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Will they ever converge? Earnings of immigrant and Canadian-born workers over the last two decades

By

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Abstract

Using Census data covering the 1980-2000 period, we examine what outcomes would be necessary for today's recent immigrant cohorts to achieve earnings parity with Canadian-born workers. Our results show that today's recent immigrants would have to experience a drastic steepening of their relative age-earnings profile in the near future for their earnings to converge with their Canadian-born counterparts. The reason is simple: the greater relative earnings growth experienced by recent immigrant cohorts has only partially offset the drastic deterioration in their relative earnings at entry.

Keywords: immigration, earnings assimilation, cohort effects

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I. Introduction

Since it has important implications for issues such as earnings inequality, poverty dynamics and social cohesion, analyzing the convergence of earnings of immigrants towards those of Canadian-born workers has been a popular research objective over the last decade. Using Canadian census data, Baker and Benjamin (1994) and Bloom, Grenier and Gunderson (1995) first showed that between 1970 and 1985, recent cohorts of immigrants witnessed a deterioration of their earnings at entry relative to those of Canadian-born individuals. The implication was clear: unless they experienced “abnormally” high earnings growth in the future, recent immigrant cohorts would, from now on, need more time than earlier ones before they would assimilate into the Canadian labour market, i.e. before their earnings would converge to those of Canadian-born individuals.

Subsequently, Grant (1999) used Census data

Using repeated cross-sections of data and assuming that the earnings growth of native-born between year $t-k$ and year t was not “abnormally” high (low), the first component of (4) can be used along with the estimates of relative earnings at entry of non-recent cohorts, $(y_{i,t-k} - y_{n,t-k})$, to measure the degree to which earnings of immigrants “normally” converge to those of native-born over time.

III. Data and concepts

The Census is the only available data source that combines information on immigrants and Canadian-born individuals for a long period of time. We thus use Census data for the income reference years 1980, 1985, 1990, 1995, and 2000. Although some of the information refers to the census reference week (in 1981, 1986, 1991, 1996, or 2001), for simplicity, we will still refer to the income reference year.

Following Grant (1999), we focus on individuals

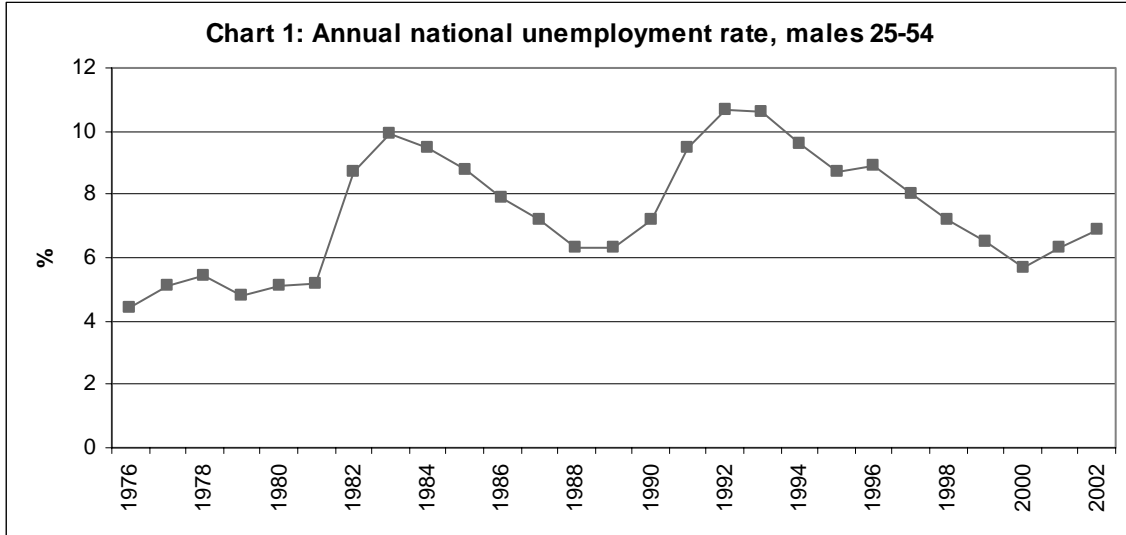
Marital rates are generally higher among recent immigrants than Canadian-born individuals. Most recent immigrants are members of visible minorities, and this has become increasingly so over the period of study. In 2000, almost three-quarters of recent immigrants in our sample were members of visible minorities. Only a very small fraction of Canadian-born men and women are members of visible minorities, although this has also been on the rise in recent years.

Recent immigrants tend to be clustered in larger urban areas. In 2000, almost half were in Toronto, while about three-quarters were in Toronto, Montreal, or Vancouver. The proportions settling in Toronto and Vancouver have increased over the study period, while the proportion settling in Montreal has remained quite stable.

V. Results

Examining the relative earnings of immigrants (especially recent ones) over a long period of time, can be a tricky proposition. Although they may have considerable foreign work experience, they are still new entrants to the *Canadian* labour market, and as such, they may be particularly vulnerable to business cycle fluctuations⁷. As the economy contracts, fewer new jobs are created, and this affects potential new entrants the most, whether it means experiencing unemployment spells, or being forced to accept lower paying jobs than anticipated. Of course, when the economy picks up steam, and new jobs are being created, firms must draw upon available workers to fill vacant positions, and this means that immigrants may regain lost ground (relative to older workers, or those with more Canadian experience).

Throughout the paper, the entry earnings of immigrants should be placed within the context of the business cycle. Over the period of study, the Canadian economy saw two full business cycles, asg jc5 TD -0.01



In 1980, the unemployment rate was at a low of 5.1%. The rate had almost doubled by 1983 (to 9.9%), but declined steadily afterwards to a low of 6.3% in 1988-89. The rate peaked again at 10.7% in 1992, only to fall (very slowly this time) to 5.7% by 2000. The 1980 and 2000 census data are clearly peak years, while 1990 is a near peak year (unemployment rate of 7.2%). The 1985 and 1995 census data can perhaps best be described as recovery years, with the unemployment rate near 9% and headed downwards.

V.1 Descriptive evidence

The left panel of Table 2 compares average log earnings of immigrants with those of Canadian-born workers over the last two decades. Relative earnings at entry—i.e. within the first five years after arrival in Canada—are shown for five cohorts: IM7579 (immigrants arrived between 1975 and 1979), IM8084, IM8589, IM9094 and IM9599. The underlying mean earnings are shown in Appendix 1.

Table 2: Log earnings differences between immigrant and Canadian-born workers, 1980-2000***

Unadjusted differences						OLS adjusted differences***					
Men	1980	1985	1990	1995	2000	Men	1980	1985	1990	1995	2000
IMpre60	0.122	0.149	0.177	0.180	0.195	IMpre60	-0.015	-0.008	0.008	-0.002	0.016
IM6064	0.041	0.072	0.131	0.121	0.151	IM6064	-0.064	-0.052	-0.024	-0.028	0.011
IM6569	0.073	0.079	0.136	0.151	0.183	IM6569	-0.064	-0.066	-0.034	-0.015	0.025
IM7074	-0.031	0.011	0.038	0.059	0.123	IM7074	-0.113	-0.099	-0.089	-0.056	0.000
IM7579	-0.127	-0.076	-0.017	-0.022	0.064	IM7579	-0.165	-0.139	-0.103	-0.092	-0.028
IM8084		-0.306	-0.149	-0.122	-0.082	IM8084		-0.293	-0.193	-0.159	-0.141
IM8589			-0.318	-0.243	-0.165	IM8589			-0.332	-0.271	-0.216
IM9094				-0.450	-0.265	IM9094				-0.446	-0.310
IM9599					-0.283	IM9599					-0.399

Women	1980	1985	1990	1995	2000	Women	1980	1985	1990	1995	2000

points between 1980 and 1990 (hereafter, simply 5 and 15 years after arrival—the upper bound for IM7579). While those of male IM8084 and male IM8589 grew more—by 18 and 15 percentage points, respectively—between 5 and 15 years following

Table 3: OLS decompositions of cross-sectional growth in predicted relative immigrant log earnings*

Men

Cohort	Census years	Assimilation effect	Cohort effect
IM9094	1995/2000	0.136	0.048
IM8589	1990/1995	0.061	-0.114
IM8084	1985/1990	0.101	-0.039
IM7579	1980/1985	0.026	-0.128
IM8589	1990/2000	0.116	-0.067
IM8084	1985/1995	0.134	-0.153
IM7579	1980/1990	0.062	-0.166
IM8084	1985/2000	0.152	-0.106
IM7579	1980/1995	0.073	-0.281

Women

Cohort	Census years	Assimilation effect	Cohort effect
IM9094	1995/2000	0.111	0.011
IM8589	1990/1995	0.046	-0.139
IM8084	1985/1990	0.114	0.014
IM7579	1980/1985	0.076	-0.102
IM8589	1990/2000	0.085	-0.128
IM8084	1985/1995	0.151	-0.125
IM7579	1980/1990	0.111	-0.088
IM8084	1985/2000	0.176	-0.114
IM7579	1980/1995	0.111	-0.227

* In any given year, the sample consists of individuals aged 16-64, who worked at least 40 weeks (mainly full-time, or 30 hours or more per week), and with positive earnings. To reduce processing time, a 20% random sample is used.

points between 1995 and 2000. This assimilation rate was only moderately above that of the male IM8084 group, who closed the earnings gap with Canadian-born men by 10 percentage points between 1985 and 1990. Clearly, the earnings of male IM9094 did not catch-up abnormally fast, despite the strong improvement in economic conditions between 1995 and 2000. In essence, the difference in the assimilation rate was not large enough to make up for the decline in relative earnings. The story is similar for women: both IM9094 and IM8084 closed the gap with Canadian-born women by 11 percentage points between 5 and 10 years following entry.

V.2.2 Quantile regression results

The inferences drawn in Section V.2.1 are based on averages and thus, may not accurately represent the outcomes experienced by immigrant and Canadian-born workers in different parts of the earnings distribution. To overcome this limitation, we use quantile regression techniques¹⁴ and characterize earnings convergence in the bottom, middle and top of the earnings distribution, i.e. at the 25th, 50th

Table 4: Adjusted log earnings differences at various points of the earnings distribution***

	Men					Women				
	Adjusted differences at 25th percentile					Adjusted differences at 25th percentile				
	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
IMpre60	-0.009	0.000	0.015	0.003	0.022	0.002	0.001	0.012	0.036	0.056
IM6064	-0.061	-0.051	-0.016	-0.020	0.010	-0.062	-0.052	-0.024	0.001	0.030
IM6569	-0.055	-0.053	-0.020	-0.011	0.011	-0.056	-0.068	-0.022	0.013	0.011
IM7074	-0.115	-0.105	-0.086	-0.072	-0.009	-0.129	-0.128	-0.092	-0.062	-0.031
IM7579	-0.189	-0.161	-0.122	-0.117	-0.039	-0.238	-0.211	-0.134	-0.127	-0.079
IM8084		-0.338	-0.213	-0.196	-0.144		-0.384	-0.238	-0.191	-0.173
IM8589			-0.370	-0.309	-0.231			-0.350	-0.290	-0.244
IM9094				-0.490	-0.315				-0.498	-0.368
IM9599					-0.437					-0.496
	Adjusted differences at 50th percentile					Adjusted differences at 50th percentile				
	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
IMpre60	-0.008	-0.012	0.008	0.000	0.032	-0.004	0.003	0.016	0.024	0.050
IM6064	-0.050	-0.054	-0.019	-0.012	0.021	-0.057	-0.040	-0.010	0.030	0.017
IM8084		-0.								
IM8589			-0.32	-0.06	-0.			-0.36	-0.21	-0.16

declines by 42% (141% vs 82%) when we switch the benchmark group to new Canadian-born entrants¹⁹.

The results are even more striking for women. When compared to all Canadian-born women, recent female immigrants saw their earnings gap increase from 23% to 44% (Table 2). When the comparison group consists of young Canadian-bor

cohorts, recent immigrant cohorts will—at least in the near future—be more likely to have difficulty making ends meet and will also be more financially vulnerable to shocks such as job loss or

Appendix 2: OLS regression results - men

1980		1985		1990		1995		2000	
Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat

Appendix 4: Mean earnings (\$2000) of recent immigrant and Canadian-born workers*

Men	All education levels			High school or less			College			University		
	1980	2000	Growth	1980	2000	Growth	1980	2000	Growth	1980	2000	Growth
Canadian-Born												
16-64 yo	45,625	48,623	7%	40,329	38,909	-4%	45,402	46,689	3%	69,058	75,971	10%
25-29 yo	39,788	35,705	-10%	37,209	31,364	-16%	40,580	36,080	-11%	45,820	44,257	-3%
30-54 yo	51,266	52,556	3%	44,979	42,544	-5%	50,126	49,461	-1%	74,807	79,310	6%
Recent Immigrants**												
16-64 yo	40,649	37,909	-7%	31,826	26,369	-17%	40,905	34,354	-16%	55,281	48,309	-13%
25-29 yo	36,117	33,427	-7%	31,268	26,778	-14%	37,797	30,004	-21%	42,322	43,381	3%
30-54 yo	45,375	40,274	-11%	35,360	28,036	-21%	44,404	35,960	-19%	57,654	48,982	-15%
Women	1980	2000	Growth	1980	2000	Growth	1980	2000	Growth	1980	2000	Growth
Canadian-Born												

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Baker, M. and D. Benjamin (1994) "The performance of immigrants in the Canadian labour