

The Evolution of the Returns to Human Capital in Canada, 1980-2006*

Brahim Boudarbat
University of Montreal

Thomas Lemieux
University of British Columbia

W. Craig Riddell
University of British Columbia

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Abstract

This paper examines the evolution of the returns to human capital in Canada over the period 1980-2006. Most of the analysis is based on Census data, and on weekly wage and salary earnings of full-time workers. Our main finding is that the returns to education increased substantially for Canadian men between 1980 and 2000, in contrast to conclusions reached in previous studies. For example, the adjusted wage gap between men with exactly a bachelors' degree and men with only a high school diploma increased from 34 percent to 43 percent during this period. Most of this rise took place in the early 1980s and late 1990s. Returns to education also rose for Canadian women, but the magnitudes of the increases were more modest. For instance, the adjusted BA-high school wage differential among women increased about 4 percentage points between 1980 and 1985 and remained stable thereafter. Results based on Labour Force Survey data show the upward trend in returns to education has recently been reversed for both men and women. Another important development is that after fifteen years of expansion (1980-1995), the return to work experience measured by the wage gap between younger and older workers declined between 1995 and 2000. Finally, we find little difference between measures based on means and those based on medians of log wages for both genders. Also, the use of broader earnings measures (such as including self-employment earnings, using weekly earnings of all workers, or using annual earnings of full-time workers) does not alter the main conclusions from the analysis based on weekly wage and salary earnings of full-time workers.

JEL Classification: J24, J31

Key words: Human Capital, Wage Differentials, Returns to Education, Canada

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