

# Enhancing the Labour Market Outcomes of Immigrants to Canada

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## Executive Summary

The Canadian government's plan to increase levels of permanent immigration is predicated on promoting overall economic growth by increasing the supply of labour. Whether and to what extent this goal is achieved depends heavily on the labour market performance of the immigrant cohorts admitted to Canada. In this context, public policies that promote higher employment rates and increased labour productivity of immigrants would strengthen the linkages between rising numbers of permanent immigrants and real economic growth.

A review of the literature focused on the historical labour market experiences of immigrants to Canada provides some insight into policies that might contribute to improved employment rates of new immigrant cohorts, as well as increased labour productivity tied to immigration. As relevant background, this literature identifies a persistent earnings gap that immigrants suffer relative to Canadian-born workers, even after holding constant factors such as work experience and attained education level.

Empirical studies suggest that the earnings gap reflects both lower employment rates and lower employment compensation for immigrants than for their Canadian-born counterparts with similar levels of formal education and training. Precise identification of the contribution of each component is difficult, however, because many studies simply focus on the earnings gap and not separately on differences in employment rates and compensation that condition the gap. On balance, differences in employment compensation of immigrants and Canadian-born workers seem particularly relevant, even when holding levels of formal education and work experience constant. A number of studies have attempted to explain such differences in compensation, which presumably reflect differences in productivity.

In this context, the earnings gap between immigrants and their Canadian-born counterparts has been linked most prominently to newly arrived permanent immigrants' lack of proficiency in one of Canada's official languages, their unfamiliarity with Canadian workplace cultural practices, and a lack of recognition of foreign credentials and professional experience by prospective Canadian employers and unions. In many instances, the

licensing requirements of professional accreditation bodies serve as a barrier to entry to immigrants trained as engineers, health care workers, and educators into comparable roles in Canada. The net result is that newly arrived immigrants find it a challenge to find employment in occupations where they can use the specialized human capital they obtained abroad, in part because that human capital is not as productive in the Canadian context as it would be if it had been obtained in Canada, as well as because of licensing and other restrictions unrelated to the skill and work experience of immigrant job applicants. In short, the contribution of increased immigration to overall economic growth would be enhanced by increased language proficiency and greater familiarity with local workplace practices and norms on the part of new permanent immigrants. Reducing licensing and credentialing restrictions on new entry into specialized occupations and professions would also strengthen the linkage between immigration and overall economic growth in Canada.

Identification of the broad factors that contribute to the persistent earnings gap between immigrant and Canadian-born participants in the workplace highlights specific policy initiatives that hold promise for improving the labour market performance of immigrants. One such initiative would be to select a greater percentage of permanent immigrants from the temporary foreign workers and students already in Canada, who are more likely to be familiar with cultural and related features of Canadian society and its labour market practices than are permanent immigration candidates who have never lived and worked in Canada.

A second initiative would be to attach a higher weight to official language capability in the points-based evaluation criteria applied to applicants for permanent residence under economic immigration programs. Alternatively, the evaluation framework could be modified to require applicants to demonstrate a relatively advanced level of language proficiency in one of the official languages in order to be eligible for entry as a skilled worker, regardless of how well the applicant performs on other criteria in the point-based evaluation system. Given the uncertainty surrounding the quality of many foreign universities and colleges, consideration might also be given to modestly reducing the weight assigned to attained levels of formal education in the points system.

A third initiative would be to place increased emphasis on strengthening language and communication skills in the suite of post-landing immigrant services funded by different levels of government and typically delivered by local service agencies.

Finally, it is questionable whether the existing complex mix of licensing and certification requirements—particularly those applying to regulated professions and

occupations—is needed in all cases. Provincial governments therefore should consider using their legal powers to minimize the role of prior Canadian work experience in assessing candidates for professional and occupational licensure. As well, measures to reduce barriers to labour market mobility between provinces would improve the efficiency of the labour market for both immigrants and Canadian-born labour market participants.

In May 2023, Immigration, Refugees and Citizenship Canada unveiled new category-based selection rules that allow for more targeted selection of candidates from the Express Entry pool. This will enable the government to admit more permanent immigrants with very specific qualifications to help meet identified labour market needs and address chronic skill shortages. The revised rules are also intended to encourage more applicants with French language skills. The policy shift involves moving partly away from the points-based system for economic immigrants to one that will attach a higher ranking to applicants with experience in specific occupational fields, such as technology and health care, and/or demonstrated competence in French. In essence, the category-based selection criteria prioritize “specific” human capital and put less emphasis on measures of “general” human capital that, until now, have been central to the points-based selection system. The primary stated goal of the new policy is to further improve the labour market outcomes of permanent immigrants in order to boost economic growth. At this early stage no judgement can be offered as to whether or to what extent the policy will be successful. It should also be noted that this changes was announced after the analysis for this report was completed.



## Introduction

In November 2022, the minister of Immigration, Refugees and Citizenship released Canada’s 2023–25 Immigration Levels Plan (Canada, 2022). The plan sets immigration targets of 465,000 new permanent residents in 2023, 485,000 in 2024, and 500,000 in 2025—the latter being 75 percent higher than the 2017 target. These targets represent significant increases over the 437,000 permanent newcomers who arrived in 2022, which was itself the largest number of immigrants in a single year. Immigrants coming to Canada hail from all over the world. In 2022, India was the top source country for new permanent residents, followed by China, the Philippines, and Nigeria (Lotin and Mahboubi, 2023).

This essay is mainly concerned with permanent immigration programs and their role in the Canadian labour market. Among other things, we identify and discuss policies that could improve the labour market outcomes of permanent immigrants. That said, it is important to note that Canada also admits large numbers of “temporary” immigrants—primarily international students and temporary foreign workers (TFWs)—who obtain visas to spend time in the country. In recent years, temporary immigration has skyrocketed. From a labour market perspective, temporary immigration merits attention for three reasons: it brings in significant numbers of visa-holding workers; many foreign students in Canada are permitted to work while they are studying here; and the ranks of permanent new immigrants increasingly are being filled by individuals already in the country (both students and “temporary” foreign workers). Appendix 1 provides additional background on temporary immigration.

A prominent rationale advanced by Canadian policy makers for sharply raising permanent immigration levels is to mitigate a growing dependency ratio associated with an aging domestic workforce and population. The dependency ratio is conventionally defined as the ratio of individuals who are age 65 and older to those ages 15 to 64 (Globerman, 2023). The former are assumed no longer to be in the workforce, and therefore are dependent on the latter to pay for income support and social services provided by government to retirees. Canada’s aging population implies that the ratio of retired to

working Canadians will increase over the foreseeable future, other things being constant.<sup>1</sup> Expanding the size of the working-age population through higher levels of immigration should reduce the dependency ratio by increasing the denominator of the ratio.

At the time of the 2021 census, two-thirds of all immigrants who had arrived in Canada in the preceding five years were of “core working-age.” Another 11 percent were youth and young adults ages 15 to 24. The census results show that immigration policy has indeed been helping to “rejuvenate” Canada’s aging population.<sup>2</sup>

Generally, increasing the working-age population should promote overall economic growth, other things being equal. Faster economic growth, in turn, should result in additional tax revenues for governments, thereby providing financial support for public sector spending programs—including those aimed at retired people. Indeed, the federal government has identified its immigration targets as a plan to grow the economy. The simple logic underlying this strategy is made explicit in the following equation:

$$Y_t = \text{Pop}_t \times (\text{Emp}/\text{Pop})_t \times (Y/\text{Emp})_t. \quad (1)$$

Equation (1) is simply an identity that says that the total real output of an economy in any period ( $Y_t$ ) will equal the total population in that period multiplied by the share of the population that is employed (the employment ratio), further multiplied by the real output produced by the average employed individual (average labour productivity). The employment ratio, in turn, is conditioned by two factors: the labour force participation rate and the percentage of labour force participants who gain employment.<sup>3</sup>

In this context, immigration directly increases the size of the total population. The magnitude of the increase in real output (total inflation-adjusted gross domestic product, GDP) associated with any given increase in immigration therefore depends upon

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1 One estimate is that the retiree-to-worker ratio, which, 50 years ago, was 1 to 7, will increase to 1 to 2 by 2035 (Canada, 2022). Another estimate is that the ratio will more than double over the 2018–68 period from 1 to 3.6 to 1 to 1.8 (Globerman, 2023).

2 According to Statistics Canada (2022c), “Immigrants make up the largest share of the population in over 150 years and continue to shape who we are as Canadians.” The core working-age population consists of individuals ages 25 to 54. Statistics Canada defines the total working-age population as those ages 15 to 64. To be sure, earlier generations of immigrants ultimately will age out of the workforce, which suggests that permanent reductions in the dependency ratio will require ever-increasing numbers of working-age immigrants.

3 Individuals are considered to participate in the labour force if they are employed or actively seeking employment and willing to accept employment at prevailing market compensation rates for given occupations.

whether and by how much immigration affects the employment ratio and average labour productivity. To the extent that new immigrants are more (or less) likely to be employed than the average Canadian resident, the employment ratio will increase (or decrease). The federal government's immigration strategy presumes that the employment ratio is more likely to increase than to decrease with higher levels of immigration.<sup>4</sup> In fact, this presumption underlies the relevance of the government's reference to the dependency ratio as a primary basis for its overall immigration strategy.

Under the federal government's updated 2022 immigration plan, close to three-fifths of new permanent immigrants will be "economic immigrants,"<sup>5</sup> almost one-quarter will come under family reunification, while refugees and others admitted on humanitarian grounds will make up the rest. Although immigrants in all these categories are eligible to seek and find employment once in Canada, employment rates and earnings are highest for those admitted through the economic immigration programs.

To the extent that immigration results in an increase in the employment ratio, the impact of increased immigration on overall economic growth will be enhanced if immigrants are more productive than are Canadian-born workers on average—assuming that the productivity of the latter is not affected by immigration. To our knowledge, Federal government officials have offered no public analysis of whether and how planned higher immigration levels might affect average labour productivity over time.<sup>6</sup> However, the latest version of the federal government's immigration plan discusses new features of the Express Entry System, which was established to welcome immigrants with certain skills and qualifications, including training in science, technology, engineering, and mathematics (STEM) disciplines—suggesting a policy focus on attracting immigrants with relatively high levels of human capital. This, in turn, should be positively related to labour productivity. As well, the immigration plan released in November 2022 signals

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4 In theory, the ratio could decrease if a significant number of immigrants remained unemployed or if those who became employed simply displaced already employed Canadian-born workers, who then became unemployed.

5 The figure includes dependents of the primary applicant.

6 One prominent argument found in the academic literature posits that surging immigration levels depress real wages, which, in turn, discourages investment in capital equipment and labour-saving technologies. A lower capital-to-labour ratio is associated with lower overall labour productivity, other things being constant. Some commentators argue that even current higher planned immigration levels are too small as a share of Canada's total labour force to reduce the relative price of labour to capital and, therefore, to discourage capital investment.

a greater emphasis on addressing labour shortages in local labour markets through the Provincial Nominee Program,<sup>7</sup> which should also work to link increased immigration with a higher employment ratio.

Obviously, the stronger the positive linkages between increased immigration and changes in the employment ratio and average labour productivity, the more successful will be the government's immigration strategy in a broad economic sense. The main purpose of this essay is to identify and discuss public policy initiatives, both directly and indirectly related to immigration, that promise to strengthen the positive linkages that tie higher immigration to increased real output. As related background, we also discuss the historical relationships between immigration and employment in Canada on the one hand and immigration and labour productivity on the other.

Given the diverse and complex economic and social effects of immigration, it is useful to state explicitly what this essay will not examine. Whereas much of the economic literature on immigration has focused on the impact of immigration on real per capita income, rather than on total output, here we focus on the latter, since increased total output is the putative goal of the federal government's immigration strategy. The literature exploring immigration's impact on real per capita income is inconclusive, on balance, although the evidence that highly educated immigrants contribute to increases in per capita income through innovation and entrepreneurship is more definitive.<sup>8</sup>

The rest of the essay proceeds as follows. The next section reviews the labour market experience of immigrants to Canada over the past few decades, drawing on existing academic research. Of particular interest is the extent to which the labour market experience of first-generation immigrants differs from that of native-born Canadians in terms of their likelihood of being employed and their compensation from employment, where compensation from employment can be viewed as a measure of productivity. An overview of the labour market experience of immigrants can provide insight into the

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7 The Provincial Nominee Program (PNP) is a set of programs operated by the federal government in partnership with individual provinces under which the latter are able to select certain numbers of immigrants to meet specific provincial labour market needs. It is aimed at immigrants who seek to become permanent residents of Canada. The PNP stream is the second-largest source of economic immigrants, after the Skilled Worker program operated by the federal government, accounting for roughly one-fifth of all immigrants admitted through economic streams. Immigrants who apply for admission through the PNP typically are processed more quickly than those who do not access the PNP stream. Note that Quebec does not operate a PNP, but it has wider latitude than the other provinces to select economic immigrants in general.

8 For a review of the literature concerning the effect of immigration on per capita income, see Gliberman (2019). McGugan (2023) summarizes the available Canadian evidence as failing to show a relationship between increased immigration and higher per capita incomes.

economic relevance of policy measures that might improve both the process by which immigrants are selected and their efforts—once admitted—to obtain employment in Canada that matches their skill and education levels. We then consider the main obstacles immigrants face in seeking to work and advance their careers in Canada, the role of government policies and programs in addressing and reducing these barriers, and possible changes to the criteria used to assess prospective immigrants that might improve their post-landing labour market performance. The final section offers brief concluding comments.

## The Labour Market Experience of Canadian Immigrants

In a review of the literature on the economic integration of Canadian immigrants from the early 1970s to the early 1990s, Hum and Simpson (2004) summarize the evidence as showing that, on average, immigrants suffered an earnings disadvantage compared with their Canadian-born counterparts. Furthermore, they find no evidence that immigrants' earnings after entry to Canada eventually converged to the earnings of the Canadian born. They note that, although most individuals encounter adjustment difficulties when entering the labour market, immigrants face additional difficulties such as lack of proficiency in at least one of Canada's official languages, unfamiliarity with cultural practices in the Canadian workplace context, and a lack of recognition of foreign credentials and professional experience by prospective Canadian employers or unions. The studies the authors review take into account various characteristics, such as attained education level and occupation, that influence the labour market performance of immigrants and non-immigrants.<sup>9</sup>

The earnings gap identified for immigrants potentially reflects a lower probability of gaining employment in given occupations compared with that of the Canadian born, as well as lower average incomes earned by employed immigrants compared with those of the employed Canadian born. The latter phenomenon could reflect that immigrants are employed in lower-wage jobs or paid less than the Canadian born for similar jobs. Aydemia and Skuterud (2005) use data from the 1981, 1986, 1991, 1996, and 2001 censuses to identify a substantial deterioration in the entry earnings of recent immigrant cohorts through the 1970s, 1980s, and the first half of the 1990s. They conclude that the deterioration reflects both relatively low labour force participation rates and employment rates for these cohorts, as well as lower entry earnings for employed immigrants

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9 Estimates of the earnings gap between immigrants and Canadian-born workers over the focus period vary widely between 15 percent and 45 percent, depending upon gender and other characteristics and where earnings include those from paid employment and self-employment. See Hum and Simpson (2004).

compared with those of their Canadian-born counterparts. Their baseline estimates, which control for the aggregate unemployment rate, indicate that the 1995–99 immigrant cohort had full-year, full-time entry earnings that were 24 percent lower than those of immigrants who arrived between 1965 and 1969 and had similar amounts of foreign and Canadian labour market experience and years of schooling.<sup>10</sup>

Grant and Sweetman (2004) report similar results in their analysis of the immigrant labour market in Canada over the 1980s and 1990s. Whereas the mean earnings of previous cohorts of immigrants converged to, or even exceeded, those of their Canadian-born counterparts, the authors do not find this to be the case for the cohorts of immigrants in their sample period.<sup>11</sup> They report that recent immigrants experienced lower labour force participation rates, higher rates of unemployment, and lower earnings than their Canadian-born counterparts.

Other findings reported by Grant and Sweetman (2004) are reinforced by more recent research—in particular, the older the age of the immigrant on arrival, the lower the economic returns to the immigrant’s foreign work experience and formal education. This is consistent with the idea that linguistic and perhaps cultural integration is easier for immigrants who arrive at a young age, and that linguistic and “soft” cultural skills are important contributors to success in the labour market. As well, Canadian-educated immigrants have quite high returns to their credentials, whereas foreign-educated immigrants from non-traditional source countries obtain a lower return to their schooling and credentials.

More recent evidence on the labour market experience of immigrants comes from Statistics Canada (2022a). Table 1 reports the median employment incomes of immigrants and non-immigrants from the 2021 census; immigrants include those admitted to Canada on or prior to May 11, 2021, while the median employment incomes are for 2019. Since Statistics Canada provides separate estimates for visible and non-visible minorities for both immigrants and non-immigrants, this information is also reported in Table 1. The employment income estimates are provided for all immigrants and non-immigrants and are also broken down by education level. Comparisons at comparable education levels arguably are more appropriate than a total comparison, given that higher incomes

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10 Aydemir and Skuterud (2005) do not report differences in employment rates across cohorts of immigrants, so it is unclear how much of the earnings gap is due to different full-time employment rates between immigrants and their Canadian-born counterparts versus differing compensation given employment status.

11 Campolieti et al. (2013) conclude, based on census data, that cohorts of immigrants arriving after the late 1970s suffered an increasing earnings penalty relative to their Canadian-born counterparts, but that this was not the case for the most recent cohort (2002–06) in their sample.

typically are associated with higher education levels.<sup>12</sup> While there are more than three education-level subcategories in the Statistics Canada report, the differences between the incomes of immigrants and non-immigrants are fairly consistent across the various levels of education. Hence, for convenience, we report median employment incomes for three broad education-level subcategories.

**Table 1: Median Employment Income of Immigrants and Non-Immigrants**

Education Level	Visible Minority Immigrants	Non-Visible Minority Immigrants
Total	\$37,600	\$41,600
Post-secondary	43,200	48,000
Bachelor's degree or higher	48,400	58,000
Apprenticeship or Trade certificate	34,800	35,600

  

Education Level	Visible Minority Canadian Born	Non-Visible Minority Canadian Born
Total	\$39,200	\$40,000
Post-secondary	49,200	49,600
Bachelor's degree or higher	62,000	63,600
Apprenticeship or Trade certificate	43,600	44,000

Source: Statistics Canada (2022a).

Two observations can be drawn from the data reported in Table 1. First, whether one considers immigrants or non-immigrants, visible minority workers earn less than non-visible minority workers in the various education-level subcategories, but the differences are more marked for immigrants than for non-immigrants. This observation is consistent with studies using earlier census data that found significant country-of-origin effects for reported employment income. In particular, immigrants from “non-traditional” countries had lower entry-level incomes than did immigrants from “traditional”

<sup>12</sup> In this regard, it is noteworthy that, in the category “Total: Highest certificate, diploma or degree,” immigrants in the non-visible minority category had a higher median employment income than did non-immigrants. This arguably reflects the fact that the former category had higher education levels than the latter.

source countries—that is, English-speaking and some European countries.<sup>13</sup> (We discuss possible explanations of these country-of-origin effects in a later section.)

As noted earlier, employment incomes can differ between immigrants and Canadian-born workers because of differences in both employment status and employment earnings. As Statistics Canada (2023) reports, however, those differences are relatively minor: in 2019, as Table 2 reports, the labour force participation and employment rates for the total population and for the Canadian-born were 66.1 percent and 66.4 percent, respectively, while employment rates for the two groups were 62.3 percent and 62.8 percent, respectively. Differences in these rates ostensibly reflect differences in the participation and employment rates of immigrants and the Canadian born, suggesting that the lower employment incomes of immigrants identified in Table 1 are a consequence of lower compensation, as opposed to greater voluntary or involuntary unemployment among immigrants compared with the Canadian born. Notably, these recent data indicating similar employment rates for immigrants and the Canadian born differ from studies of older cohorts of immigrants that report lower employment rates for immigrants.

**Table 2: Labour Force Participation and Employment Rates, 2019**

	Participation	Employment
Total Population	66.1	62.3
Born in Canada	66.4	62.8

Source: Statistics Canada (2023).

Amo-Agyei (2020) offers some additional insight into the labour market experience of Canadian immigrants relative to that of immigrants to other high-income countries. As Table 3 shows, the median hourly and monthly pay gap between the Canadian-born and immigrants prior to the COVID-19 pandemic was 3 percent and 4 percent, respectively; in other high-income countries, in contrast, the pay gap was 12.6 percent and 14.5 percent, respectively. It should be noted that the pay gaps Amo-Agyei estimates for Canada are also considerably smaller than the earnings gap reported by Hum and Simpson (2004), who examine the labour market experience of Canadian immigrants prior to 2000.

13 See, for example, Bloom et al. (1995), who use pooled census data from 1971, 1981, and 1986. They conclude that more recent immigrant cohorts experienced more difficulty assimilating into the Canadian labour market than did earlier immigrant cohorts, a larger percentage of whom were from traditional countries of origin.

**Table 3: Mean Hourly and Monthly Immigrant Pay Gap for Canada and Other High-Income Countries, Pre-COVID-19 Pandemic**

	Mean Hourly	Mean Monthly
Canada	4.00%	3.00%
Other	12.60%	14.50%

Source: Amo-Agyei (2020).

To account for composition effects on earnings, Amo-Agyei (2020) generates a factor-weighted pay gap. In essence, he groups migrant and non-migrant workers into relatively homogeneous subgroups based on selected observed characteristics (or factors), and then estimates the migrant pay gap for each subgroup. A weighted sum of all the subgroups' specific pay gaps is then estimated to obtain a factor-weighted pay gap—with the weights reflecting the size of each subgroup in the population. The author chose education, labour market experience, and sex as the three factors that make up the major part of the compositional effects on the measured overall earnings gap. He determines, in the end, that the factor-weighted mean hourly immigrant pay gap in 2018 was 10.98 percent in Canada and 9.5 percent in other high-income countries (see Table 4).

**Table 4: Factor Weighted Mean Hourly Immigrant Pay Gap for Canada and High Income Countries**

	Pay Gap
Canada 2018	10.98%
High Income	9.50%

Source: Amo-Agyei (2020).

Interestingly, the factor-weighted pay gap for Canada was higher than the non-factor-weighted pay gap. Moreover, the factor-weighted pay gap was larger in Canada than in other high-income countries, whereas the opposite is the case for the non-adjusted estimated wage gap. A possible explanation of these differences is that immigrants to Canada are more highly educated, on average, than the Canadian-born population, whereas this is not the case in other high-income countries. Amo-Agyei (2020) in fact supports this explanation, finding that, in Canada, 39.8 percent of migrants had a university education, compared with 22.6 percent of the Canadian born. In other high-income countries, in contrast, the shares are virtually identical: 29 percent for migrants and 28.8 percent for

the Canadian born. This difference reflects the influence of Canada's greater reliance on "skills-based" criteria for selecting permanent immigrants. In effect, the relatively high average level of formal education of recent Canadian immigrants contributes to higher earned incomes, but that educational earnings premium, however, is significantly below the educational earnings premium captured by Canadian-born workers with similar levels of formal education to those of immigrants.

In summary, an ongoing earnings gap exists between immigrants to Canada and the Canadian born, although the gap arguably has narrowed over the past two decades. At the same time, the education and skill levels of immigrants have risen gradually relative to those of the Canadian-born population, which is consistent with the increasing emphasis on education and occupational skills in Canada's immigrant selection process. These and other important compositional influences have been insufficient, however, to close the persistent earnings gap between immigrants and the Canadian born.

Amo-Agyei (2020) offers two broad potential explanations for the ongoing earnings gap in high-income countries, including Canada. The most compelling explanation is an inefficient matching process in labour markets, whereby migrants face significant barriers to transferring their skills and experience from their countries of origin.<sup>14</sup> A second and more specific explanation is that employers in immigrant-receiving countries might discriminate against immigrants, particularly those who are members of a visible minority.

Clearly, potential remedies to address the labour market mismatching of immigrants to employment will be more or less relevant depending upon the underlying reasons for the mismatching. It might also be the case that some portion of the earnings gap is due to unobservable labour market characteristics such as "people skills" that are not captured by measurable differences between immigrants and the Canadian born in attributes such as education, language proficiency, and so forth, as they apply to workplace behaviour and practices. In the next section, we offer a brief review of relatively recent empirical studies that examine potential contributors to the earnings gap between immigrants and the Canadian-born population.

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14 Barriers can be related to information asymmetries—for example, potential employers simply do not have relatively low-cost information about the "quality" of the skill levels and work experience of immigrants—or to regulatory and credentialing (licensing) requirements that limit the access of immigrants to employment in specific occupations. It is likely that both factors are operative.

## Factors Influencing the Immigrant Earnings Gap

A literature has developed over time that attempts to explain the observed earnings gap between immigrants and the Canadian born. On balance, the lower earnings of immigrants with the same amount of education and work experience as their Canadian-born counterparts are often attributed to the specificity of human capital to the country of origin (Bonikowska et al., 2008). That is, the education and work experience immigrants gained outside Canada is simply considered less valuable in the Canadian labour market context than education and experience gained inside Canada.

The locational specificity of formal and informal human capital is manifested by the difficulty immigrants have in finding work in their fields of expertise, perhaps even having to restart their careers upon arrival in Canada. RBC Economics (2019) reports that 64 percent of immigrants surveyed said they found it difficult or very difficult to obtain a job that matches their skills and education. Ferrar and Riddell (2008) use census data from 1981 to 2001 to study how the human capital of immigrants is rewarded in Canada. They find that immigrants' years of schooling and work experience accumulated before arrival in Canada are valued much less than the Canadian experience of comparable Canadian-born individuals. For immigrants, however, the increase in earnings associated with completing educational programs is generally higher than for comparable Canadian-born individuals. Ferrar and Riddell identify this phenomenon as a "sheepskin" effect—that is, the gain in earnings associated with the receipt of a degree, controlling for years of schooling. Relying on formal credentials is often a means of evaluating a prospective employee's human capital (even for the Canadian born).

Notwithstanding the accumulation of empirical studies of the immigrant earnings gap, the precise determinants of the locational specificity of human capital have proven difficult to identify. Bloom et al. (1995), in an important study, suggested that recent immigrant cohorts have had more difficulty being assimilated into the Canadian labour market than did earlier cohorts, in part as a consequence of labour market discrimination against visible minorities. In a subsequent study, however, Ferrar et al. (2006) reject this suggestion. Using results from tests of literacy, numeracy, and problem-solving skills

as direct measures of cognitive skills, they conclude that literacy skills are an adequate measure of cognitive skills, and that the distribution of literacy skills of the Canadian born dominates that of immigrants. Contrary to the discrimination-based explanation for the immigrant earnings gap, they find that immigrants and the Canadian born obtain similar returns to literacy skills. Indeed, differences in literacy skills account for a significant portion of the overall immigrant earnings gap. For example, among the university educated, literacy differences account for about two-thirds of the earnings gap. However, low returns to foreign experience still have a significant impact on the earnings gap between highly educated immigrants and the Canadian born, as is also the case for less-educated cohorts of immigrants.

More recent evidence that literacy skills, as proxied by language skills, condition the immigrant earnings gap in Canada is provided in Xu and Hou (2023). They examine the effects of test-based measures of language proficiency in four dimensions—listening, speaking, reading, and writing—on immigrant employment and earnings. Their analysis focuses on economic principal applicants admitted through the Express Entry system who immigrated to Canada between 2015 and 2018. They also examine a measure based on self-reported knowledge of official languages at the time of immigration. The authors find that, in the initial years after immigration, test-based language measures in all four dimensions, as well as the self-reported language measure, had little effect on the incidence of employment. However, the four test-based measures of official language skills all had independent positive effects on earnings, with reading skills having a somewhat larger marginal effect than the other dimensions. The predictive and marginal effects of each of the four dimensions were much stronger than those of the self-reported measure, suggesting that the latter considerably underestimates the effect of language skills on earnings. Xu and Hou conclude that tested official language skills were as important as pre-immigration Canadian work experience and more important than the educational level and age at immigration in predicting initial earnings of principal applicants admitted under the Express Entry system.

RBC Economics (2019) also cites evidence that problems assimilating immigrants into the Canadian labour market do not reflect discrimination—that is, employers do not pay immigrants from non-traditional countries less than their Canadian-born counterparts—when the *ex post* workplace productivity of immigrants and their Canadian-born counterparts are identical. The study points to the finding that immigrants who came to Canada prior to their sixteenth birthday do as well as or better than their Canadian-born counterparts. The contrast with the experience of those who immigrated to Canada in

their adult years adds weight to RBC Economics' view that a root cause of the immigrant wage gap is lack of time spent in the Canadian labour market, as well as occupational licensing and other restrictions affecting immigrants that might limit their ability to benefit fully from the skills and training they obtained outside Canada.<sup>15</sup> Since occupational licensing restrictions apply to all would-be applicants, both immigrants and the Canadian born, such restrictions are not *per se* discriminatory against immigrants.

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15 An interesting observation is that immigrants generally earn less than their Canadian-born counterparts in the same occupations, with the exception of those working in the sciences (RBC Economics, 2019). This phenomenon might obtain because it is easier for Canadian employers to assess human capital when the requisite skills are less culturally specific, as is arguably the case for STEM-related jobs. Also interesting is that RBC Economics does not mention literacy and related skills as a relevant possible influence on the immigrant earnings gap, which runs counter to the results of some other Canadian research discussed earlier.

## Policies to Improve the Labour Market Performance of Immigrants

In recent years, new immigrants to Canada have had a higher employment rate than the Canadian-born population. This primarily reflects two contemporaneous trends: 1) a gradual decline in the employment rate of the Canadian born, due to population aging and the exit of large numbers of baby boomers from the workforce (Bartlett, 2022); and 2) the fact that newcomers to Canada are both younger on average than the Canadian-born population and increasingly well educated (Wong, 2020).

Of course, some immigrants still struggle to make their way in Canada's job market, as evidenced by the ongoing earnings gap between immigrants and the Canadian-born, even, as we have seen, after accounting for factors such as education and skill levels that influence labour market outcomes.<sup>16</sup> The earnings gap points to mismatches between labour market demand and the selection criteria used to assess prospective immigrants, as well as the presence of barriers that apparently make it difficult for many newcomers to earn compensation consistent with their pre-arrival work experience and educational qualifications. Inadequate language and literacy skills are one obvious barrier, as discussed in the previous section. Poor recognition in Canada of foreign education and professional credentials, as well as non-Canadian work experience, is another often-cited barrier facing newcomers (RBC Economics, 2023). Government policies that address work experience, educational status, and other barriers facing immigrants might help to narrow the remaining earnings gap between immigrants and the Canadian born by improving both the perceived (by employers) and actual labour market productivity of immigrants.

Research has found that prior Canadian work experience is a strong predictor of post-landing employment and earnings, both in the short term and, to a lesser extent,

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16 The education and experience-adjusted earnings gap ostensibly reflects lower compensation associated with employers' lower assessed productivity of immigrants compared to comparable Canadian-born workers, since recent immigrant cohorts have comparable or even higher rates of employment than do their Canadian-born counterparts.

over time (Conference Board of Canada, 2022; Immigration, Refugees and Citizenship Canada, 2020). This finding provides justification for federal government policy changes that have increased the share of new permanent immigrants sourced from the ranks of temporary immigrants in Canada on work-based visa programs. Individuals who have spent time in Canada are likely to have greater familiarity and experience with Canadian workplace practices, cultural norms, and the labour market than do prospective immigrants not resident in Canada at the time they applied to immigrate. The decision to select more permanent immigrants from the pools of TFWs (and students) already in the country makes sense if one goal of immigration policy is to improve the labour market performance, including earnings, of newcomers.<sup>17</sup> This, in turn, could help to achieve the government's stated objective of growing real output through higher levels of immigration.

Research commissioned by the federal government in 2020 found that language proficiency at landing is a predictor of immigrant earnings (and of overall labour market performance) for principal applicants, particularly in the first few years after arrival in Canada (Immigration, Refugees and Citizenship Canada, 2020). This is consistent with the analysis in Xu and Hou (2023) and the earlier work by Ferrar et al. (2006). It also aligns with reports on the “real-life” experiences of young adult immigrants and refugees with widely varying levels of official language proficiency upon arrival in Canada (World Education Services, 2023).

It therefore follows that the Canadian immigrant selection system should attach a high weighting to official language capability. To a certain extent, the system in place today already does so. Under the Federal Skilled Worker (Express Entry) program, language skills count for 28 out of 100 points for applicants who seek entry through this stream. A minimum total score of 67 points is needed to gain admission under this stream. The components of the assessment framework for skilled worker applicants are shown in Table 5. If policy makers aspire to maximize the immigrant employment ratio and reduce the immigrant/non-immigrant earnings gap, one option might be to increase the relative weighting accorded to language skills within the assessment framework. Alternatively, the assessment framework could be modified to require a specified minimum level of official language proficiency for an applicant to be considered for entry as a skilled worker, regardless of how well the applicant performs on the other criteria outlined in Table 5.

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17 Linking back to equation (1), higher earnings in a competitive labour market should reflect higher actual labour productivity.

**Table 5: Selection Factors, Federal Skilled Worker Program (Express Entry)**

Factor	Maximum Number of Points
Official language skills	28
Education	25
Work experience	15
Age	12
Arranged employment in Canada	10
Adaptability	10

Source: Canada (2023).

A recent econometric analysis finds that age at landing is also a predictor of immigrants' long-run earnings (Immigration, Refugees and Citizenship Canada, 2020). The current assessment framework for economic immigrants assigns 12 out of a maximum 100 points for an applicant's age at entry, with those ages 18 to 35 automatically receiving 12 points, those ages 36 to 40 receiving between 7 and 11 points, while those over age 40 are allocated progressively fewer points (with those over age 46 obtaining none). On average, new permanent immigrants are younger than the existing population, and immigrants as a group are more likely than the Canadian born to be in the working-age category of 25 to 64 years old (RBC Economics, 2023). This suggests that age at landing should remain a key criterion in the immigrant selection process. The evidence shows that age affects the labour market performance of newcomers, including those admitted under the Skilled Worker program, over the course of their working lives in Canada.

Two other selection factors in the assessment framework are total years of work experience—in general, not just in Canada—and whether an applicant has a job offer from a Canadian employer at the time of application. Years of full-time work experience can give an applicant a maximum of 15 points for six or more years of previous work experience. Having a valid Canadian job offer in hand is worth up to 10 points. In practice, most applicants who score well on this latter criterion are already in Canada on work or study permits.

It is worth noting that, with the passage of time, there is a decline in the predictive power of some of the selection criteria in the assessment framework for economic

immigrants. A possible explanation for this is that “as immigrants acquire experience in Canada, a convergence in the values of these factors occurs” (Immigration, Refugees, and Citizenship Canada, 2023, p. 28). For example, after a few years in Canada, many immigrants who came with poor official language skills likely will have improved their skills, thus lessening the predictive power of language at landing. One implication is that tinkering with some of the components of the assessment framework is most likely to affect post-landing employment and earnings in the short and perhaps the medium term, with the effects tending to diminish somewhat as an immigrant’s time in Canada extends to a decade or more.

The two main exceptions to this finding are age at landing and prior Canadian work experience, with strong evidence that both factors retain significant predictive power over the course of an immigrant’s career in the Canadian labour market. According to Immigration, Refugees and Citizenship Canada (2020, p. 29), “[y]ears of pre-landing Canadian work experience are strongly positively correlated with earnings after landing.” This lends support to recent federal government policies to 1) source more permanent immigrants from the ranks of foreigners already in Canada on work visas; 2) permit international students to work while studying in Canada; and 3) allow more international students to seek and obtain employment in Canada after completing their Canadian educational programs. Below, we suggest that use of the “two-step” system for selecting economic immigrants should continue and perhaps be expanded.

Some of the individual factors found to affect immigrants’ earnings and overall labour market performance can interact with one another. As an example, consider the interaction of language skills with education credentials. By itself, a higher level of education is associated with a greater likelihood of an immigrant’s being employed after landing, as well as with increased employment earnings. But an immigrant with very poor language skills, coupled with strong (non-Canadian) educational/professional credentials, is likely to be less able to enjoy the earnings premium linked to education than will an immigrant who scores highly on education but also has a solid command of one or both official languages (Immigration, Refugees and Citizenship Canada, 2020). Similarly, while econometric analysis indicates that age at landing influences the likelihood that newcomers will be employed—younger adult immigrants tend to have higher employment rates than their older counterparts—here, too, poor language proficiency can affect the outcome. A recent report on the experiences of Canadian immigrant youth and young adults ages 17 to 30 notes that many newcomers in this group “identify language as one

of the first and most significant challenges they face. Without adequate language skills, successful social integration and employment become harder to achieve” (World Education Services, 2023, p. 11).

Based on the evidence reviewed in this section, it is reasonable to conclude that both the assessment system used to evaluate principal applicants under the economic immigration programs<sup>18</sup> and recent policy changes affecting the sourcing of permanent immigrants should create conditions that allow more newcomers to succeed in the Canadian labour market, as measured by post-landing employment rates and employment earnings. This conclusion aligns with published reviews of the labour market outcomes of permanent immigrants over the 2000s, which report improvements in overall performance—particularly for more recent immigrant cohorts (Crossman et al., 2021b; Wong, 2020).

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18 These include the Skilled Worker Program, the Canadian Experience Class program, and the Federal Skilled Trades Program. The Provincial Nominee Program could also be classified as an “economic” immigration program. See Immigration, Refugees and Citizenship Canada (2023, pp. 22-24).

## Future Policy Directions

The above analysis indicates that the current selection system for economic immigrants is functioning in ways that generally support the policy objective of achieving relatively high post-landing immigrant employment rates and immigrant earnings, thereby boosting Canadian economic growth.<sup>19</sup> It is less clear to what extent the selection system is helping to narrow earnings gaps with the Canadian born, although immigrant employment earnings have shown an encouraging upward trend in the past decade (Crossman et al., 2021b). To make further progress on improving the labour market outcomes of arriving immigrants, policy makers should consider several options, as outlined below.

First, in setting annual and three-year immigration targets and their distribution across the main categories (economic, family, and refugees and others admitted for humanitarian reasons), the federal government could allocate more permanent residency slots to individuals applying under economic immigration programs. This has been advocated by some business groups that favour high levels of immigration (Business Council of Canada, 2022; Canadian Chamber of Commerce, 2023). Newcomers admitted under economic immigration streams are more likely to be employed and to earn higher incomes than those admitted under other streams (Crossman et al., 2021b; Picot et al., 2019). This means that expanding the intake of new economic immigrants should have a positive impact on economic growth compared to a policy of increasing the numbers of immigrants admitted through other avenues.

Of course, Canada's immigration policy is not solely concerned with accelerating economic growth or maximizing the employment/population ratio—non-economic objectives also inform the design and implementation of immigration policy and programs. Within the constraint of a fixed number of new permanent immigrants, selecting more from the economic streams equates to admitting fewer from categories such as family reunification and refugees. While this would almost certainly increase economic growth

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<sup>19</sup> The implicit accompanying assumption is that higher employment rates and earnings of immigrants are not offset by lower employment rates and earnings of the Canadian born.

and total output, it likely would generate domestic political controversy and necessitate complex trade-offs by policy makers.

Second, the points system used to assess applicants under the economic immigration programs could be modified to put more weight on ranking factors most closely associated with better labour market outcomes. As discussed above, age at landing and prior Canadian work experience appear to have a significant positive impact on immigrants' employment rates and earnings over time, so a case could be made that these factors should count for more in the assessment process. Language proficiency arguably should also be accorded more weight, given its influence on immigrants' labour market performance (especially during the first several years after landing).

The rising share of new permanent immigrants being chosen from among TFWs is evidence that policy makers are attaching a higher value to these criteria (Conference Board of Canada, 2022). Some researchers, however, have expressed concern that many TFWs who eventually become permanent residents possess relatively low skills and work in occupations that provide relatively low wages or salaries (Brochu et al., 2020; O'Donnell and Skuterud, 2021). To the extent this is the case, it suggests that an element of recent immigrant selection policy might be working against the objective of reducing the immigrant earnings gap.<sup>20</sup> This issue warrants further investigation and monitoring by policy makers. Perhaps a larger fraction of the TFWs who gain permanent residency should be chosen among those with above-average Canadian employment earnings. That said, selecting newcomers with prior Canadian work experience aligns with this essay's focus on improving the labour market outcomes of permanent immigrants and is thus included in our suite of recommended policy directions.

In contrast to age at landing, prior Canadian work experience, and official language proficiency, the impact of educational credentials in determining immigrants' labour market performance is less clear-cut. The existing assessment system for skilled workers awards up to 25 points for education, with more years of schooling and higher-level credentials receiving more points than lower-level credentials. Economic immigrants arriving in Canada are increasingly well educated: prior to 2020, the share of recent employed immigrants with at least one university degree exceeded 50 percent, roughly double the share of Canadian-born workers (Wong, 2020, p. 20). Yet many newcomers with non-Canadian post-secondary credentials—including some with four-year and

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20 On the other hand, the “underemployment” of highly educated immigrants also works against closing the immigrant earnings gap, in addition, no doubt, to causing personal anguish among underemployed immigrants.

even higher-level degrees—struggle to find jobs that require a university credential. This trend might be linked to the shift of immigration-sending countries away from traditional sources and toward developing countries. The different mix of source countries also might affect the language proficiency of some applicants and make it harder to assess the educational and professional qualifications of prospective immigrants.

Statistics Canada data show that, from 2001 to 2016, the share of university-educated recent immigrants working in jobs requiring a university degree dropped from 46 percent to 38 percent. Over the same period, there was no decline in the near 60 percent share of the university-educated Canadian-born population holding jobs requiring a degree (Statistics Canada, 2022a). This finding indicates that the value of many foreign academic credentials is discounted in the Canadian labour market, thus helping to explain the large and increasing numbers of immigrants with post-secondary credentials who appear to be “underemployed” (Picot et al., 2019).<sup>21</sup>

The education component of the assessment framework for skilled worker applicants includes an educational credential assessment intended to verify that a foreign degree, diploma, or certificate is “valid and equal to a Canadian one.” In practice, however, it is very difficult for government officials to judge the quality of many different educational credentials obtained in a wide range of jurisdictions and involving huge numbers of non-Canadian institutions and programs. This might be one reason immigration policy has moved toward sourcing more permanent immigrants from applicants possessing Canadian academic credentials.

In short, the education-ranking factor in the skilled worker assessment framework seems to be less informative as a predictor of immigrant earnings than are some other factors—including age at landing, prior Canadian work experience, and official language proficiency (Immigration, Refugees and Citizenship Canada, 2020, pp. 28–29). If this is indeed the case, policy makers might want to retool the education-ranking factor within the framework—perhaps by reducing its weighting in the overall assessment process (e.g.,

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21 The discounting of foreign-based formal education by Canadian employers undoubtedly reflects uncertainty on the part of the latter about the “quality” of formal education programs in non-traditional source countries. In this regard, evidence discussed earlier suggests that there is less uncertainty in the context of STEM-related education. An argument can also be made that the economic contribution of immigrants with STEM-related training is relatively high compared to immigrants with equivalent years of formal education in other disciplines (Globerman, 2019). Of interest, in June 2023 the federal government unveiled a new “Tech Talent Strategy” that includes a dedicated pathway for permanent residents with credentials and relevant experience in the STEM sectors (Dentons, 2023).

from a maximum of 25 to 20 points). Before taking this step, however, further research and analysis is warranted, given the well-documented positive relationship that generally exists between years of education and labour market outcomes for the broader Canadian population.<sup>22</sup>

Over the past decade or so, Canadian policy makers have embraced the idea of a “two-step” immigration system that relies on temporary immigrants and other applicants with prior Canadian experience and/or Canadian credentials to supply a rising share of new permanent residents (Conference Board of Canada, 2022; Hou et al., 2020a). Between 2015 and 2019, TFWs<sup>23</sup> and international students made up 26.5 percent of new permanent residents—a record high proportion at the time. Since then, the percentage has increased further, reaching a remarkable 69 percent amid the pandemic in 2021 (Conference Board of Canada, 2022, p. 5).<sup>24</sup>

There is evidence that the expansion of Canada’s “two-step” selection system contributed to measured improvements in immigrants’ labour market outcomes in the 10 to 15 years up to the onset of the pandemic in 2020 (Hou et al., 2020a). From 2000 to 2016, new immigrants with no pre-landing Canadian employment earnings “had an entry employment [rate] well below that of those with previous earnings in Canada as a temporary resident” (Hou et al., 2020a, p. 10). Further, the growing use of “temporary foreign workers as a pool from which to select permanent residents ... was more important than any other single factor in accounting for the improvement in immigrant economic outcomes on entry” (Hou et al., 2020a, p. 10). What is less clear is to what extent and how long such positive effects persist—some diminution over time is likely, although the positive effect seems to remain at least a decade after landing.

With the Canadian immigration system leaving behind earlier pandemic-driven disruptions, temporary immigrants are projected to continue to comprise a substantial share of permanent new residents over the 2023–25 period, albeit a much lower proportion than their unusually large share in 2021. If the primary goal of Canadian immigration policy is to accelerate economic growth and expand total output, policy makers need a detailed and up-to-date understanding of the labour market performance of permanent residents admitted to Canada through different pathways. If the evidence continues to

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22 For additional analysis of “overeducation” among permanent immigrants, see Hou et al. (2019).

23 A number of different programs target “temporary” foreign workers, including the Temporary Foreign Worker program, the international Mobility Program, and the post-graduate study work permit available to certain foreign graduates of Canadian education programs.

24 This high share partly reflected a short-term policy decision to rely mainly on temporary immigrants to boost the number of permanent residents admitted in 2021 because of unprecedented delays and backlogs in the immigration system amid the pandemic.

show that those with previous Canadian work experience and/or Canadian academic qualifications perform better in the labour market over time (not just in the first one or two years after landing),<sup>25</sup> a case might exist for doubling down on the “two-step” immigration policy by increasing the number of new permanent residents sourced from the ranks of temporary immigrants beyond the 26.5 percent average recorded over the 2015–19 period.<sup>26</sup>

So far, we have considered potential changes to the immigration selection system that would have a positive influence on labour market outcomes for new permanent residents, and therefore would support the Canadian government’s policy objective of leveraging high levels of immigration to increase economic growth. Steps could also be taken, however, to reduce domestic barriers to immigrants’ labour market success post-landing, including their ability to obtain employment that fits with their academic and professional credentials and previous work experience. Given Canada’s historically high and steadily rising immigration targets, addressing such barriers is a pressing task.

One significant barrier facing many newcomers is poor language proficiency and a lack of familiarity with the Canadian social and work environment. This can be treated as a “domestic” barrier since, for new immigrants contending with such challenges, the most obvious remedy is to access appropriate post-landing settlement services to improve their language capability and help them understand and function in the Canadian social and labour market contexts.

Both immigration selection policies and post-landing settlement services recognize the importance of language skills in facilitating the integration of newcomers into Canadian society and the workforce. “Proficiency in English and/or French is a key predictor of immigrant earnings in the first two years—and potentially longer—in Canada” (Conference Board of Canada, 2022, p. 9). From a labour market perspective, language proficiency encompasses more than very basic literacy and communications skills; it also captures the “cultural” and contextual use of language and—crucial for more highly educated and skilled immigrants—knowledge of “occupation-specific terminology”

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25 There is evidence that the strong positive impact of years of pre-landing Canadian work experience on the earnings of economic class immigrants diminishes somewhat with time spent in Canada (Immigration, Refugees and Citizenship Canada, 2020).

26 We acknowledge that some researchers, including the Conference Board of Canada (2022), have questioned the “two-step” immigration strategy. Among other things, some analysts see a risk that employers’ short-term labour market needs, which significantly influence the selection of TFWs, could have an undue influence on the composition of permanent residents, particularly if prior Canadian experience is given a significantly higher weighting in the assessment system for economic immigrants. See also O’Donnell and Skuterud (2021).

(Conference Board of Canada, 2022, p. 9). It therefore follows that strengthening language and communications skills should figure prominently in the suite of post-landing immigrant services funded by the different levels of government and typically delivered by local service agencies.

A second domestic barrier is limited recognition within Canada of many immigrants' foreign education credentials, professional/occupational qualifications, and work experience. Some research treats this as the most significant obstacle to newcomers' success in the Canadian labour market (Conference Board of Canada, 2022; RBC, 2019). Among recent immigrant cohorts, even newcomers with skills apparently in high demand by employers can find it very difficult to obtain jobs that make use of their (non-Canadian) education and professional/occupational qualifications.

An important reason for this is the complex mix of licensing and certification requirements that apply to "regulated" professions and occupations in Canada (Banerjee and Phan, 2014).<sup>27</sup> The relevant regulations in most cases fall within the purview of the provinces and territories, rather than that of the federal government, which reflects the division of powers between the two levels of government in the Constitution and the provinces' predominant role in setting employment and labour policy and funding and overseeing public education.

Today in Canada, roughly 20 percent of all jobs are in occupations subject to some form of legally mandated regulatory oversight. They include a diverse array of professions (e.g., physicians, dentists, nurses, occupational therapists, physiotherapists, psychologists, lawyers, teachers, engineers, architects), various technical jobs (e.g., agronomists, dental hygienists, MRI technicians, automobile repair technicians), and many skilled trades (e.g., electricians, welders, boilermakers, pipefitters, heavy duty mechanics, and certain transport operators<sup>28</sup>). Working in a regulated profession, occupation, or trade requires obtaining a licence, certification, or other formal authorization issued by a regulatory body that commonly operates under authority granted by a provincial government. British Columbia is a typical example of the scope of regulated occupations, which, according to the provincial government, number some 200 in that province.<sup>29</sup>

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27 Occupational licenses convey exclusive rights to practice an occupation, whereas certification conveys exclusive rights to use a title, e.g., professional engineer. The latter is obviously less relevant as a labour market barrier than the former. As noted in previous sections of this essay, uncertainty on the part of employers about the quality of formal education and training received in foreign countries is also a likely barrier.

28 For example, long-haul truck drivers must be licensed in all of the provinces where they operate.

29 Trade Investment and Labour Mobility Agreement, List of British Columbia Regulatory Authorities, <<http://www.tilma.ca/pdf/bcregulatoryauthorities.pdf>>.

The putative purpose of designating certain professions and occupations as regulated is to protect public health and safety and ensure appropriate standards are met. But in practice, many professional and occupational regulatory bodies have also been concerned with limiting entry and controlling the “supply” of qualified labour. Moreover, historically, these bodies have paid little attention to the impact of their rules, standards, and administrative processes on immigrants. However, with immigration now the dominant driver of population and workforce growth in Canada and with numerous reports of “labour shortages” across the country, the landscape is changing.

Over the past year or so, several provincial governments have pressured—in some cases, compelled—professional and occupational licensing bodies to reduce barriers that make it difficult for foreign-trained immigrants to acquire certification. Ontario, for example, has ordered 36 non-health-related professions and trades to remove all requirements for applicants to have previous Canadian work experience before they can be licensed. Engineering is one profession likely to be affected. Hitherto, internationally trained engineers had to demonstrate they had relevant Canadian work experience in order to apply for a licence to practice engineering in Ontario. In future, that will no longer be necessary—although applicants will still need at least 48 months of prior professional experience (including outside Canada) in engineering and be required to pass a professional practice exam (Trichur, 2023). In addition, some provinces—including Ontario, British Columbia, and Manitoba—have recently moved to speed up regulatory approvals and reduce credential assessment barriers for foreign-trained physicians, nurses, and other health care employees (Mercer, 2023).

To enhance the economic benefits of high levels of immigration, including the large numbers of relatively well-educated newcomers coming to Canada, the provinces could do more along the lines sketched above. Provincial governments have wide scope to use their legal powers to minimize the impact of professional and occupational licensing on the ability of immigrants to work in fields related to their previous education and training. Obviously, this must be done carefully, to ensure public confidence is sustained and without materially degrading the quality of the professional and technical workforce in the sectors affected.

Constraints on labour mobility within Canada are a long-standing concern, one that affects the Canadian-born workforce but that also impinges on the ability of immigrants to gain employment in occupations in which they have prior experience and credentials. The Canada Free Trade Agreement (CFTA) includes provisions designed to foster labour mobility across the country. These provide that certified workers in certain professions

and occupations must be recognized as qualified to work by a regulatory agency in another province or territory without having to go through additional training, examinations, or assessment. There is, however, a long list of “exceptions” both by jurisdiction and by occupation, meaning that the CFTA falls short of establishing a single Canadian market for skilled workers spanning the full range of regulated professions and occupations.

Canada’s somewhat fragmented internal labour market counts as one of the “internal” barriers to domestic trade and commerce (Alvarez et al., 2019; Deloitte, 2021; Senate of Canada, 2016). Unfortunately, the CFTA has made only limited progress in lessening the impact of professional and occupational licensing regimes on labour mobility—for both long-time Canadian residents and recent immigrants (Alvarez et al., 2019, p. 29; Deloitte, 2021, pp. 8–9).

Measures to reduce or limit internal barriers to labour mobility would benefit not only current Canadian workers and professionals, but also newcomers. There are a few encouraging signs on this score. In 2021, Alberta introduced legislation to improve inter-provincial labour mobility for certain professionals and other skilled workers by mandating a maximum timeframe for Alberta regulatory bodies to review and approve credential recognition applications (Business Council of Alberta, 2021). The four Atlantic provinces recently announced steps to increase physician mobility across the region. In addition, Ontario has indicated that it will soon provide automatic recognition of the credentials of health professionals (physicians, nurses, and others) licensed elsewhere in Canada (Canadian Medical Association, 2023). While these and other similar initiatives are not aimed specifically at facilitating the employment of immigrants, they should help to create a more open and integrated Canadian labour market for certain professions and occupations that are subject to provincial regulatory oversight.

In May 2023, Immigration, Refugees and Citizenship Canada unveiled new “category-based” selection rules that allow for more targeted selection of candidates from the Express Entry pool.<sup>30</sup> The announcement followed public consultations on revising the Express Entry system held in late 2022 and early 2023. The changes will enable the government to admit more permanent immigrants with very specific qualifications to help meet identified labour market needs and address chronic skill shortages. The government also hopes to encourage more applicants with French language skills.

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30 Samantha Edwards, “Canada has changed its permanent residence selection process. Here’s what to know,” *Globe and Mail*, August 31, 2023. Also see this brief commentary from leading law firm BLG, “New category-based selection in Canada’s Express Entry program addresses labour needs and targets French speakers,” June 20, 2023 (<https://www.blg.com/en/insights/2023/06/new-category-based-selection-in-canadas-express-entry>)

This policy involves moving partly away from the points-based system for economic immigrants to one that will attach a higher ranking to applicants with experience in specific occupational fields, such as technology and health care, and/or demonstrated competence in French. In essence, the category-based selection criteria prioritize “specific” human capital and put less emphasis on measures of “general” human capital that, until now, have been at the core of the points-based selection system. According to the federal government, the rationale for and primary goal of the new policy is to further improve the labour market outcomes of permanent immigrants, in order to boost Canadian economic growth.

At this early stage, it is not possible to offer a judgement on whether or to what extent the policy will be successful in enhancing the labour market performance of new permanent immigrants, which is the central concern of this essay. In general terms, the indicated policy direction aligns with some of the recommendations outlined above. However, the policy was announced after this essay was written and thus was not part of our research. It may be that focusing on very specific types of occupational experience in selecting economic immigrants could prove to be short-sighted in a dynamic economy where technological innovation, continuous changes in industry growth patterns, and shifts in the broader competitive landscape can alter the demand for and supply of particular skills.<sup>31</sup>

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31 Matt Lundy, “Canada’s new approach to immigrant selection aims to fix labour markets. Will it create more gaps instead?” *Globe and Mail*, July 21, 2023.

## Conclusion

The past several months have seen an increasing public debate and many media stories touching on immigration issues, motivated in part by the aggressive targets embodied in the federal government's revised immigration plan for 2023–25. Analysts and media commentators have drawn attention to the challenges of accommodating and integrating record numbers of newcomers, the impact of immigration on local housing markets and the demand for public services, and the appropriate balance between permanent immigration programs and those that enable foreign workers, students, and visitors to come to Canada (*Globe and Mail*, 2023).

In this essay, we have focused ways to improve the labour market outcomes of new immigrants in response to the federal government's policy objective of increasing Canada's GDP through increased immigration levels. We have not sought to offer a comprehensive assessment of the broader societal and economic effects of immigration policy.

With this limitation in mind, and drawing on the available research, we have

- highlighted the long-standing earnings gap between immigrants and the Canadian born and some of the factors that contribute to it.
- confirmed that the labour force participation and employment rates of permanent immigrants have risen over time and now roughly match those of the Canadian born, although immigrants' earnings remain below those of their Canadian-born counterparts.
- examined some of the characteristics of newcomers that appear to influence their performance in the Canadian labour market; and
- reviewed the points system used to rank prospective immigrants who seek admission under the economic immigration programs.

The evidence suggests that age at admission, prior Canadian work experience and Canadian educational credentials, and language proficiency are all significantly correlated with post-landing employment and earnings. Educational qualifications, as embodied in the points system to assess applicants under the economic immigration programs, are

also important, but seem to have less predictive value than some of the other ranking criteria.

Certain policy directions hold promise as means to further enhance the labour market performance of immigrants and thereby support the economic policy objectives of the federal government's immigration strategy. These include:

- modifying the points system used to assess applicants under the economic immigration programs to give additional weight to factors most closely associated with newcomers' success in the Canadian labour market.
- putting greater emphasis on post-landing language training for immigrants with limited facility in Canada's official languages.
- continuing to rely on the current "two-step" immigration strategy whereby a substantial portion of new permanent immigrants is sourced from temporary foreign workers and international students with Canadian educational credentials.
- reforming professional and occupational licensing systems to reduce barriers that make it difficult for immigrants with non-Canadian qualifications and work experience to find suitable employment in Canada; and
- strengthening the internal labour mobility provisions of the Canada Free Trade Agreement to facilitate interprovincial mobility of Canadian workers (including immigrants) with varying professional and occupational qualifications.

## Appendix: Temporary Immigration

Canada issued a record 1.46 million temporary “travel documents” in 2022, covering tourists, temporary foreign workers (TFWs), students, and intra-company transfers (Immigration, Refugees and Citizenship Canada, 2023). This unusual 45 percent jump from 2021 partly reflects the impact of COVID-19 in slowing temporary in-migration and reducing the number of tourist visas issued over the 2020–21 period. Of the 1.46 million “travel documents” issued last year, 446,000 were for study permit holders and 416,000 for individuals admitted under the temporary foreign worker program and the International Mobility Program. Strikingly, added together, the number of foreign workers admitted under the latter two programs almost matched the 437,000 new permanent immigrants who arrived in Canada in 2022 (Parkinson, 2023). Since 2000, the number of TFWs has risen dramatically; by 2020, they accounted for 3 percent of total Canadian employment, a sixfold increase from their share in 2000 (O’Donnell and Skuterud, 2021).<sup>32</sup> In the past decade, TFWs have become more skilled, on average, as well as more likely to transition to permanent residency (O’Donnell and Skuterud, 2021).

These pools of non-permanent immigrants augment the size of the Canadian labour force, particularly since foreign students are permitted to work while attending school. And they are influencing the composition of new permanent immigrants. Statistics Canada reports that one-third of new permanent immigrants over the 2016–21 period had “pre-admission” experience in Canada—that is, they were here on work or study permits prior to applying for permanent residency (Statistics Canada, 2022b). Over the course of 2022, approximately 190,000 individuals in Canada on a temporary basis became permanent residents using different pathways that enable this transition to occur (Immigration, Refugees and Citizenship Canada, 2023).

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32 It should be noted that the federal government recently revised more than two decades of immigration data that overstated the estimated number of temporary workers. However, the federal immigration department has not yet published new figures with an explanation of why it revised down earlier estimates. It said it intends to publish new figures on narrowly and broadly defined groups of work permit holders, but did not indicate when that would happen. See Remiorz (2023).

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