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**Seeking Success in Canada and the United
States: the Determinants of Labour Market
Outcomes Among the Children of Immigrants**

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Seeking Success in Canada and the United States:
The Determinants of Labour Market Outcomes
Among the Children of Immigrants

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Abstract

This paper reviews the recent research on labour market outcomes of the children of immigrants in Canada and the United States (i.e., the 2nd generation), and its determinants. The paper focuses on outcome gaps between the 2nd and third-and-higher generations, as well as the intergenerational transmission of earnings between immigrants (the first generation) and their children. Overall, in both Canada and the United States the labour market outcomes of the children of immigrants are positive. On average they have higher levels of education, and similar labour force participation rates and unemployment rates (no controls) as the third and higher generations (i.e. the children with native born parents). Furthermore, the children of immigrants tend to have higher earnings (unadjusted data). The 2nd generation is also more likely to be employed in professional occupations than the 3rd-and-higher generation, reflecting their higher average levels of education, particularly in Canada. However, after accounting for background characteristics, among racial minority groups in Canada the positive earnings gap turns negative. Regarding the determinants of aggregate outcomes, educational attainment may account for up to half of the (positive) earnings gap between the 2nd and third-and-higher generations. Other important determinants of the wage gap include location of residence and community size, ethnic group/source region background, the “degree of stickiness” in educational and earnings transmission between the 1st and 2nd generation, and “ethnic capital”. In both Canada and the United States there are large differences in outcomes by source region/ethnic group background. The U.S the sociological literature in particular focuses on possible “downward assimilation” among children of immigrants with Mexican and other Hispanic backgrounds. In Canada, after controls, the 2nd generation racial minority groups outperform the 3rd plus generation educationally, but the 2nd generation with European and American backgrounds do better in the labour market. Based on the trends in the composition of immigrants since the 1980s, and their correlation with 2nd generation outcomes, the educational and labour market gaps may move in different direction in the two countries in the future; becoming increasingly positive in Canada, and more negative in the U.S.

JEL code: J61, J15, and J11.

Keywords: Immigrants, Second Generation, Labour Market Outcomes, Canada and the United States.

Executive Summary

This paper reviews the recent research on labour market outcomes of the children of immigrants in Canada and the United States (i.e., the 2nd generation), and their determinants. The paper focuses on outcome gaps between the 2nd and third-and-higher generations, as well as the intergenerational transmission of earnings between immigrants (the first generation) and their children.

Overall, in both Canada and the United States, the labour market outcomes of the children of immigrants are positive. On average (with no controls) they have higher levels of education, and similar labour force participation rates and unemployment rates as the third and higher generations (i.e., the children with native born parents). Furthermore, the children of immigrants tend to have higher earnings. The 2nd generation is also more likely to be employed in professional occupations than the 3rd-and-higher generation, reflecting their higher average levels of education, particularly in Canada.

In Canada in particular most of the earnings advantage of the 2nd generation relates to their higher level of education, and their residential location, clustered as they are in large urban areas where wages are higher. Conditional on educational attainment and location of residence (and other variables), in Canada the 2nd generation has a negative wage gap relative to the third-and-higher generation. This negative wage gap (after controls) is observed primarily among visible minority groups, particularly the Black population. The 2nd generation racial minority population may have more difficulty converting education to earnings than the third-and-higher generation Whites. In the U.S., conditional on education and residential location, the positive wage gap between the children of immigrants and those of American born parents disappears, suggesting the these two factors account for the initial (unadjusted) positive gap between these groups.

Ethnic/source region group differences loom large in both countries. In the US, concern is focused on 2nd generation with Central and South America and Puerto Rican backgrounds. The “segmented assimilation” model in U.S. sociological research predicts poorer outcomes for these groups, driven by lower parental education, a higher share of single parent families, possible deviant lifestyles, discrimination and other factors. The children of immigrants from Mexico and other Central/South American countries have poorer labour market outcomes than the third-and-higher generation Whites, or other 2nd generation groups. These outcomes are in part accounted for by their much lower level of education, which is in turn partly driven by the lower levels of educational attainment among their immigrant parents, and a relatively low level of educational mobility between the Mexican immigrant parents and their children. But, *conditional on their socio-economic background*, including education, the 2nd generation Mexican-Americans register better outcomes than the 3rd plus generation with comparable background characteristics. Furthermore, the negative wage gap between Mexican-American workers and the third-and-higher generation Whites is reduced considerably from the 1st to 2nd generations. However, significant negative outcome

gaps persist between the children of many Hispanic immigrants and the 3rd plus generation.

There is also considerable variation in outcomes by ethnic group/source region background in Canada. Visible minority groups tend to have superior educational attainment outcomes. In particular, educational levels among 2nd generation children with Chinese, Indian, and African backgrounds are much above those of the 3rd plus generation. This is reflected in labour market outcomes. But, conditional on background characteristics, children whose parents came from developed European countries tend to do better in the labour market. In both Canada and the U.S., even after accounting for numerous socio-economic background variables, differences in outcomes among the 2nd generation ethnic/source region groups persist.

Regarding the determinants of aggregate outcomes, educational attainment may account for up to half of the positive unadjusted earnings gap between the 2nd and third-and-higher generations. Other important determinants of the wage gap include location of residence and community size, ethnic group/source region background, the “degree of stickiness” in educational and earnings transmission between the 1st and 2nd generation, and “ethnic capital”.

The gap in earnings outcomes between the 2nd and third-and-higher generations may be moving in different directions in the two countries. In the US, the observed decline in this positive gap may continue, driven largely by the shift in source regions of immigrants (and their associated educational attainment). In Canada, the positive gap in educational outcomes between the 2nd and 3rd plus generations, already fairly large, may increase. Such movement would be driven by the rapidly rising educational attainment of the immigrant parents since the 1980s, and the shift in source regions towards those that place a very high value on educational achievements and register high educational outcomes (even after controlling for education of parents). This in turn is likely to increase the (unadjusted) positive earnings gap between the 2nd and third-and-higher generations in the future.

There are at least three stages at which policy can be applied to influence the outcomes of the children of immigrants. The first is immigrant selection. Background characteristics of immigrants, such as education, language, ethnic capital and others are important determinants of 2nd generation outcomes. The points system in Canada, and the visa program in the U.S., are examples of such tools. The second stage is the degree of educational mobility between the 1st and 2nd generation. This is particularly important for immigrant groups with lower educational levels. Policy levers at this stage are often associated with the educational system. Topics such as whether schools are financed locally or at a higher level, the degree of immigrant “segregation” in the school system, the degree of aid available to immigrant groups in the school system, language programs, and the ability to operate schools effectively with a diverse student population become important. Conditional on the education level achieved, the third stage is the entry into the labour market. Key factors then are the availability to immigrant families and their children of job search networks, potential “statistical” or “preference”

discrimination in the case of some visible minority groups, and the variation in the returns to education.

In the aggregate, educational and labour market outcomes of the children of immigrants in Canada and the U.S. tend to be equal to or better than those of the 3rd plus generation. Some caveats to this overall conclusion have been noted. Economic integration may be a multi-generational process. In both countries the wage gap (after controls) of racial minorities with the third-and-higher generation Whites falls from the 1st generation (immigrants), to the 2nd generation (their children), and even to the third-and-higher generation in some cases.