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The Economic Return on New Immigrants' Human Capital: the Impact of Occupational Matching

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The Economic Return on New Immigrants' Human Capital: the Impact of Occupational Matching*

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Abstract:

Using a data set that provides information on source country employment, we examine the effect of source and host country occupational matching on earnings and the economic rate of return to the foreign human capital of immigrants in Canada. Examining occupational distributions we find that immigrants converge very quickly to the skill distribution of the Canadian population in terms of the main job worked, although four years after landing they are still below the source country distribution. We also find that for a large proportion of immigrants, their intended occupation differs from their source country occupation. Although immigrants who are able to match their source and host country occupations obtain higher earnings, successful occupational matching does not have any impact on the return to foreign potential work experience. However, immigrants who match their source and host country occupations do have a higher return to schooling, particularly for females.

JEL Code: J24, J31, J61

Keywords: Immigrants, Occupational Matching, Human Capital, Canada

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Executive Summary

Worsening outcomes of recent immigrant arrival cohorts in Canada has focused interest on determining the causes of these poorer outcomes.. The lack of portability of human capital acquired prior to immigrating has received both research and policy attention. Using longitudinal data that follow new immigrants after landing in Canada, we examine the relationship between source and host country occupational matching, earning outcomes, and the return of foreign acquired human capital.

We find that 97 percent of males and 80 percent of females had some pre-Canadian work experience. Exploring the occupational distributions, we find that immigrants move very quickly toward the skill distribution of the Canadian population in terms of the main job worked, although four years after landing they are still below the host country average skill level. Around 87 and 78 percent of males and females who had worked in the source country did so in a high-skilled occupation. Four years after landing, 60 and 42 percent of male and female immigrants were in a high-skill occupation, compared to 65 and 55 for the male and female Canadian populations. When we take into account demographic differences, such as educational attainment, the gap between immigrants and the Canadian population widens.

Having pre-Canadian work experience was a strong determinant of employment outcomes in Canada, particularly for females. More than 60 percent of the female immigrants who had never worked prior to immigrating were unemployed four years after landing, compared to a little less than a third of female immigrants who had worked prior to immigrating. Immigrants with pre-Canadian work experience had difficulty matching their Canadian and source country occupations; although when both pre-Canadian and intended post-immigration occupations are reported, the two frequently differ.

A little less than 30 percent of males who had pre-Canadian work experience were able to match the main job worked with their source country occupation by 4 years after landing. For females, this was even lower, with only 18 percent obtaining a successful match.

Immigrants who successfully match their source and host country occupations obtain much higher earnings. Four years after landing, even after controlling for observable characteristics, relative to non-matchers, successful matchers experience a 38 and 47 percent earnings advantage for males and females respectively. However, successful occupational matching does not have any impact on the return on years of foreign potential work experience. Regardless of whether an immigrant successfully matches their source country and Canadian occupation, they obtain no returns to years of foreign potential work experience. Conversely, immigrants who match their source and host country occupations do have a higher return to schooling, particularly for females. In some specifications, immigrants who do not successfully match occupations obtain no returns to their schooling.

Using additional information available only for skilled worker principal applicants on the intended occupation, we examine various combinations of source, intended and host country occupational matches. Almost 40 percent want to switch away from their source country occupation. However, workers who intended to switch were very likely to end up working in their source country occupation rather than their intended occupation. Regardless of whether they match either their source and host country occupations, or their intended and host country occupations, they obtain similar returns to a match in terms of weekly earnings.