

A Canada-US Comparison of the Wage Gap for Highly Educated Immigrants



Summary

This policy brief focuses on changes in the wages of university educated new immigrants over the 1980-2005 period in Canada and the United States. Generally speaking, wage outcomes for this group were superior in the U.S. Wages of university educated new immigrants relative to domestic born university graduates declined in Canada over that period but rose in the United States. Also, the university wage premium — the difference in the wages of the university and high school educated — for new immigrants was similar in both countries in 1980, but rose over the next two decades in the United States while staying fairly static in Canada. The vast majority of this difference occurred in the 1990s, and coincided with a larger influx of immigrants to Canada than the United States, relative to the 1980s levels, and more of them arriving with degrees. The paper discusses a number of possible reasons for this divergence in immigrant wages between the two countries.

Key Findings

- The gap between the wages of a new immigrant with a university degree and a domestic-born university graduate rose sharply in Canada from 1980 to 2005, but remained relatively level in the United States over the same period.
- In 1980, the gap between immigrant and domestic-born men was -0.25 log points (i.e. entering immigrants earned roughly 25% less than the domestic born). In 2005 it was -0.67 log points.
- In the US, the gap was basically identical to that in Canada in 1980, but was about -0.40 log points in 2005 and has gone up and down over the 25 years surveyed.
- In Canada, the inflation-adjusted wages of university-educated workers declined among new immigrants but rose among the Canadian born. In the United States the wages of both groups increased.
- Since 1990, the university wage premium (the difference in wages between university and high school educated workers) has been both higher and rising faster in the United States than in Canada where it stagnated in the 1990s for immigrants and dropped from 2000 to 2005.

Data

Information for the study was taken from 1981, 1991, 2001 and 2006 Canadian Census data. For the United States it came from the 1980, 1990 and 2000 censuses and the 2005 American Community Survey — data available from the Integrated Public Use Microdata Sample.

These censuses incorporate 20% of the Canadian population and 5% of the American population, while the American Community Survey is a 1% sample. The samples used consist of individuals aged 25-54 living in private dwellings and working in civilian occupations. They also exclude individuals with Aboriginal ancestry to make the domestic-born populations in the two countries more comparable.

Immigrants are defined as foreign-born individuals who are not citizens of the host country by birth, and the sample excludes temporary residents in Canada because they



A Canada-US Comparison of Wage Gap

were not enumerated in the 1981 Census. The study restricts the immigrant sample to those who arrived at or after the age of 25, and focuses on the wages of “new” immigrants during their first five years in the country.

Results

From 1990 to 2005, the wage gap between university-educated new immigrants and domestic-born university graduates widened much faster in Canada than in the United States after being about equal in 1980.

As the following graph shows, relative (to domestic-born workers) weekly earnings of highly educated new immigrant men diverged in the two countries, particularly between 1990 and 2000, when outcomes improved in the United States, but deteriorated in Canada.

The gap between Canada and the U.S. has widened for both men and women, but less so for women. The outcomes of immigrant women in the United States were superior to

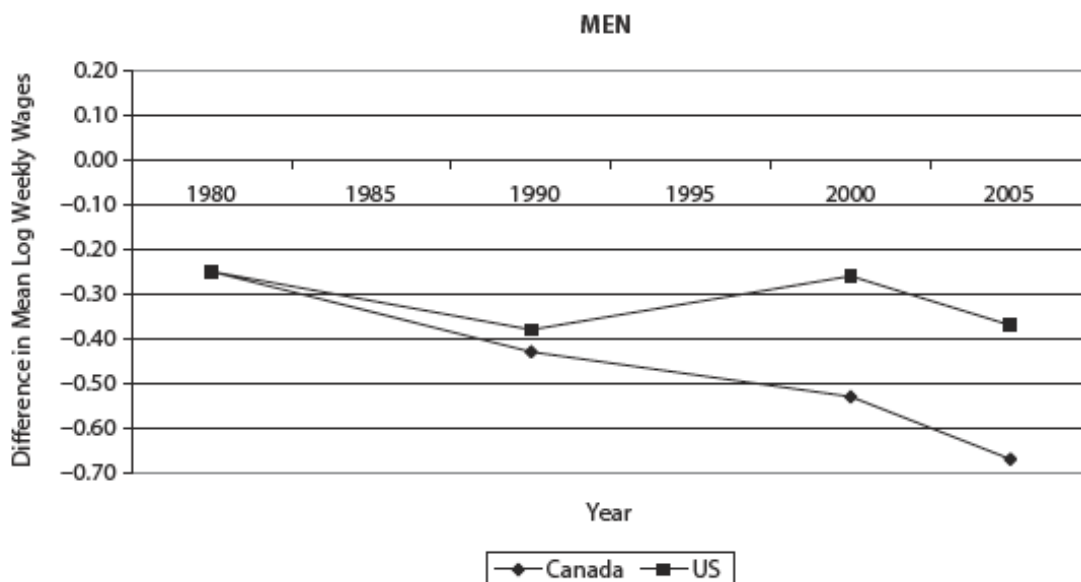
those in Canada in 1980 but the improvement observed among new male immigrants in the U.S. was not observed among women.

The falling relative wages of immigrants in Canada are driven by both declines in the absolute wages of successive cohorts of entering immigrants and increases (since the 1990s) in the earnings of Canadian born workers. In the United States, wages have been rising for both groups, and new immigrants have seen a more rapid increase.

The university wage premium — the difference between what a university graduate and a high school graduate earn — has also been higher in the United States and rising more quickly. In Canada between 2000 and 2005, the university wage premium actually fell among immigrants.

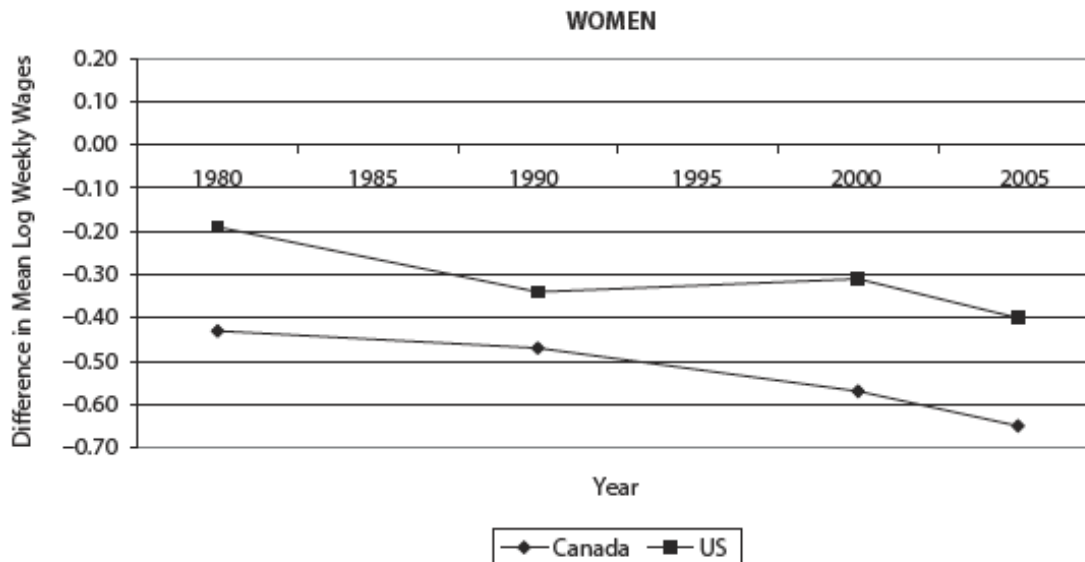
This decline appears to be due to a downturn in the tech sector and the high proportion of entering immigrants who were IT professionals or engineers. The annual inflows of skilled economic immigrants who intended to work as IT professionals or engineers increased

FIGURE 1
Weekly Wages of University Educated New Immigrants Relative to the Domestic Born (Unadjusted)





A Canada-US Comparison of Wage Gap



from about 2,000 in 1990 to the peak of 25,000 in 2001 and remained high at about 19,000 by 2005.

The divergence in relative earnings of immigrants between the two countries occurred in the 1990s, when the entry earnings gap declined in the United States while rising in Canada. In 1990, after adjusting for individual characteristics, the gap among men was -0.44 log points in Canada and -0.40 in the United States. By 2000, it was -0.51 in Canada and -0.28 in the United States.

Part of this change may be related to the more rapid increase in the number of highly educated immigrants entering Canada than the U.S., and the changing characteristics of immigrants in Canada.

For example, between 1991 and 2006, the number of university educated new immigrants aged 25–54 rose from around 84,350 to 298,000 in Canada (a 253% increase), while rising from 531,390 to 1,230,300 in the United States (a 132% increase).

Finally, the source countries of Canadian immigrants changed much more significantly than was the case in the United States. In 1981,

around 54% of university educated new immigrants in Canada came from Asia, Africa and South America. In 2006, that number was close to 80%. However, this shift was much smaller in the United States.

There was also a large shift in languages spoken at home, which may affect labour market outcomes. In 1981, around 40% of Canada's new immigrants with university degrees spoke a language other than English or French at home. That number was around 85% in 2006. In the U.S., the number changed from 82% to 87%.

In Canada, the wage gap for immigrants from the non-traditional immigrant regions (such as Asia and Africa) was more than double the wage gap for immigrants from traditional countries (Western Europe, the U.S, etc.). In the United States, highly educated immigrants from the traditional countries actually tend to have higher wages than domestic-born workers and the disadvantage is concentrated among immigrants from non-traditional countries.

Therefore, Canada's shift to more new immigrants from non-traditional countries may play a role in explaining why outcomes followed a divergent path from that in the United States.



A Canada-US Comparison of Wage Gap

There are other potential reasons for the divergent patterns between Canada and the United States since the 1990s in the wage gap between new immigrant and domestic-born workers:

- The United States utilizes more pre-arranged employment than Canada.
- More pronounced change in immigrants' proficiency in official languages.
- Possible changes in the quality of university degrees held by entering immigrants in Canada.
- Changes in unobserved characteristics among entering immigrants.
- Differences in the occupational mix among the highly educated in the two countries.

Conclusion

There are steps Canada can take to reduce the wage gap, or better determine which immigrants will have more successful labour market outcomes.

1. Implement a more demanding language test. Citizenship and Immigration Canada improved the language test in 2002 and preliminary data suggest this improved labour market outcomes.
2. Develop a distinction in the selection system among different groups of foreign universities. Currently, all schools are treated equally in the system, regardless of their international prestige.
3. Increase the proportion of highly skilled immigrants who are nominated for entry by Canadian employers.
4. Place the decisions regarding immigration of highly skilled immigrants within the context of the supply of and demand for such labour.

Citizenship and Immigration Canada is making changes in light of the evidence from various sources regarding the declining economic outcomes of entering immigrants. During the past few years some existing programs were altered and new ones were implemented with the goal of improving immigrant labour market outcomes. Furthermore, the federal government has announced additional changes to the points system that is used to select skilled workers.

About this Policy Brief

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