



Labour Market Matters

Special points of interest:

- A statistical approach to immigrant selection can help select individuals who will perform better in the economy.
- Study finds that highly-educated 2nd generation immigrants appear to have difficulties translating educational success into success in the labour market.

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Keith Rogers
(Queen's University)

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Selecting Immigrants based on Earning's Potential

While there is growing global interest in a Canadian-style “points-system” for selecting economic immigrants; there is a debate about the effectiveness of such a system. There is evidence that recent cohorts of economic immigrants to Canada selected through the points system struggle in the labour market. A CLSRN paper by John McHale (Queen's University) and Keith Rogers (Queen's University) entitled **“Selecting Economic Immigrants: An Actuarial Approach”** (CLSRN Working Paper no. 49) argue that the current Canadian points system is of a *clinical* rather than *actuarial/statistical* design, meaning that it depends on expert judgement rather than an explicit statistically-based design. They develop a statistical approach to the design of a new system for selecting economic immigrants. The researchers believe that a statistical approach that focuses directly on predicted immigrant lifetime earnings is both feasible and beneficial to the economic health of the country as a whole.

The main idea behind statistical approach to immigrant selection is to identify which immigrants can perform the best in the economy by using data on landing characteristics and subsequent income performance of earlier immigrant cohorts. The researchers combine this model with a predicted earnings “threshold” below which applicants are not accepted. A statistical approach can be used to fine-tune the existing points system by adjusting points allocations to increase the

number of points for immigrant attributes that are known to increase immigrant lifetime earnings, and decrease the number of points currently given out to immigrants for attributes that have little or negative effects on immigrant lifetime earning potential.

The researchers find that the point allocations under the current system do not reflect the optimal allocation of points that would best select for the attributes that predict higher immigrant lifetime earnings. For example, under the existing points system, 25 out of a maximum of 100 points are available for experience, but the study's findings suggest that no – or even slightly negative points—should be allocated for experience as foreign experience does not appear to increase immigrant earnings potential in Canada. The researchers also note that the points allocations for education do not match the much steeper educational attainment gradient between a Masters or PhD, and a two-year university degree; as same number of points (25) are currently allocated for a PhD and a Masters, but this is nearly the same number of points allocated for a two-year university degree (20). On age, the system allows a maximum of 10 age-related points to be given for applicants between 21 and 49, with two-points per year penalties for each year above or below this range. McHale and Rogers' approach would emphasize both a larger relative weighting on age with progressively lower points depending on age at landing.

McHale and Rogers look to the U.S.-style employer-driven immigrant

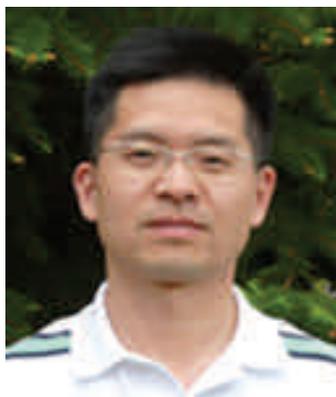


John McHale
(Queen's University)

selection process as a potentially more effective approach to selecting the immigrants who would bring the greatest benefit to the economy. Employers are very motivated to work hard at identifying individuals who will be the best fit for their company and are more likely to ask important detailed questions such as “Where did they get their education?”, “How well do they speak the language?” and “How well can they do the job?” Employers are also well-placed to be “experts” when it comes to determining who will be successful on the job. McHale and Rogers argue that the most effective selection system is likely to be one that integrates the informational value of employer assessments into actuarial-based predictions. The researchers believe that this can be done by using employer information as a source of points: such as giving points based on existence of job offers, salary offers, past home-country salaries etc.

Some highly educated 2nd generation immigrant children found to have difficulties translating education into labour market success

In many ways, a country's immigration system fails or succeeds not on the labour market performance not of the first generation of immigrants, but rather on the economic performance of their children and successive generations. In the 2006 Canadian census data, 36% of the Canadian-born children of immigrants held degrees, compared with 24% of the third-and-higher generation, people with Canadian-born parents. Very few 2nd generation ethnic groups do not outperform the third-and-higher generation in terms of educational attainment. How does this very high level of educational attainment among 2nd generation immigrants translate in terms of labour market outcomes for these individuals? A study by CLSRN affiliates Feng Hou and Garnett Picot "**The Determinants of Labour Market Outcomes Among the Children of Immigrants**" ([CLSRN Working Paper no. 48](#)) reviews the recent literature for both Canada and the United States; conducts some new research for Canada; and compares outcomes between the

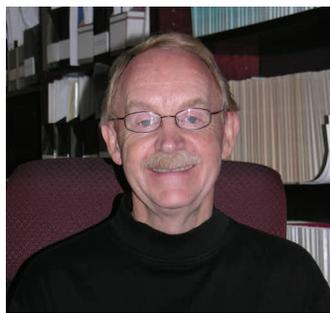


Feng Hou

two countries. They find that in Canada, the Canadian-born children of immigrants earn more as adults than their counterparts with Canadian-born parents, have lower unemployment rates and are more likely to be in professional occupations, in large part because of their higher educational levels. However, this story must be somewhat nuanced for the 2nd generation Canadian visible minorities, whose parents originate from developing nations such as China, India and Africa. These groups in particular have very high levels of educational attainment, but it is often the non-visible minority 2nd generation Canadians with backgrounds on developed nations such as Europe, the US and Australia who tend to have superior economic and labour market outcomes.

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The 2nd generation is more likely to be employed in professional occupations than the 3rd-and-higher generation, reflecting their higher average levels of education. Overall approximately 30% of children are employed in professional occupations compared to 26% of children with



Garnett Picot

Canadian-born parents. This finding holds for both visible minority and non-visible-minority 2nd generation groups. For example, 37% percent of second-generation Canadians with Asian backgrounds were employed in professional occupations as were 30% of 2nd generation blacks – both reflect a higher proportion of professional occupation employment than the 3rd and higher white population.

Compared to 3rd plus generation whites, earnings among the 2nd generation as a whole were 5.6% (men) and 14% (women) higher. This is to be expected given their higher level of education and occupational status. But after accounting for differences between the 2nd and 3rd plus generation in educational attainment, occupation and numerous other individual and job-related characteristics, 2nd generational visible minority groups were seen to earn from 2% to 13% less, not more, than their 3rd plus generation counterparts with comparable education, job type and other characteristics.

The study finds that on the whole, unemployment rates are lower among the children of immigrants than their counterparts with Canadian born parents (4.4% vs. 4.9%). However, this is not the

case for for all groups. The unemployment rate "advantage" is observed only among the 2nd generation Whites. Among visible minority groups (Blacks, Asians and others), unemployment rates are higher among the 2nd generation than the third-and-higher generation. For example, the unemployment rates among the 2nd generation Canadians of Asian descent are higher than those of the third-and-higher generation Whites (5.4% vs. 4.9%), even though Asians have significantly higher educational attainment.

Preliminary evidence is emerging to suggest that although the 2nd generation visible minority population does very well economically, in large part because of their very high education levels, they may have more difficulty converting education to earnings than non-visible minority 2nd generation groups, or the third-and-higher generation. In Canada, the Black population faces the largest negative wage gap with similarly educated third-and-higher generation Whites of around 10% to 15% negative wage gap. This group constituted 3.2% of the second generation in Canada in 2006.

Thus, while in general educational and labour market outcomes are quite positive among the 2nd generation in Canada, even as compared to the United States, and certainly as compared to most European countries, economic outcomes among 2nd generation visible minority groups are not as good as one might expect, given their education and other background characteristics.

Endnotes

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