

A Comparison of the U.S. and Canadian Immigration Systems*

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Summary: Canada has a far higher immigration rate and a more educated immigrant stream than the United States. The two countries also have very different immigration policies. Canada primarily admits immigrants based on employment-related qualifications, while the United States primarily admits immigrants based on family ties. Concerns have arisen in both countries regarding immigration policy. In Canada, policymakers are concerned with immigrants' labor market integration and whether the long-standing point system can meet changing labor force needs. In the United States, policymakers worry that immigrant inflows are predominately low-skilled and unauthorized while caps on high-skilled, work-based immigration are too low. Canada has made many changes in recent years to address its concerns, whereas the United States has made few changes in recent decades to policies governing legal immigration. Canada's policy changes may serve as models for the United States as it seeks to encourage more employment-based immigration and as economically-depressed regions push for programs that would enable them to attract immigrants as an economic stimulus.

*The views expressed here are solely those of the authors and do not reflect those of the Federal Reserve Bank of Dallas or the Federal Reserve System.

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Around the world, potential immigrants dream of migrating to the United States or Canada. The policies that would actually allow them to do so are quite different for the two countries. Indeed, immigration policy in the United States and Canada may have more dissimilarities than commonalities.

Both countries emphasize permanent residence, but the entry classes of permanent residents differ across the two countries as Figure 1 shows.

- In the United States, about two-thirds of permanent residents are admitted because they are closely related to a U.S. citizen or a permanent resident. Less than 15 percent of permanent residents, including accompanying dependents, are admitted on the basis of employment.
- In Canada, more than 60 percent of permanent residents are admitted via the economic class, most of them via the point-based system. Only one-quarter of permanent residents are admitted based on family ties.
- Although the proportions by class have changed little in Canada in recent years, the categories within the economic class through which permanent residents enter have changed. As discussed below, the share of admissions through the point-based system (the Federal Skilled Worker Program) has fallen as the shares through Provincial Nominee Programs and the Canadian Experience Class have risen.

Both countries have robust temporary foreign worker (TFW) programs. In the United States, TFW programs are aimed primarily at relatively high-skilled workers. The H-1B program for specialty workers—most of them computer programmers from India—is the country's best-known TFW program. More than 80 percent of TFW visas in the United States are issued to relatively high-skilled workers. In Canada, in contrast, about one-half of TFW visas are issued to relatively low-skilled workers, primarily through the country's seasonal agricultural worker and live-in caregivers programs. However, the share of Canada's TFW visas issued to relatively high-skilled workers has risen by about 10 percentage points over the last decade, as Figure 2 shows. The rising emphasis on work (or student) experience in Canada may boost this share even further over time. Canada's use of TFW visas has risen over time as well, as Figure 3 shows. Meanwhile, the number of TFW visas in the United States has stagnated in recent years, in part because of the binding H-1B cap.

Immigrants who acquire permanent residence can either arrive as permanent residents or adjust to permanent residence from a temporary visa. A higher share of new permanent residents adjusts status from temporary visas in the United States than in Canada. As Figure 4 shows, in recent years, between one-half and two-thirds of new permanent residents in the United States are adjusting status; in Canada, the share is about 30 percent. The shares are higher among employment-based (or economic) principal applicants in both countries. As Figure 5 shows, the share of economic principal applicants adjusting status has risen over time in Canada. In the United States, the share of employment-based (or economic) principal applicants adjusting status has been flat in recent years. Binding caps on major categories of employment-based permanent resident visas (the EB-3 program and, for natives of China and India, the EB-2 program) and on the H-1B program may contribute to this pattern. The share of permanent residents adjusting

status may be a signal of how well new permanent residents will perform in the labor market—workers adjusting status may be particularly successful since they already have experience in the country.

The foreign born are considerably more educated, relative to natives, in Canada than in the United States, as Figure 6 shows. This is no surprise given the difference in the countries' immigration admissions criteria and the large number of unauthorized immigrants in the United States. More than 30 percent of foreign-born adults (age 25 and older) in the United States have not completed high school, versus only 17 percent in Canada. Immigrants in the United States are three times as likely as natives to have not completed high school; in Canada, immigrants and natives are equally likely to have not completed high school. At the other end of the education distribution, immigrants are 1.5 times as likely as natives to have at least a bachelor's degree in Canada, but only 0.95 times as likely in the United States. In both countries, immigrants outpace natives in terms of having any graduate degree or a PhD, but immigrants outperform natives more in Canada than in the United States.

Consistent with the differences in education, a higher share of immigrants is employed in managerial and professional occupations in Canada than in the United States, as Figure 7 shows. Immigrants in the United States are more likely to be employed in “blue-collar” occupations—skilled trades workers and laborers—than immigrants in Canada. Immigrants in the United States are also more likely to be unemployed or not in the labor force (and not yet retired) than immigrants in Canada. These patterns hold among both new permanent residents and among the foreign born as a whole.

Changes in Canada's immigration policy

Although Canadian immigrants appear to be more skilled than U.S. immigrants, there are concerns that Canadian immigrants underperform in the labor market. For example, research has documented deteriorating economic outcomes across entry cohorts (e.g., Picot, 2008). Earnings soon after entering Canada were higher among earlier cohorts of immigrants than among more recent cohorts. Low returns to human capital—education and work experience—among immigrants have been of particular concern. Returns to human capital acquired abroad are much lower than returns to human capital acquired in Canada (e.g., Ferrer and Riddell, 2008). This reduces the labor market advantage that economic immigrants selected by the point system would be expected to have over other immigrants. Further, economic immigrants do not have higher labor force participation or employment than other immigrants (Aydemir, 2011). Economic immigrants do have higher earnings than other immigrants, even after controlling for education (e.g., Abbott and Beach, 2011; Aydemir, 2011).

These concerns motivated several changes in Canada's immigration system. Notable changes in recent years include:

- Changes to the point system used to admit skilled workers. The point system's emphasis on formal education was reduced, and the emphasis on age, English or French language ability, and having a job offer was increased.
- Creation of the Federal Skilled Trades Program to facilitate the admission of skilled trades workers, who had difficulty entering under the point system.

- Growth in Provincial Nominee Programs (PNP), which aim to help provinces fill gaps in their labor markets.
- Creation of the Canadian Experience Class (CEC) to give temporary foreign workers and international students greater opportunity to transition to permanent residence.
- Overhaul of the fast-growing temporary foreign worker program. Canada now admits as many temporary foreign workers each year as it does permanent residents.¹ A substantial share of temporary foreign workers are low skilled. Changes announced in 2014 include strengthening the labor market impact test and limiting the proportion of low-wage temporary foreign workers a business can employ.
- Launch of the Express Entry system in 2015 to recruit, assess and admit economic immigrants. Express Entry will match prospective immigrants with labor needs posted by employers or provinces; prospective immigrants chosen by employers or provinces can then receive permanent residence through the Federal Skilled Worker Program, the Federal Skilled Trades Program, the CEC, and, if a province participates, the PNP. Job openings will be subject to labor market testing.

It is too early to fully evaluate the success of these changes. Nonetheless, early indicators are positive. First, the PNP has succeeded in increasing the share of new permanent residents in less-populated provinces (i.e., excluding British Columbia, Ontario and Quebec). In the early 2000s, about three-fourths of immigrants lived in Montreal, Toronto or Vancouver, more than double the proportion of Canadian natives in those cities. Geographic concentration is of particular concern if it slows immigrants' integration. It also limits immigrants' role in smoothing out disparities across regional labor markets, which is an important benefit of immigration because it reduces slack and increases efficiency.

The PNP appears to have increased immigration flows to smaller provinces, notably Manitoba, Prince Edward Island and New Brunswick (Pandey and Townsend, 2011). PNP immigrants appear to be more likely to remain in their initial province than other economic-class immigrants. The three-year retention rate within provinces was 78.5 percent for PNP immigrants during 2006 and 2007 (Fuller and Rust, 2014). The rate is even higher in Manitoba (Pandey and Townsend, 2013).

Second, PNP immigrants do well in the labor market, particularly initially. Immigrants admitted through the PNP are less likely to hold a university degree or speak English or French than other economic-class immigrants, but they have higher initial earnings than almost all other groups of immigrants, including skilled workers (Pandey and Townsend, 2013; Sweetman and Warman, 2013). PNP immigrants are initially more likely to be employed than almost all other groups of immigrants, including skilled workers. However, PNP immigrants have slower earnings growth than other groups of economic-class immigrants, and they lose their employment advantage over skilled workers within two years of receiving a permanent resident visa.

The CEC is also likely to lead to improvements in immigrants' labor market outcomes, at least in short run. Former TFWs and former international students have more years of education than other immigrants, on average. They have higher initial earnings and employment than other

¹ Based on the number of International Mobility Program work permit holder and Temporary Foreign Worker work permit holder new entries and re-entries.

immigrants, although former students lose some of their advantage within four years (Sweetman and Warman, 2009).

Meanwhile, evidence suggests that Canadian employers value temporary foreign workers' human capital more than that of other immigrants. TFWs have a higher return to education than recent permanent residents, and they have considerably higher returns to foreign work experience than recent permanent residents (Warman, 2007). In fact, recent permanent residents have a small negative return to their pre-immigration work experience, while TFWs have a sizable positive return to their prior work experience. The number of TFWs moving to permanent resident status via the PNP and CEC programs has increased rapidly (Pang, 2013). This again bodes well for measures of immigrants' economic success.

Canada has several streams of temporary foreign workers, and it recently overhauled these programs. The Temporary Foreign Worker (TFW) Program admits mainly low-skilled workers and requires that employers obtain a government-issued Labour Market Impact Assessment (LMIA) that certifies that the position cannot be filled by a Canadian worker.² The work permits issued under the TFW Program tie workers to a specific employer. The International Mobility Programs include all streams of work permit applications that are LMIA-exempt; these streams are based largely on bilateral or multilateral agreements (e.g., NAFTA) and tend to be high skilled. Most work permits issued under these streams are "open" and do not tie the holder to a specific employer.³ There are no caps on the various streams of temporary foreign workers.

However, there are downsides to Canada's TFW programs. A larger inflow of temporary foreign workers into a province appears to substantially reduce the number of Canadians who migrate into that province (Beine and Coulombe, 2014). Indeed, the long-run effect appears to be greater than one-for-one, suggesting that temporary foreign workers displace natives. This negative effect occurs despite the fact that some positions filled through the temporary foreign worker program require that the government certify that a position cannot be filled by a Canadian worker.⁴ Inflows of permanent immigrants, in contrast, do not affect the number of Canadians moving into a province. Consistent with this, other research concludes that the expansion of Canada's TFW program to include more low-skilled workers has exacerbated provincial disparities in unemployment rates (Gross and Schmitt, 2012).

Changes in U.S. immigration policy

The United States has made virtually no changes to immigration policy since the 1990s. The only substantive changes to immigration law passed by Congress since then have concerned unauthorized immigrants. Those changes focused on increased border security and interior enforcement, such as the Real ID Act. Attempts at enacting comprehensive immigration reform that would include major changes to legal immigration programs failed under both the second Bush administration and the Obama administration.

² This was formerly called the Labour Market Opinion.

³ According to Citizenship and Immigration Canada, the TFW Program aims to fill particular jobs while the International Mobility Programs' primary objective is to advance Canada's broad economic and cultural national interest.

⁴ Beine and Coulombe (2014) indicate that less than 40 percent of temporary foreign workers are currently subject to the labor market test.

The Obama administration has resorted to using executive actions to address immigration policy. These include:

- The Deferred Action for Childhood Arrivals program, which allows certain unauthorized immigrants to receive renewable two-year permits to live and work in the United States
- Allowing spouses of H-1B visa holders being sponsored for an employment-based green card to receive employment authorization. (In Canada, all spouses of high-skilled TFW visa holders are eligible for an open work permit that enables them to work for any employer in Canada. In addition, some provinces have pilot projects that provide work permits to working-age dependents of certain low-skilled temporary foreign workers.)
- Expanding the list of degree fields eligible for the STEM extension for occupational practical training (OPT) visas, which allow graduates of U.S. universities to work in the United States for 12 months after graduation before they must transition to another visa. Since 2008, graduates in STEM fields can receive a 17-month extension to their OPT visa. (In Canada, students who have graduated from an eligible Canadian post-secondary institution may apply for the Post-Graduation Work Permit Program (PGWPP), which allows them to work in Canada for up to three years. They then can transition to permanent residence under the CEC or PNP. In addition, the Federal Skilled Worker Program allows up to 500 PhD students or recipients of a PhD from a Canadian program to apply for permanent residence each year.⁵)

Summing up

Canada's immigration policy results in a larger, more skilled immigrant stream, but there are nonetheless concerns about immigrants' ability to succeed in the labor market there. Canada has made substantial changes to its immigration policy in recent years to address these concerns. At both the federal and provincial levels, Canadian immigration policy changes frequently in response to backlogs, changing demographics and perceived changes in labor demand. On the one hand, these changes make it more difficult for prospective immigrants to understand whether they are admissible and reduce the incentive to acquire qualifications that might make them admissible. On the other hand, frequently changing immigration policy presumably makes immigrant inflows more responsive to the business cycle and labor demand. It also probably makes immigration more popular with the general public; Canada has notably high levels of public support for immigration policy (Reitz, 2014).

In the United States, in contrast, immigration has become even more controversial among the general public in recent years as a result of the economic downturn, weak recovery, and inflows of unauthorized immigrants. Congress has been unable to adopt any policies to change the legal immigration system, while the Obama administration has made a few relatively minor changes via executive actions.

⁵ The program was initially capped at 1000 applications per year but has since been reduced to 500 applications per year.

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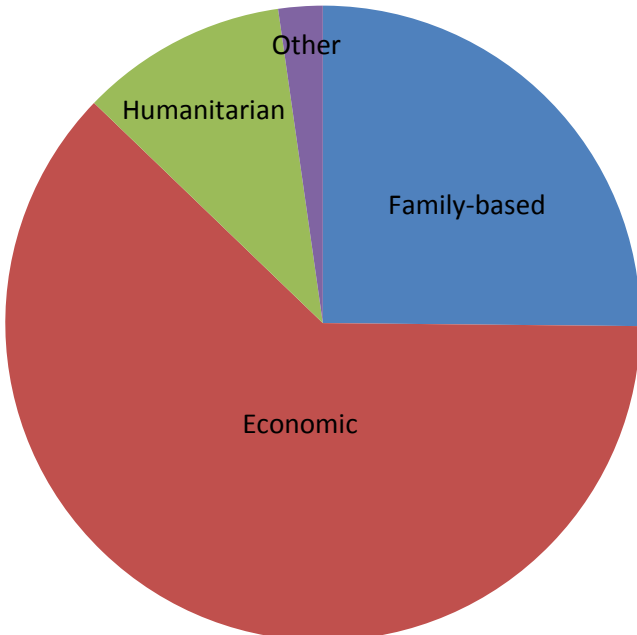
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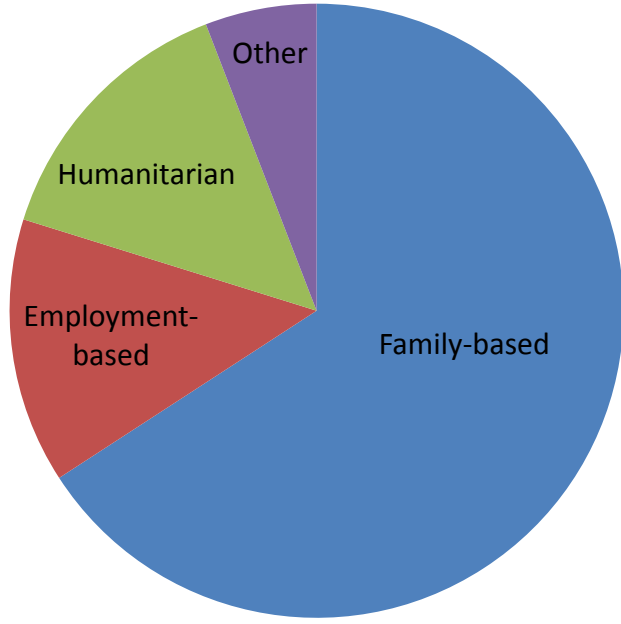
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Figure 1
Distribution of New Permanent Residents across Major Admissions Categories,
2009-2013



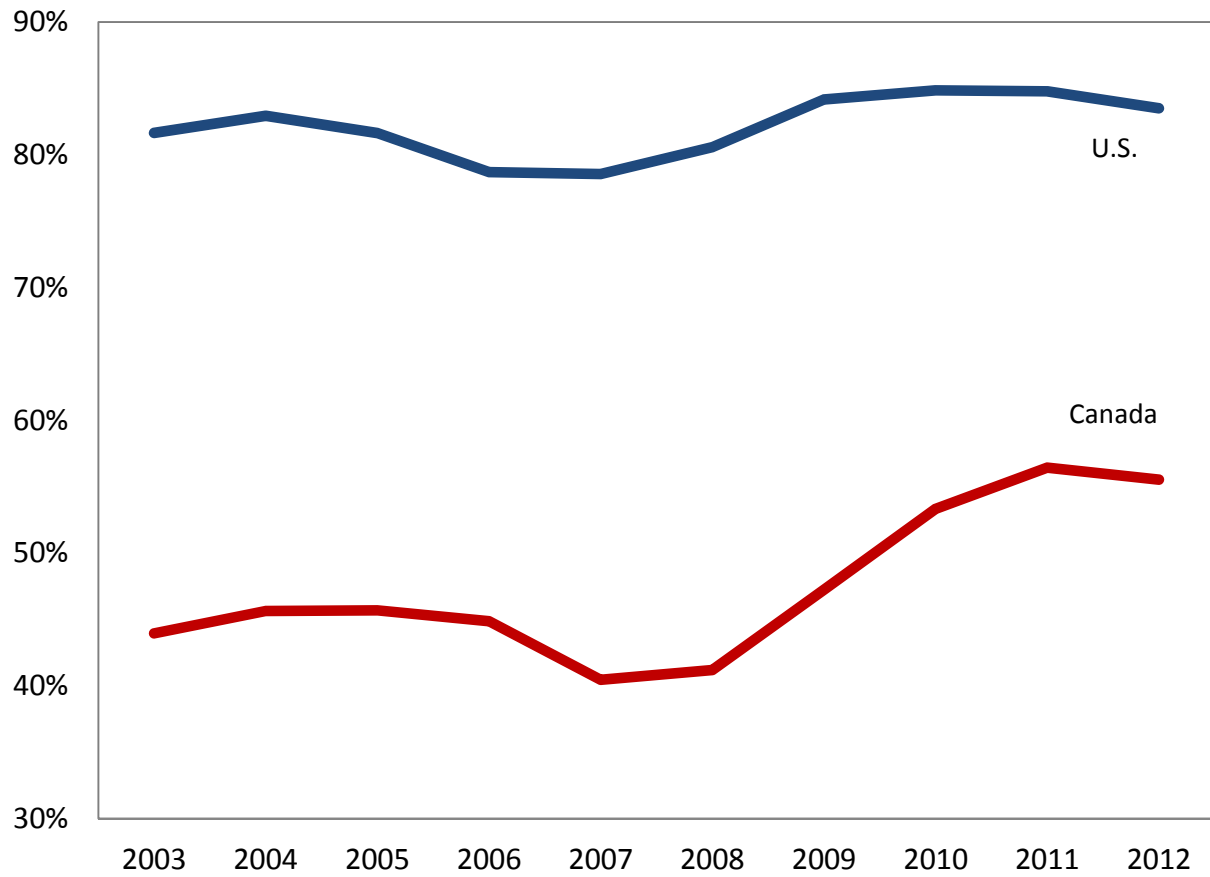
Canada



U.S.

Source: U.S. Department of Homeland Security; Citizenship and Immigration Canada; average of new permanent residents over 2009-2013 for both

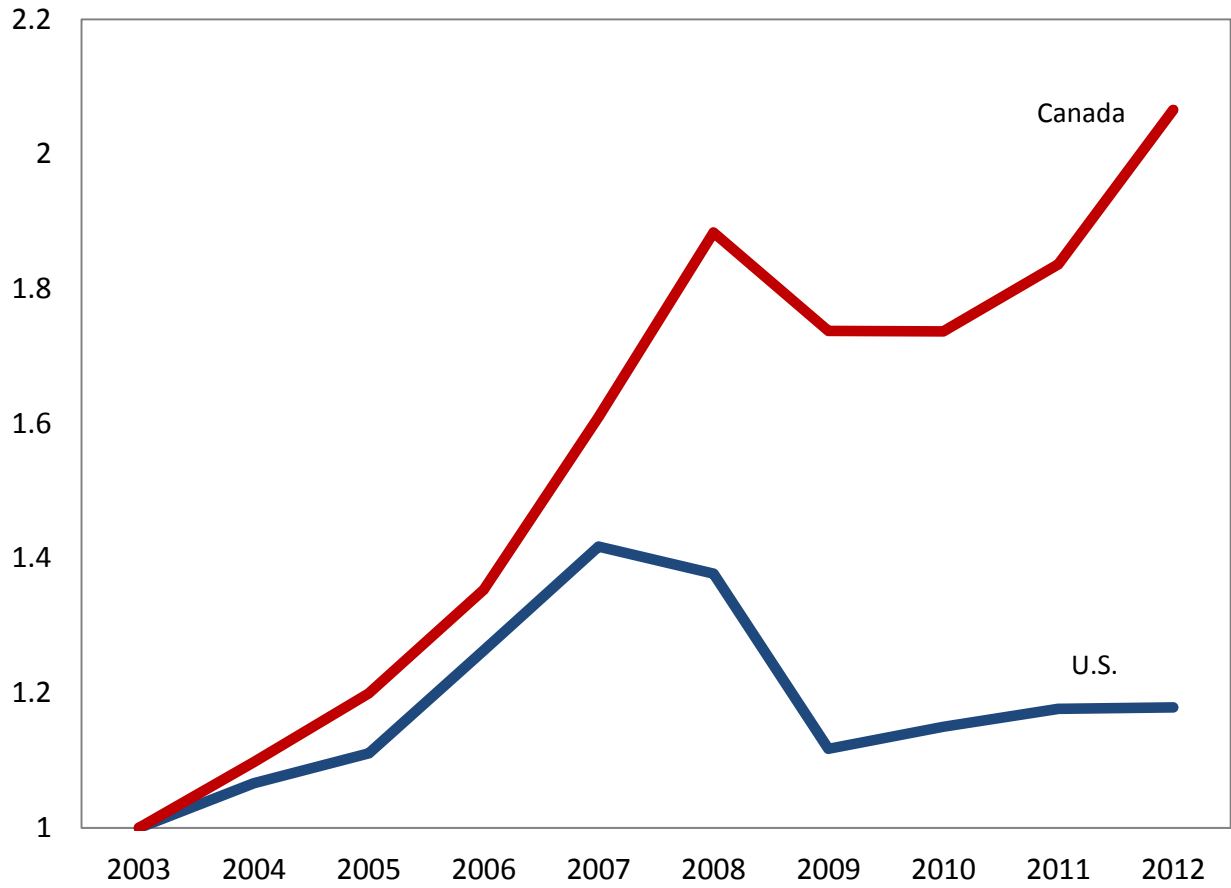
Figure 2
Skilled Share of Temporary Foreign Worker Visas, 2003-2012



Note: Does not include TN (NAFTA) visas or entries; H-2 visas considered low-skilled in US; LMO visas considered low-skilled in Canada.

Source: U.S. State Department; Citizenship and Immigration Canada

Figure 3
Number of Temporary Foreign Worker Visas Relative to 2003



Note: Does not include TN (NAFTA) visas or entries

Source: U.S. State Department; Citizenship and Immigration Canada

Figure 4
Share of Permanent Residents Adjusting from Temporary Visas, 2003-2012

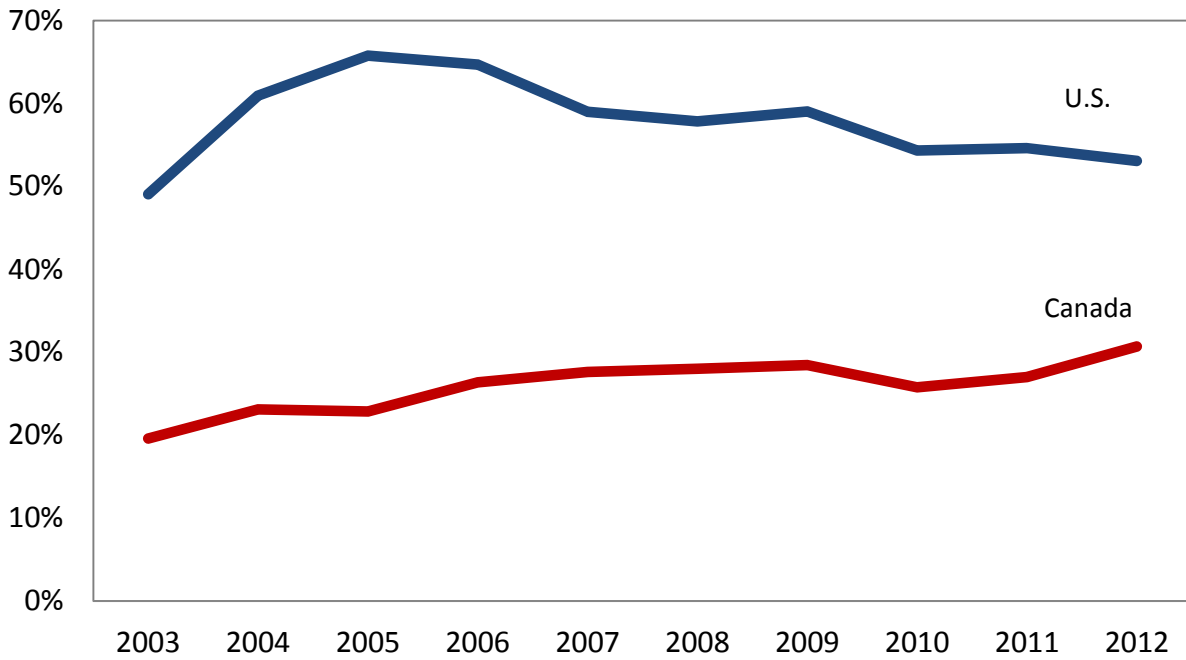
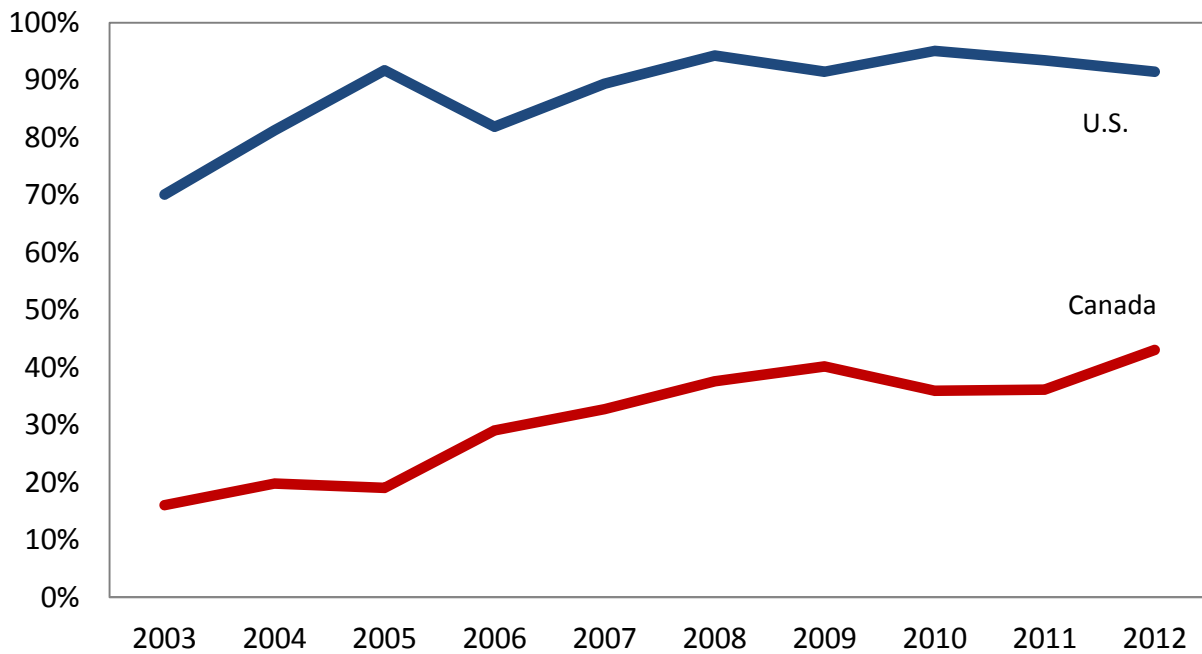


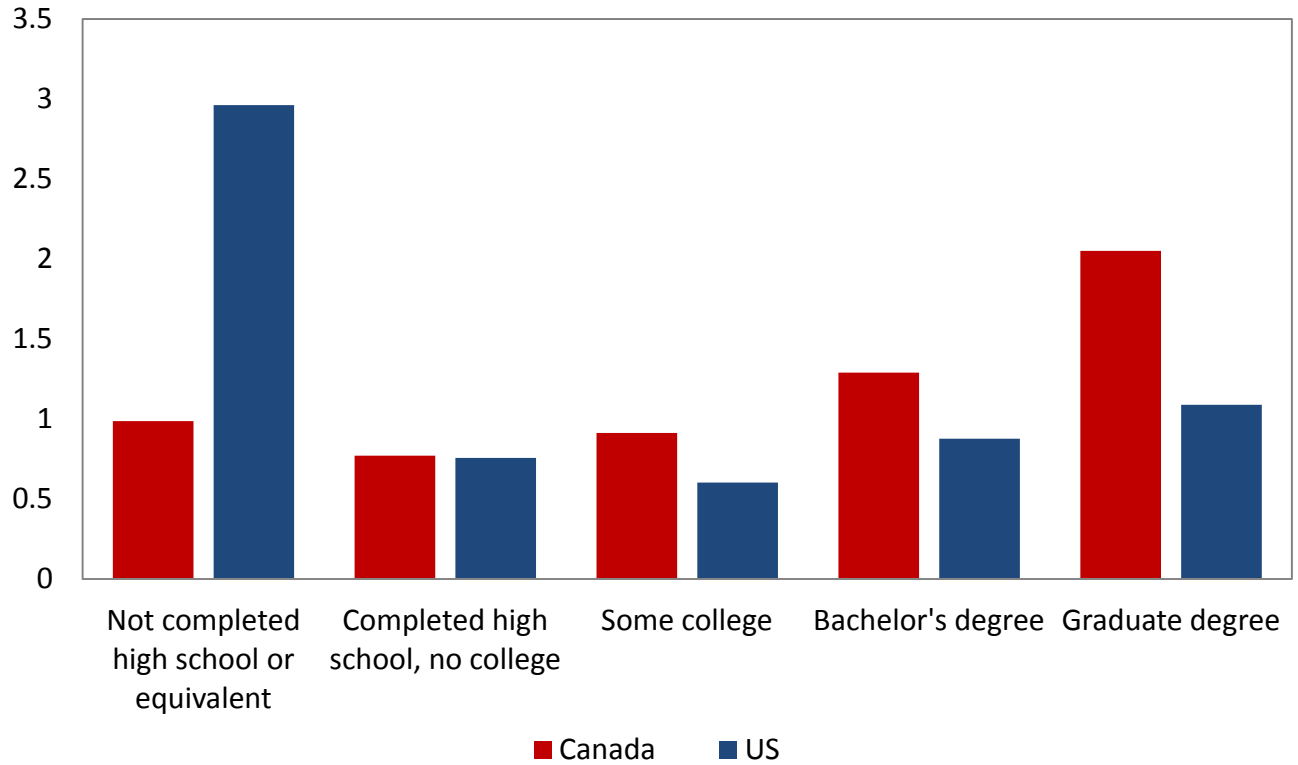
Figure 5
Share of Employment-Based (Economic) Principal Applicants Adjusting from Temporary Visas, 2003-2012



Source: U.S. Department of Homeland Security; Citizenship and Immigration Canada

Figure 6
Education Distribution among Immigrants Relative to Natives

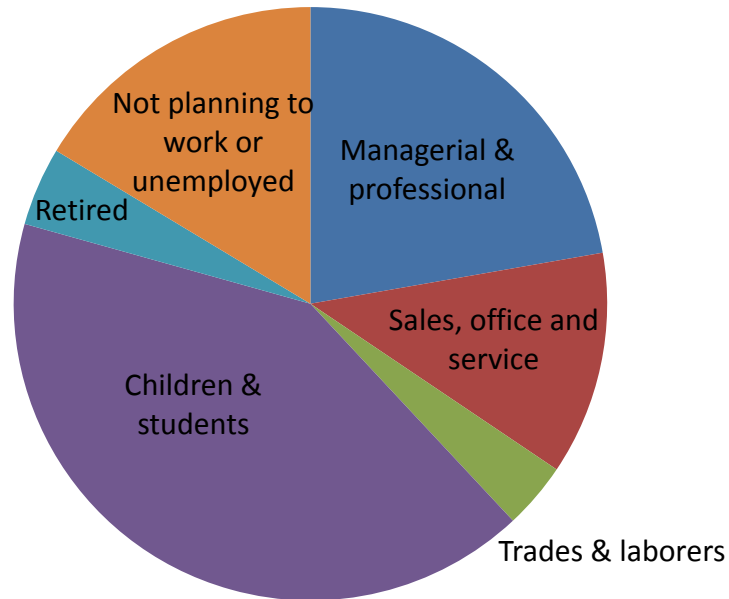
Ratio of foreign born share
to native born share



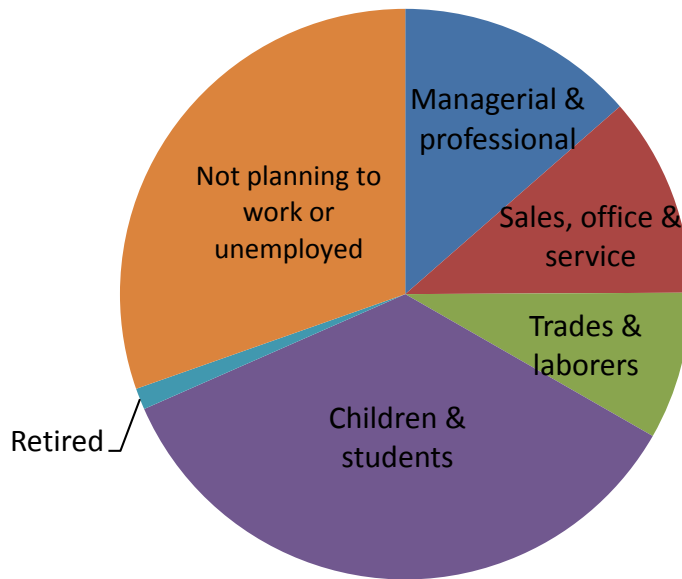
Note: Only includes people aged 25 and older

Source: Calculations based on 2011 American Community Survey and 2011 National Household Survey

Figure 7
Occupational Distributions of New Permanent Residents, 2008-2012



Canada



U.S.

Source: U.S. Department of Homeland Security; Citizenship and Immigration Canada