



Labour Market Matters

Special points of interest:

- New study finds that large real declines in immigrant wages in the bottom-end of the wage spectrum, are often be masked by strong wage performance by immigrants in the top end of the wage spectrum.
- Factors behind immigrant entry-earnings gap in the 1980s, 1990s, and 2000s examined in new study.

“[B]etween 1980 and 2000, immigrants at the lower end of the wage spectrum have experienced large wage declines of up to a 30%”



Brahim Boudarbat
(Université de Montréal)

Volume 2, Issue 11

December 2010

The Poor Got Poorer: Study finds that immigrants at the bottom-end of the wage spectrum experienced large wage declines between 1980 and 2000

While many studies have documented a decline in average immigrant wages in Canada since the 1980s, a new study by CLSRN affiliates by Brahim Boudarbat (Université de Montréal) and Thomas Lemieux (University of British Columbia) entitled **“Why are the Relative Wages of Immigrants Declining? A Distributional Approach”** ([CLSRN Working Paper no. 65](#)) takes a broader look at the wage performance of immigrants at different point of the wage distribution. They use this approach to ensure that poor wage performance of one wage group of immigrants is not masked by good performance in another wage group.

Using data from the 1981 and 2001 census, Boudarbat and Lemieux find that while average immigrant earnings have only declined slightly between 1980 and 2000, immigrants at the lower end of the wage spectrum have experienced large wage declines of up to 30% during this period. This substantially exceeds the wage declines experienced by Canadian-born workers at the bottom-end of the earnings spectrum during the same period.

The researchers find that lack of Canadian experience is one of the primary factors for the poor wage performance of immigrants. Between 1981 and 2001, average years of Canadian experience of male immigrants

increased from 15.7 to 16.4 – which is only half as much as the increase in experience for Canadian-born workers. This large discrepancy in years of Canadian experience is largely attributed to the aging of the baby boom generation, which has resulted in a relative increase in the labour market experience, and thus in the wages, of Canadian-born workers relative to immigrants.

In terms of education, the proportion of immigrants with a post-graduate degree increased from 7.6 percent in 1981 to 12.7 percent in 2001, which is more than twice the corresponding proportion of Canadian-born individuals (5.5 percent). In fact, immigrants were found to be more educated than their Canadian-born counterparts over the period examined, and this education gap has grown slightly over time. Given the strong link between education and wages, the large education upgrading of the immigrant population between 1981 and 2001 should have resulted in increased, rather than decreased wages for immigrants as a group.

It should be noted that immigrants with English or French as a mother tongue tended to fare better than other immigrants. For instance, immigrants from the UK had a 6.1 percent wage advantage over Canadian-born individuals in 1980 that grew to 9 percent by 2000. Immigrants from the United States only had a 1.5 percent wage



Thomas Lemieux
(University of British Columbia)

disadvantage relative to Canadian-born individuals in 1980, and this gap was negligible by 2000. By contrast, for immigrants from China and India, the two most important new immigration source countries, there is a large and growing negative wage premium that increased from 20 percent in 1980 to 22 percent in 2000 for Chinese immigrants, and from 7.5 percent to 11 percent for Indian immigrants.

It is always a challenge for individuals at the bottom end of the earnings distribution to meet basic needs. For immigrants at the bottom end of the distribution who have experienced a large decline in earnings over the last 20 year, meeting basic needs have become even more challenging recently. This disturbing trend will be a major issue for Canadian society in the years to come.



Feng Hou
(Statistics Canada)

“During the 1970s and 1980s, Canada saw a large shift of immigration from traditional western source countries, to non-Western countries... Subsequently, the largest increase in the immigrant earnings gap, which was largely associated with this shift in immigrant source regions, was observed in the 1980s.”



The IT bust of the mid-2000s, had a significant impact on the immigrant wage gap. As it caused many well-educated immigrants to become unemployed, it lowered returns to education, and widened the wage gap.

Image: [Renjith Krishnan](#)

Factors behind the declining immigrant entry wages: 1980s to 2000s

Declining labour market performance of recent immigrants has been documented in numerous studies since the late-1970s. Oddly, this deterioration has persisted despite improved economic conditions in Canada by the early 2000s, combined with improved education attainment of new immigrants. A study by CLSRN Affiliate Feng Hou (Statistics Canada) entitled **“Entry Earnings of Canada’s Immigrants over the Past Quarter Century: the Roles of Changing Characteristics and Returns to Skills”** ([CLSRN Working Paper no. 63](#)) examines the varying impact of changes in immigrant source region and demographic composition, and changing returns to skills (education and experience) on the entry earnings gap for recent immigrants (compared to Canadian-born individuals) separately for, the 1980s, 1990s, and early 2000s to see whether these factors have changed over time; and also to predict what effect these factors could have on future earnings trends.

The study found that changes in population characteristics were the dominant factor affecting the immigrant entry earnings gap during the 1980s. During the 1970s and 1980s, Canada saw a large shift of immigration from traditional western source countries, to non-Western countries. The share of immigrants from Western countries with largely

developed economies declined from 42% in 1980 to 26% in 1990. Subsequently, the largest increase in the immigrant earnings gap, which was largely associated with this shift in immigrant source regions, was observed in the 1980s. The effect of the shift in immigrant source regions became less pronounced in the 1990s, countered by rapidly rising immigrant education levels. By the early 2000s, the effect of the immigrant compositional shift on the immigrant earnings gap was largely reversed.

Both immigrants and Canadian-born individuals experienced rising returns to education through the 1990s. Rising returns to education actually favoured immigrants during the 1990s as the educational attainment of entering immigrants increased much faster than that of Canadian-born individuals, and as a result, recent immigrants benefited more from the rising relative returns to education during the 1990s. For female immigrants however, the effect of changing return to education on their entry earnings gap was generally small.

Increasing returns to Canadian experience accounted for about one fifth of the expansion in the earnings gap of recent male immigrants in the 1980s, but the effect became negligible in the 1990s. For recent immigrant women however, increasing returns to

Canadian experience was among the most important factors contributing to the widening earnings gap throughout the whole study period.

The IT bust, combined with a large concentration of entering immigrants in this sector, is the major factor for the widening in the entry earnings gap in the early 2000s. At the peak of the IT boom in 2000 when the labour demand was strong, male recent immigrant IT workers earned about the same as their Canadian born counterparts. Five years later in 2005, male recent immigrant IT workers earned 16% less than the Canadian born. The IT bust also caused a large decline in the relative return to higher education among entering immigrants in this period. The large effect of the boom-bust of a single industrial sector on immigrant entry earnings highlights the importance of matching immigrant inflows and labour demand.

Hou believes that shifts in immigrant source regions and language ability have largely stabilized and will be less likely to negatively affect trends in the immigrant earnings gap in the near future, as it had in the past – barring significant changes to immigration patterns.

Endnotes

[Labour Market Matters](#) is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by Human Resources and Skills Development Canada (HRSDC) and the Social Science and Humanities Research Council of Canada (SSHRC). Opinions expressed in this publication do not necessarily reflect the views of HRSDC or the SSHRC.

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