Third-Country Effects of U.S. Immigration Policy

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Summary

Research Question

What are the effects of the 2017 increase in U.S. H-1B visa restrictions on:

1. Skilled immigration to Canada?
2. Canadian firms' production and exports?
3. Welfare of Canadian and U.S. workers?

- Very interesting paper addressing an important and timely policy question.
- Rich administrative and firm-level data to estimate reduced-form effects.
- Structural model to analyze general-equilibrium and welfare implications.

Key Fact 1: H1B restrictions → more immigration to Canada

- H1B restrictions starting in 2017 in the US lead to an increase in permanent visa applications to Canada
- Even after controlling for occupation-year and birth country-year FE

Figure 1: Increasing H-1B restrictions and skilled immigration to Canada

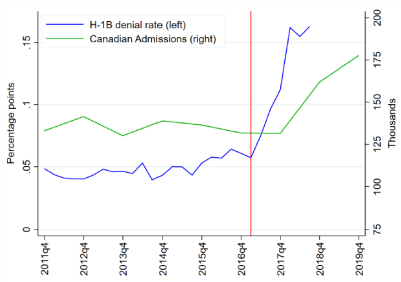
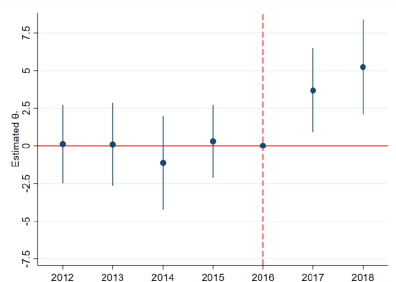


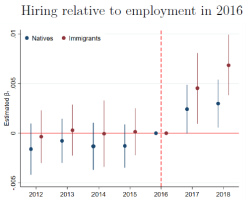
Figure 4: Effect of H-1B restrictions on permanent resident visa applications to Canada

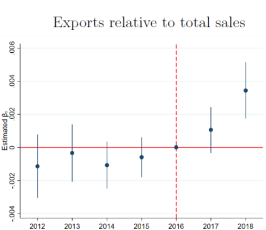


Key Fact 2: More migration to Canada → lower firm costs

Exposed firms:

- hire from exposed countries and are in sectors with exposed occupations
- ↓ wages for immigrants and natives, ↑ hiring of both, ↑ sales and exports





A model of trade and immigration

- Multi-country, multi-sector, workers differ by **nationality** × **occupation**
- Immigration policy enters as **visa approval probabilities**
- Effects of higher U.S. visa denials along two channels:
- **Direct effect** (labor market):
  - Competition for close substitutes (e.g. computer scientists wages ↑ US, ↓ CA)
  - Cost effects on production scale and labor demand (e.g. non-H1B wages ↓ US, ↑ CA)
- **Indirect effect** (trade & third countries):
  - Denied migrants relocate to Canada → lower production costs abroad → expansion in immigrant-intensive sectors → stronger competition with U.S. firms through trade
  - Lower US wages but also cheaper imported goods and services
- Role of trade:
  - In a closed economy, welfare gains for U.S. computer scientists would be 25% larger
  - Trade dampens the intended protective effects of immigration restrictions

Comments

- Could firm-level effects be **temporary** and reversed over time?

  Firms may take advantage of the opportunity to hire better candidates than usual, hiring more in the short run and reducing hiring later.

- Immigrants are "knowledge workers": they work in teams and generate externalities or **knowledge spillovers** that benefit co-workers.
  - Part of the observed natives' wage effects may reflect productivity spillovers from migrants to co-workers rather than pure labor-demand effects
  - Changes in migration flows affect both migrants' and co-workers' productivity, with additional general-equilibrium effects

Dynamic and Growth Effects

- Restrictions on these "STEM" immigrants **shrink the innovation talent pool**!
- Firms might offshore R&D centers abroad (Glennon 2024)
- Here static model, but the potentially large dynamic growth effects (Prato 2025)
  - Innovation benefits from **agglomeration** and dense interaction networks
  - US immigration restrictions shrink local talent pool (fewer innovators) and make local innovators less productive: $\downarrow$ **US innovation** $\Rightarrow$ **over time** $\downarrow$ **US growth**
  - Some innovators relocate to CA: $\uparrow$ CA innovation (evidence of this in the data?)
  - The US may indirectly benefit from foreign innovation through **diffusion** and trade
  - ...but they might lose global technological leadership that attracts talent
  - Downward spiral: fewer innovators choose the US and innovation declines further

Some Open Questions

- Roughly every 4 foregone H-1Bs, 1 more immigrant to Canada: effects of the rest?
- Effects on origin countries?
  - Lack of data $\rightarrow$ Possible progress with patent data?
- Here occupational choices are exogenous: they could respond to the policy shock in the medium to long run
- Is Canada a special case? How large are third-country effects in smaller economies, less open immigration systems, or weaker innovation ecosystems?

Final Takeaways

- **Key takeaway:** Ignoring third-country responses overstates the gains from restrictive immigration policies.
- **Open question:** Can domestic workers be protected in a globally integrated economy?