certain quality of workers in an occupation, and non-mandatory certifications serve as a signal of productivity to employers who otherwise have imperfect information. While there is much debate over whether such occupational regulations diminish rather than improve welfare, the fact remains that a substantial share of jobs are governed by such formal credentials.

One of the fundamental challenges inherit in being an immigrant is that one is starting out in a new labour market and therefore has typically not acquired such credentials. As such, new immigrants often tend to be barred entirely from certain occupations they otherwise might be highly productive in. Census data from 2021 shows that over 25% of immigrants with foreign degrees work in jobs requiring at most a high school degree—twice the overqualification rate of Canadian educated workers.[4]

To understand the impact of occupations barriers on immigrant labour market outcomes, Brücker et al. (2021) estimate the causal effect of having foreign credentials formally recognized for immigrants in Germany and find that this leads to substantial improvements in both wages and employment rates. Three years after obtaining certification, immigrant wages were estimated to be 20% higher and employment rate 25pp higher than it otherwise would have been, implying that overcoming these barriers are key to seeing convergence in immigrant and native labour market outcomes. Interestingly, many immigrants do not apply for formal recognition of credentials, and it was found that the main deterrent was not language barriers or costs but lack of perceived benefit.

Main takeaway: Lacking formal recognition of credentials can be a significant barrier to economic integration, as it bars immigrants from certain (often high paying) jobs and makes it more difficult to credibly signal their productivity to employers. Evidence from outside of Canada suggests that obtaining occupational certifications can significantly improve immigrant employment and wages.

Networks and Co-ethnic Segregation

Description of barrier: Labour market networks are a major conduit a job information, with survey data typically finding that up to half of all jobs are found through one's personal contacts. Immigrants are no different. Research documents that new immigrants rely heavily on their contacts to find employment, and that these contacts are overwhelmingly other same-ethnicity immigrants. A related fact is that immigrants tend to geographically co-locate with other same-ethnicity migrants. Presumably, this is in part because co-ethnic workers are economically useful, but these patterns can also form for other reasons, such as cultural preferences.

While co-ethnic networks can help new immigrants, they can also have adverse implications for immigrant integration. This section presents some evidence on the effects of co-ethnic networks and geographic segregation on immigrant economic integration.

Evidence: Most evidence surrounding the causal effects of networks and co-ethnic concentration relies on refugee dispersal policies, as this tends to be the cleanest environment that overcomes the problems associated with immigrant self-selection decisions. Overall, the literature is mixed on whether co-ethnic networks improve or worsen immigrant outcomes.

Using refugee dispersal policies in the U.S., Beaman (2012) found that refugees allocated to locations with larger co-ethnic networks only improved their outcomes if the other refugees were settled. A larger number of peers who arrived two or more years ago improved wages and employment rates, whereas a larger number of workers arriving at the same time induced competition among new refugees, leading to worse economic outcomes. Looking at refugees in Switzerland, Egger et al. (2022) finds positive effects of migrant networks on labour market outcomes, whereas Battisti et al. (2022) and Foged et al. (2024), looking at refugees in Germany and Denmark, respectively, find only mild, short-term gains. Moreover, Battisti et al. (2022) points out that while co-ethnic networks provide short-term benefits, such as finding employment more quickly after arrival, they discourage human capital investment and induce slower wage growth, ultimately delaying their long-term success.

Main takeaway: Co-ethnic networks appear to help immigrants get jobs faster—but may also delay their long-term progress by discouraging human capital investments. Differences in networks can also lead to differential access to job information, making it more difficult for immigrants to obtain higher-paying jobs. Policies that encourage the

[4] Statistics Canada, The Daily, Canada leads the G7 for the most educated workforce, thanks to immigrants, young adults and a strong college sector, but is experiencing significant losses in apprenticeship certificate holders in key trades: https://www150.statcan.gc.ca/n1/daily-quotidien/221130/dq221130a-eng.htm

geographic dispersion of immigrants may create up-front challenges for new immigrants but appear to encourage faster assimilation and human capital investment, leading to higher wage growth.

Though the effects of co-ethnic networks on immigrant economics outcomes appears to be intricate and context-specific, what is clear is that social integration is key for economic integration. Whether or not co-ethnic networks help or hinder that process in the Canadian context and for different types of immigrants (e.g., economic immigrants vs refugees) is an open and important question.

Bargaining Power

Description of barrier: Even conditional on an immigrant and a Canadian-born having the same skills at the same firm, there could be differences in pay. Immigrants may be less able to bargain with employers for higher pay, allowing firms to pay them less than their Canadian-born counterparts.

Evidence: Identifying within-firm pay-differentials conditional on worker skill is a difficult empirical exercise, as it is difficult to rule out pay differences being driven by differences in skills. As such, the evidence is mixed on whether this is an important component of immigrant earnings inequality.

On the one hand, studies typically find that immigrants labour supply is less elastic with respect to wages than native workers (Hirsch and Jahn 2015; Tino 2024). In theory, this provides firms with additional labour market power over immigrants, allowing firms to offer immigrants lower wages. Additionally, in standard search models workers with lower outside options will typically receive lower wage offers, and many micro-foundations exist for why immigrants may have lower outside options (examples include lower wealth upon arrival, lower outside job prospects, and weaker social safety nets).

On the other hand, firms may be constrained in the degree to which they can wage discriminate due to perceived fairness considerations or built in pay-hierarchies, and other work finds that firms generally offer immigrants the same wage policies as natives conditional on ability (Dostie et al. 2023).

Main takeaways: There is not convincing evidence that immigrants earn less than equally skilled Canadian born workers within the same firm. Based on the data and aforementioned sections, the barriers immigrants face appear to primarily manifest in terms of finding (and keeping) employment in high-paying jobs or applying their skills within jobs, rather than bargaining for wages.

The Current Landscape of Immigrant Integration Policy in Canada

Policymakers are largely aware of these barriers and have taken steps to improve economic outcomes for immigrants to Canada. In addition to settlement services already offered for refugees, Canada has implemented a host of programs to facilitate integration of Permanent Residents more broadly. I now briefly review the main programs in place.

Settlement Services

IRCC currently funds immigrant settlement services across Canada through the Settlement Program, a multifaceted program delivered by partner organizations to provide a variety of services to newcomers with the intention of helping them integrate to the Canadian culture and economy. These services are primarily reserved for permanent residents, with temporary residents generally ineligible. The services offered will vary by region and organization, but the staples are employment-related services (e.g., job search assistance, resume writing, interview prep, and soft skills training) and language training. Additionally, these programs provide general information and orientation services and help immigrants foster social connections in their community. An earlier version was introduced in 1974 under the name of Immigrant Settlement and Adaptation Program and was replaced by the Settlement Program in 2008.

Over the last few years, the federal government has allocated an annual budget of about $1B for these services. The IRCC has conducted evaluations of the Settlement Program and of the language component specifically. About 40% of PRs accessed at least one IRCC-funded settlement service within the first two years of landing, and about 16% accessed formal language training. While clients report these services being subjectively useful, the causal impact of this large-scale program on immigrant labour market outcomes, such as employment and earnings, is not known.

Foreign Credential Recognition

The Foreign Credential Recognition (FCR) Program is a federal initiative that began in 2003 with the goal of improving credential recognition processes for internationally trained individuals. The program provides funding to provinces, territories, regulatory bodies, and organizations to simplify and harmonize credential recognition, and it delivers direct supports such as loans and Canadian work experience opportunities. The Program's annual budget since 2017 has been about $21M, and it funds activities like harmonization projects, web portals,

loans, and work experience pilots aimed at reducing barriers for skilled newcomers.

The FCR Program is complemented by provincially funded services, such as the Ontario Bridge Training Program and Alberta's Immigrant Bridging Program. These provincial programs are usually administered by regulatory bodies, post-secondary institutions and community organizations and, like the FCR Program, are designed to help internationally trained professionals get licensed and find jobs by supporting them in the credential recognition process. They also provide sector-specific training (e.g., IT, finance, healthcare, engineering) and workplace mentorship.

Despite these investments, it remains unclear what impact these programs have on improving the incidence of FCR among foreign-trained workers.

Pre-Arrival Services

Canada's Pre-Arrival Settlement Services is designed to help incoming permanent residents make informed decisions and begin their settlement process before arriving in Canada. The program was first introduced in 1998 for refugees and expanded to non-refugees in 2001, with a significant expansion in 2015. With the exception of language training and language assessment, it provides similar services to the Settlement Program, delivered mostly through online platforms but also in-person in 35 countries. Currently, more than $30M is spent annually on these services. While self-reported data suggests that the services facilitate a smoother transition to Canada, program take-up has been low (only 7% of newcomers admitted between 2015–2017 accessed pre-arrival services) and the effects on employment and earnings remains unclear.

Insights and Challenges for Future Integration Policy

1. Rigorous Impact Evaluations of Integration Services

As the previous section documents, the IRCC operates a host of programs designed to help immigrants socially and economically integrate to Canada. Given the barriers inherit in changing cultures and labour markets, such programs are important and almost certainly useful.

The key challenge right now is that we do not know the causal impact of any of these programs in the Canadian context or for whom they are the most useful. The IRCC has undertaken evaluations of these programs and their sub-components, but there has been no assessment of the causal impact these programs have on tangible labour market outcomes like wages, employment rates, and alignment of occupations with pre-migration skills. Given the vast amount of public resources spent on integration services, the silence is deafening. Another challenge, which is perhaps related, is that take-up of these settlement services is quite low. Only about 1/3 of non-refugees accessed one available service from the Settlement Program within two years of landing.

Canada should seize this moment to pilot both new and old programs in such a way that their impact on tangible labour market outcomes can be quantified. For example, Foged et al. (2024) cleverly used quasi-experimental tools to estimate the causal effects of various refugee policy changes in Denmark. They found that the most effective integration policies for refugees are language training and initial placement in strong labour markets. Punitive policies, such as welfare cuts, had only short-run employment effects. Similarly, placement in high co-ethnic centers has no long-term advantage. In all of these cases, the impact of these policies on earnings and employment was measured.

These types of insights are critical to develop effective policies. However, such causal effects are difficult to back out ex post if the program was not deliberately set up to do so. Canada needs to design and implement these pilot projects with the express purpose of evaluating their causal effects for quantifiable labour market outcomes in order to establish a knowledge base before assessing the value of scaling up. Partnering with Statistics Canada to link workers from these studies with administrative records could lower data collection costs and facilitate high-quality estimates of long-term impacts.

With this knowledge base in hand, one is then in a position to:

- Weigh the benefits of the program against their costs to justify that the return on investment from these activities is a good use of public resources (improving transparency to taxpayers)
- Understand who these programs benefit the most (helping target the immigrant populations with the highest returns)
- Understand which components are the most impactful (improving program delivery)
- Effectively communicate to newcomers why they should invest large amounts of their time accessing these services (improving program take-up)

2. Improving Foreign Credential Recognition in Canada

There are at least three persistent challenges to improving FCR in Canada:

- Whether or not an individual gets their credentials recognized is usually up to the discretion of the relevant Provincial regulatory body, and the

criteria for approval is often perceived as inconsistent and untransparent by applicants. This decentralization of the process makes it challenging for the federal government to make sustained improvements in the system, and creates a disconnect between the intended occupation at the time of admission and the available occupations in practice.

- The costs of obtaining recognition can be substantial. For example, most immigrants seeking regulation in the health or finance sector report costs of more than $10K.
- Last, given the complexity and uncertainty surrounding the FCR process, and the significant investment of time and money required, skilled immigrants to Canada may reasonably decide it is simply not worth the effort of applying.

The solution to the third problem is to fix the first two. In relation to the second problem (FCR is costly), the FCR Program includes a "Foreign Credential Recognition Loans Projects" component, a promising federal policy tool that offers loans of about $6K (on average) to help immigrants with the upfront costs of obtaining FCR.

Dealing with the first problem is far more complex. One strategy that by-passes the problem is to expand Canada's capacity to train and retain foreign workers in key occupations (such as nurses and physicians) themselves. Attracting young, foreign talent to study in Canadian institutions and then retaining those workers avoids putting the burden of assessing foreign education and experience on regulatory bodies. This of course does not address the immediate shortages in workers for many of these occupations and also introduces its own challenges, such as capacity constraints in Canadian institutions and the impact of foreign students on housing markets. But whatever the solution, dramatic changes to the FCR process are necessary if Canada wishes to benefit from immigrants filling jobs in regulated occupations.

3. Dialogue with Industry

It is not enough to admit immigrants based on observable criteria and assume they will perform well in the labour market. Firms with access to that same information are still often reluctant to hire foreign workers, even when they have observably similar skills and characteristics as Canadian-born applicants. Since the firm is the unit of hiring and wage setting, more dialogue is needed between government and industry. Understanding firm hiring decisions and how to alleviate their concerns over employing immigrant workers, especially for those with limited Canadian experience, will perhaps be one of the most fruitful avenues for improving immigrant economic outcomes and their contribution to the Canadian economy.

One step the IRCC has taken in this direction is the 2017 launch of an innovative program called the Canadian Work Experience (CWE) Pilot. The CWE Pilot began as part of a government initiative to support high-skilled newcomers in gaining their first Canadian work experience. The pilot offered a mix of work placements, mentoring, career coaching, and wage subsidies for about 1,100 new immigrant workers, with the intended goals of quickly integrating immigrants into the Canadian labour market and helping employers access qualified candidates while mitigating hiring risks. Again, a more rigorous assessment of the causal effects this program has on immigrant labour market outcomes is needed to evaluate whether the implementation costs and wage subsidies are justified, but the ingenuity and the move toward establishing relationships with the private sector is noteworthy. A similar program has been implemented for refugees in Italy and Albania, and studies have found it substantially improved employment rates (Abbiati et al. 2025).

4. Canadian Experience and the Two-Step Immigration Scheme

Obtaining Canadian experience appears to be the most credible signals of immigrant productivity from the firms' perspective. This has two obvious implications for immigration policy.

First, initial allocation matters. One of the most effective ways for immigrants to improve their long-term economic prospects is to obtain an initial Canadian job in their field and accumulate experience. This suggests that up-front investment by governments to help allocate new immigrants could have large effects.

One option for achieving this is to increase the points allocated for prospective PRs who already have a job offer in hand. PRs arriving with a job offer in hand may face less challenges to integration as they will be able to start accumulating Canadian experience immediately. However, increasing the point-value of a pre-landing job offer can induce negative selection as low-skill workers can obtain offers in "easy-to-get" jobs, which led to a sharp reduction in job-offer points in 2016.

Instead, a promising avenue is government assistance in matching new immigrants with jobs that align with their pre-market skills. This type of assistance is already part of the scope of the Settlement Program and reinforces the potential gains from the CWE Pilot.

Second, the centrality of Canadian experience relates to the rise of the "two-step" immigration scheme whereby immigrants are increasingly first entering as temporary workers before applying for permanent residency (Hou et al. 2020). Immigrants obtaining permanent residency by first working under a temporary permit are likely to face less challenges to integration as they will have already

accumulated Canadian experience. Indeed, the available evidence shows that immigrants who obtain PR status from inside Canada (and thus have Canadian experience at the time of landing) perform significantly better than PRs landing from abroad (Sweetman and Warman 2014). This is consistent with Canadian experience as a signal of worker productivity to firms and suggests that Canada's Canadian Experience Class (CEC), which shifts PR admittance to workers already within Canada, could be a plausible policy tool for overcoming informational deficiencies and improving firms hiring of immigrants.

However, the impact of a two-step immigration scheme on immigrant selection and integration is under-studied, and there are a number of reasons to caution heralding its success.

First, encouraging prospective PRs to first enter Canada on a temporary (trial) basis to then apply for PR status later introduces uncertainty on the side of both the migrant and their employer that could have adverse implications on human capital investment. Adda et al. (2022) argue that policies that restrict or condition immigrant permanence can deter human capital investment as the uncertainty over permanent residence lowers the expected return to the costly acquisition of host-country specific skills. For example, a Chinese worker who knows that with some probability they will need to return to China may invest less in English, social networks, and obtaining occupational credentials than one who has already been granted permanent residence in Canada. Effectively, it forces immigrants to keep one foot in and one foot out in case they are not admitted. The same can be said about investments made by the employer—the returns to training an employee are lower if there is a higher chance they will not remain in Canada. Moreover, the integration services described in the previous section (which serve to help new immigrants acquire Canadian-specific skills) are typically not offered to temporary workers. As such, while the two-stage immigration scheme leads to favorable economic outcomes at the time of becoming a PR, it isn't clear whether these workers would have performed better if they were granted PR status right away.

Second, the effect of this type of immigration scheme on immigrant supply is also uncertain. Introducing uncertainty over permanency could plausibly make Canada a less desirable destination for prospective applicants, especially for those with young families who would presumably prefer more stability.

A final implication of moving toward a two-stage selection process is that the pool of applicants considered for PR status are increasingly chosen by institutions other than the federal government, such as firms and universities. While this shift toward a demand-driven immigration system may have benefits, such as removing the disconnect between federal admissions and firm hiring decisions, there is nothing to guarantee that these institutions are selecting immigrants in a way that aligns with Canada's long-term goals. Indeed, this two-step procedure is blending two facets of Canada's economic system that have fundamentally different goals – the temporary foreign worker program was designed to meet short-term labour shortages, whereas permanent residents are admitted based on their long-term potential to raise human capital and innovation.

In addition to the concern that the two-step scheme may give the firm additional bargaining power over temporary workers (their employment is key to obtaining PR status, giving ample opportunity for exploitation), Canada needs to think seriously about whether this is an effective strategy for improving immigrant outcomes.

5. Experimentation with the points system

Perhaps the most potent and cost-effective policy tool Canada has for improving immigrant outcomes is the way in which permanent residents are selected. A major change in the selection system occurred in 2015 when Canada launched the Express Entry (EE) system for economic immigration. In addition to improving the application processing time, EE introduced the Comprehensive Ranking System (CRS), a points-based tool designed to identify candidates with the highest potential for economic success in Canada. Early evidence suggested that this change led to substantial improvements in earnings at the time of entrance (IRCC 2020).

The points that make up the CRS system were first based on how well human capital factors predicted economic success of immigrants in 2004. Surprisingly, there is little evidence that the current points system has been optimized to accurately predict economic success. For example, controlling for all other observable factors, workers who landed in 2015/2016 with CLB 8 English proficiency had 40% lower annual earnings in 2017 than those with CLB 10, despite the difference in awarded points for these workers being marginal (10 out of a maximum of 600 points for human capital factors) (IRCC 2020). Of course, these are short-term outcomes. Immigrants typically acquire language skills as they spend time in Canada, and there is a clear role government can play in assisting new immigrants in that process. However, now that the EE system has been in place for 10 years, the IRCC would do well to evaluate the best pre-landing predictors of long-term post-landing success and modify the point system accordingly. A likely outcome from this exercise would be to raise the minimum bar for language proficiency and to allocate more points to perfect or near-perfect CLB scores (9 or above), with the result of shifting the composition of new immigrants away from linguistically different source countries. This is an important consideration as the source country of immigrants has shifted markedly over the last few decades towards non-English speaking countries and there appears to be a strong negative relationship between the English-proficiency of a

country and the returns to foreign education and experience in the Canadian labour market.[5]

Moreover, basic metrics of human capital, such as education or foreign experience, may be too simplistic. The above discussions surrounding immigrant barriers suggests that high observable metrics of human capital on paper may not transfer to high human capital in practice if other soft, hard-to-measure skills are lacking. This includes communication and interpersonal skills that may not be well-reflected in language testing and suggests more comprehensive testing might be warranted to better select economic immigrants. Such testing is not without cost, but pilot programs could evaluate its effectiveness and if the lifetime gains could warrant its implementation. Finally, and related to points 2 and 3 above, there should be regular consultation with Canadian institutions such as private sector firms and provincial regulatory bodies surrounding the appropriateness of the current points system.

All of this must be done with care. Frequent changes to the points system can be unfair to potential applicants and lead to a more confusing and less transparent admission system. However, the potential gains to Canada's productivity and the outcomes of the permanent residents it admits warrants more experimentation with how new immigrants are selected.

Conclusion

Canada is committed to the prosperity of the immigrants it admits, but there remains substantial scope to improve immigrant economic outcomes in Canada. This article has summarized some of the key barriers workers face when changing cultures and labour markets, the efforts Canada has made to alleviate these barriers and highlighted some persistent challenges going forward, such as the current state of foreign credential recognition (FCR) in Canada and cautioning against the rise of the two-step immigration scheme.

It then offers some insights and suggestions for future policy. First, in relation to integration services, the IRCC needs more rigorous assessments surrounding the effects of their integration programs on tangible labour market outcomes of immigrant workers. The results from these assessments will inform improvements to the programs, assess the returns on investment, and can be used as marketing to improve program take-up rates.

Second, more dialogue with the private sector is needed to understand what constitutes a desirable immigrant worker and the hesitancies employers have in hiring workers from foreign backgrounds. Finally, and relatedly, given the dramatic difference in immigrant outcomes induced by changes to admission criteria, the government should leverage the opportunity to refine and optimize the points system.

In ongoing work, Rawling (2025) finds that eliminating these barriers and improving the selection of immigrants could substantially boost Canadian productivity and GDP without harming Canadian-born workers. Given Canada's long-term and increasing reliance on immigration for its economic future, improving the economic integration of immigrants is perhaps one of the most fruitful avenues to raise GDP and labour productivity in Canada.

[5] Country of origin is one of the strongest predictors of earnings at the time of landing (Warman and Worswick 2015; IRCC 2020).

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