



# Canadian Labour Market and Skills Researcher Network

## Working Paper No. 96

**Why do Immigrant Workers in Australia Perform  
Better than in Canada? Is it the Immigrants or  
their Labour Markets?**

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March 2012

CLSRN is funded by the Social Sciences and Humanities Research Council of Canada (SSHRC) under its Strategic Knowledge Clusters Program. Research activities of CLSRN are carried out with support of Human Resources and Skills Development Canada (HRSDC). All opinions are those of the authors and do not reflect the views of HRSDC or the SSHRC.

# Why Do Immigrant Workers in Australia Perform Better Than in Canada? Is It the Immigrants or Their Labour Markets?\*

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## Abstract

Research comparing the labour market performance of recent cohorts of immigrants to Australia and Canada points to superior employment and earnings outcomes in Australia. Examining Australian and Canadian Census data between 1986 and 2006, we find that this performance advantage is not driven by differences in broader structural and macroeconomic labour market conditions affecting all new labour market entrants. Rather, the results from comparing immigrants from a common source country – either the UK, India, or China – suggest that the advantage, particularly in earnings, primarily reflects a difference in the source country distribution of Australian immigrants. Moreover, the recent tightening of Australian selection policy, most notably its use of mandatory pre-migration English-language testing, appears to be having an effect primarily by further shifting the source country distribution of immigrants away from non-English-speaking source countries, rather than in identifying higher-quality migrants within source countries.

**Keywords:** Immigrant workers; labour market integration; immigrant selection policy.

**JEL Classification:** J61, J31, J23.

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\*This paper has benefitted from the comments and suggestions of conference participants at the 2010 Conference on the Economics of Immigration held at the University of Ottawa; the 2011 Annual Meetings of the Canadian Labour and Skills Researcher Network; and seminar participants at the Université du Québec à Montréal and McMaster University. Skuterud acknowledges financial support from the Social Science and Humanities Research Council of Canada (No. 410-2011-0281).

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## Executive Summary

Recent research comparing the labour market performance of recent cohorts of immigrants to Australia and Canada points to superior employment and earnings outcomes in Australia, which has been attributed to its tighter immigration selection policy, such as its use of mandatory pre-migration English-language testing (Hawthorne 2008). This evidence, which has received considerable attention in the Canadian media, appears to have been influential in the Canadian federal government's decision to introduce similar mandatory language testing in its skilled worker immigration program, as well as recent indications that it will force provinces to introduce language testing in their immigrant nominee programs.

The recent evidence, however, overlooks the fact that the superior performance of Australian immigrant workers is not a new phenomenon. Australia's immigrant workers were performing better than Canada's even in the 1980s when there was relatively little to distinguish their selection policies. Moreover, in the period from the early 1990s to the recent international financial crisis of 2008, Australia experienced unparalleled economic growth, not only in comparison to Canada, but internationally. In focusing exclusively on immigrants, as the most recent evidence does, one can never be sure whether the exceptional performance of Australia's immigrant workers reflects their tightened selection policy or broader labour market conditions common to all new labour market entrants, whether foreign-born or not. It may be that what makes Australian immigrants so successful has little to do with them and much to do with the labour markets they work in.

In this article, we exploit Australian and Canadian Census data spanning the period 1986 to 2006 to determine whether the exceptional performance of Australia's immigrant workers primarily reflects their labour markets or their immigrants. To do this we begin by comparing changes over time in the employment and earnings performance of new native-born labour market entrants in Australia and Canada, and then use these patterns to benchmark the relative performance of immigrants entering the Australian or Canadian labour market over the same period of time. Having netted out these broader labour market conditions, we then restrict attention to immigrants arriving from a common source country – either the U.K., India or China. We choose these countries for two reasons. First, in both Australia and Canada, they account for relatively large proportions of recent immigrants. Second, they lie neatly on a continuum of increasing expected challenges related to host-country language skills.

Our results suggest that while part of the superior performance of Australian immigrants reflects a long-term deterioration in broader Canadian labour market conditions, which appears to have had a particularly adverse impact on less educated Canadian workers, the differences observed among the most recent arrival cohorts, most notably those with a university degree, appear to be, by and large, independent of changes in these macroeconomic conditions. However, when we restrict attention to immigrants from a common origin country, we find little remaining evidence of an Australian performance advantage, particularly in terms of labour market earnings. For example, comparing

recent immigrant men from India arriving between the ages of 20 and 24 to native-born new entrants, employment rates are slightly higher for the immigrants in both countries and entry earnings are, if anything, at a greater disadvantage in Australia. In fact, in neither the Chinese nor the Indian estimates for Australia do we find any indication of the earnings improvements across recent cohorts that are evident in the aggregate Australian results.

Overall these results suggest to us that Australian immigration policy, whether in selecting or settling immigrants, may indeed be producing better average labour market outcomes for new arrivals. Nonetheless, whatever these policies are, two things appear to be true. First, they are affecting the relative performance of Australian immigrants across education groups, suggesting that something more than the assessment of economic-class immigrants is at play. In our view, to understand these differences further, one needs to begin to look more directly at the choices migrants themselves make in choosing where to settle. Second, to the extent that the differences reflect selection policy, these policies appear to be working primarily by influencing the source country distribution of new arrival cohorts, rather than by successfully identifying higher-quality applicants within source countries.