



Canadian Labour Market and Skills Researcher Network

Working Paper No. 29

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June 2009

CLSRN is supported by Human Resources and Social Development Canada (HRSDC) and the Social Sciences and Humanities Research Council of Canada (SSHRC).

All opinions are those of the authors and do not reflect the views of HRSDC or the SSHRC.

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Abstract

Immigrant selection rules were altered in the early 1990s, resulting in a dramatic increase in the share of entering immigrants with a university degree and in the skilled economic class. These changes were very successfully implemented following significant deterioration in entry earnings during the 1980s. This paper asks whether these change in immigrant selection contributed positively to immigrant entry earnings during the 1990s. Moving to the 2000s, the paper asks whether, after almost two decades of deterioration, the entry earnings of immigrants improved early in the decade, and if not, why not.

We find that through the 1990s, altering immigrant characteristics did little to improve earnings at the bottom of the earnings distribution, and hence poverty rates among entering immigrants. A rapidly increasing share of immigrants with university degrees and in the skilled class found themselves at the bottom of the earnings distribution. They were unable to convert their education and “skilled class” designation to higher earnings. This inability may be related to language, credentialism, education quality, or supply issues, as discussed in the paper. However, the changing characteristics did increase earnings among immigrants at the middle and top of the earnings distribution.

We also find that from 2000 to 2004 the entry earnings of immigrants renewed their slide, but for reasons that differed from the standard explanations of the earlier decline. Following a significant increase in the supply of entering immigrants intending to work in IT and engineering during the late 1990s and early 2000s, these immigrants were faced with the IT downturn. The result was declining entry earnings, concentrated largely among these workers.

Keywords: immigration, earnings, high tech, immigrants

JEL Code: J61

Executive Summary

This paper focuses on the earnings of immigrants during their first few years in Canada. It covers cohorts entering during the 1990s and early 2000s. Earlier research has documented and largely explained a fall in entry earnings among new immigrants over the 1980-to-mid-1990s period. Entry earnings displayed some recovery during the late 1990s. This later improvement coincided with a significant change in the immigrant selection rules and the characteristics of immigrants—rising education, more immigrants in the skilled workers economic class and in engineering and information technology (IT) occupations—as well as an improvement in the economy. This paper asks to what extent these particular changes in immigrant characteristics, stemming from changes in the selection rules, influenced aggregate entry earnings of new immigrants over the 1990s. The paper also documents a renewed fall in immigrant entry earnings during the early 2000s, and asks why this decline occurred.

The changes to the immigrant selection rules in 1993 were very successfully implemented. The educational attainment of entering immigrants increased dramatically between the early 1990s and 2000, as did the proportion in the “skilled economic” class. Earlier research showed that these changes in immigrant characteristics had relatively little effect on chronic poverty, or the likelihood of entering or exiting poverty. The earnings analysis in this paper suggests that changing education and immigrant class characteristics did result in an improvement in *mean entry earnings* over the 1990s, as did an expanding economy.

However, there was significant variation across the earnings distribution in the extent of this improvement. The raw data show that entry earnings gains over the 1990s were much greater among higher paid immigrants than their lower paid counterparts. The research asks specifically to what extent the rising educational attainment and rising shares in the skilled economic class contributed to earnings gains at the bottom and top of the earnings distribution. The results suggest that these changing characteristics resulted in significantly higher entry-earnings during the 1990s among higher paid immigrants, but little improvement in earnings among their lower paid counterparts, even though the educational attainment of immigrants increased dramatically at both the bottom and top of the distribution. This result is consistent with the observation from earlier research that they had only a small effect on poverty outcomes.

As noted, this difference in outcomes between the bottom and top of the earnings distribution was not the result of less change in characteristics at the bottom of the earnings distribution. The significant rise in educational attainment and proportion in the ‘skilled economic class’ over the 1990s was observed across the entire distribution, for both men and women.

To a considerable extent, an increasing number of highly educated entering immigrants were unable to convert their education to higher earnings, and hence found themselves at the bottom of the earnings distribution. For immigrant males, the relative return to a bachelor’s degree (relative to immigrants with 11 or 12 years of schooling) during the first two full years in Canada was negative among those at the 15th percentile of the

earnings distribution, while they were around 13% for immigrants at the 90th percentile of the distribution. Even over the first ten years in Canada, relative returns to a bachelors degree for immigrant males were around 4% among those at the bottom of the distribution, and 20% at the top. Many university educated entering immigrants found themselves at the bottom of the earnings distribution because of these low returns. And the proportion of working age immigrants at the bottom of the distribution who had university degrees was increasing, from 24% among the 1991 entering cohort, to 51% for the 2000 entering cohort. Similarly, the skilled class designation did not result in any higher earnings than those observed among the family class for immigrants at the bottom of the distribution, although skilled workers at the top earned significantly more than their family class counterparts.

Changes in characteristics during the 1990s induced by the changes in the immigrant selection rules did increase mean earnings, and were very effective at improving economic outcomes for those who could take advantage of the higher levels of education and skilled class designation. But there were large numbers for whom this did not happen. There are a number of potential reasons for this outcome, as discussed in the conclusion.

But what of the early 2000s? Successive entering immigrant cohorts from 2000 to 2005 experienced declining earnings at entry. The determinants of this fall differed from those identified in the research focusing on the 1980s and early 1990s. It is likely that the declining returns to foreign experience, the shift in the source countries from which immigrants came, and the overall decline in labour market outcomes—three very significant causes of the declines in entry earnings during earlier years—had little to do with the decline after 2000. That is because the returns to foreign experience had already fallen to zero; the change in the source countries of immigrants occurred mainly during the 1970s and 1980s, and changed little after 2000; and the labour market for new entrants was not continuing to deteriorate in the late 1990s and early 2000s. Therefore, one has to look elsewhere for possible causes for the decline in entry earnings.

Much of the decline was concentrated among entering immigrants who intended to practice in the IT or engineering occupations. This coincided with the IT downturn, which appears to have significantly affected outcomes for these immigrants, particularly the men. Following the response to the call for more immigrant high-tech workers in the late 1990s, resulting in rapidly increasing supply through immigration, the large numbers of entering immigrants were faced with the IT downturn.

But there were no doubt other factors contributing to the decline in entry earnings after 2000, as some of it remains unaccounted for.