

# The impact of immigration on Canada's labour market

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Canada's immigration levels have been very high since the Mulroney government opened the door more widely in the mid-1980s. Over 250,000 new permanent residents and 113,000 temporary foreign workers were welcomed to Canada in 2006 (Citizenship and Immigration Canada, 2006). Bringing in such a large number of permanent and temporary new residents to participate in the Canadian labour market has wide-ranging implications for the Canadian economy, particularly for Canada's labour market. Yet there is very little understanding of these impacts and their implications for both existing Canadian residents and the new arrivals.

## Labour market impact

The impact of immigration on the labour market has many dimensions. It encompasses labour force participation rates, employment rates, and unemployment rates for

immigrants. It also includes immigrants' wages and earnings and reflects the indirect effects of an increased immigrant labour supply on the labour market outcomes of the Canadian-born and earlier cohorts of immigrants. These impacts are all compounded by the entry of large numbers of temporary foreign workers who also must be absorbed by the labour market.

Up until around 1980, the pattern (as revealed by the censuses) was that new immigrants started out earning about 80% or so of the equivalent wage of a Canadian-born, but then moved up to—and even beyond—the average wage over a 10- to 20-year period. But in subsequent years—at the same time as Canada's source countries changed, as did other characteristics of immigrants, such as language and job experience—there was a substantial deterioration in the labour market performance of immigrants over time (Picot and Sweetman, 2005). In 1993, the point system—which since its introduction in 1967 has

selected immigrants on the basis of “points” earned for such factors as age, education, knowledge of English and/or French, work experience, arranged employment, and adaptability—was modified to put more emphasis on education. Selecting immigrants based on their education rather than their specific job

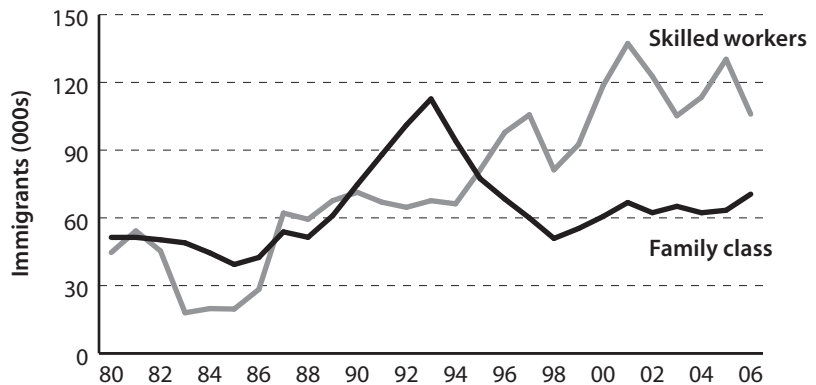


skills has been called the “human capital” approach. This approach can be contrasted with the “occupational needs” approach, which attempts to identify occupational classes where workers are in short supply and admit immigrants in those classes.

In order to improve the labour market performance of new immigrants, starting in 1994 the Skilled Class of immigrants admitted on the basis of their qualifications was increased and the Family Class admitted on the basis of their family relationships with Canadian residents was decreased. This move was reinforced in 2002 when the point system was changed so that more points would be awarded for a trade certificate or second degree, and fewer would be awarded for experience. The result of these two policy changes was an increase in the Skilled Class of immigrants relative to the Family Class (figure 1) and a dramatic increase in the education level of immigrants (figure 2).

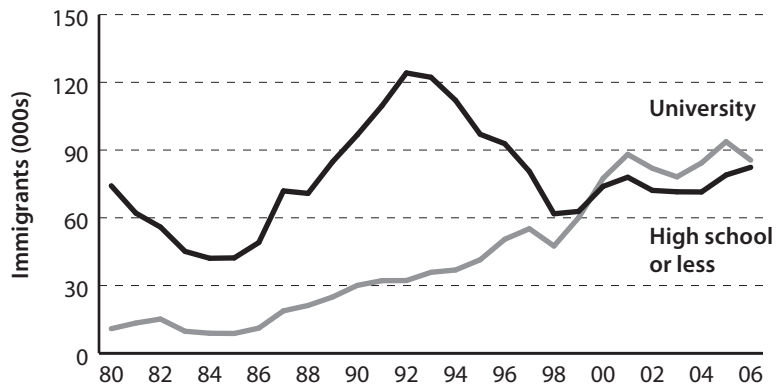
While there has been some improvement since 2001 as the labour market has tightened, the employment rate of recent immigrants in 2006 (defined in the census as those arriving between 2001 and 2006) was substantially lower than for the Canadian-born, particularly among women (table 1). The unemployment rate has come down, especially for recent immigrant men, but was almost twice as high for men and three times as high for women as for the Canadian-born. The labour market performance of recent immigrants is poorest among recent immigrants from Africa and, to a lesser extent, Asia and Latin America (table 2). More ominously, judging from what happened in 2001 when unemployment rose (as shown in table 1), any downturn in the labour market resulting from the current economic slowdown is likely to adversely and disproportionately affect recent immigrants from the source countries with the poorest performance.

**Figure 1: Immigration of family class and skilled workers, 1980-2006**



Source: Citizenship and Immigration Canada, 2007.

**Figure 2: Immigrants, 15+ years of age, by level of education, 1980-2006**



Source: Citizenship and Immigration Canada, 2007.

**Table 1: Employment and unemployment rates (%) of recent immigrants and Canadian-born aged 25 to 54 (%)**

	Men		Women	
	Emp. Rate	Unemp. Rate	Emp. Rate	Unemp. Rate
Recent immigrants*				
2001	74.5	11.4	53.2	15.7
2006	78.6	9.3	56.8	14.3
Canadian born				
2001	85.7	6.3	76.3	5.7
2006	86.3	5.2	78.5	5.0

\*Note: Recent immigrants are defined as those being in the country for less than five years.

Source: Statistics Canada, 2008a: 30.

**Table 2: Low-income rates (%) for immigrant economic families, 2000, total and by place of origin**

	Total	Period of immigration						1996-2001
		Before 1961	1961-1970	1971-1980	1981-1990	1991-2001	1991-1995	
Immigrant population	19.1	6.8	8.2	10.4	17.2	33.6	25.2	41.2
Place of origin:								
United States	10	4.2	5.8	7.5	9.7	19.2	13.3	23.2
Europe	10.9	6.9	8.4	8.2	10.5	24.7	14.5	33.7
Africa	28.1	7.1	7.2	10	20.7	42.6	34.8	48.8
Asia	26.9	8.7	8.3	11.3	19.4	36.8	27.8	44.6

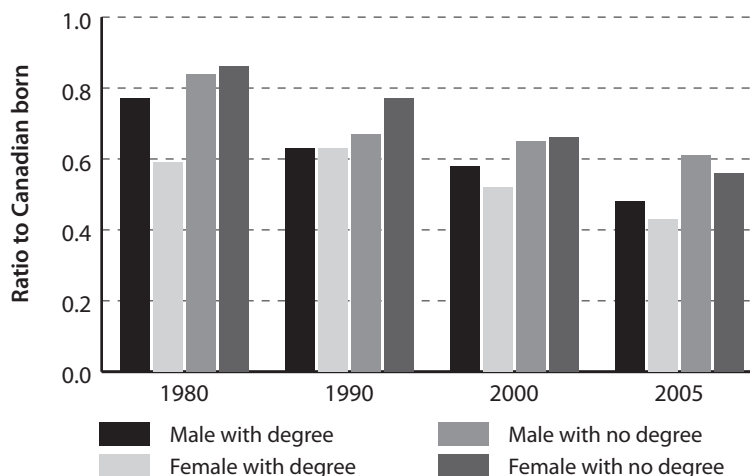
Note: The figure for the non-immigrant population is 11.2%.

Source: Statistics Canada, 2002.

Over the last 25 years, in spite of the changes in immigration policy introduced by the federal government, the earnings of recent immigrants have continued to deteriorate relative to those of equivalent Canadian-born workers (figure 3). The earnings of new immigrant men with a university degree has fallen dramatically to less than half of that of Canadian-born men, and the earning of new immigrant woman with a university degree has dropped to almost 40% of that of Canadian-born women. In 2005, recent immigrant men earned only \$30,332 if they had a university degree (compared to \$62,566 for Canadian-born men) and \$24,470 if they did not (compared to \$40,235 for the Canadian-born) (table 3). Recent immigrant women earned only \$18,969 with a degree (compared to \$44,545 for Canadian-born women) and \$14,233 without (compared to \$25,590 for the Canadian-born).

The gap is greatest among those with a university degree; recent immigrants in that group earn less than half of the wages earned by the Canadian born. The deterioration in wages is largest among women with no degree and men with a university degree. Most troubling of all is

**Figure 3: Ratio of earnings of immigrants to earnings of the Canadian-born, by level of education and sex**



Source: Statistics Canada, 2008b: 22.

the downward trend in the relative performance of recent immigrants, which showed no signs of abating even as the labour market tightened between 2001 and 2006. And this decline predates the recent deterioration in the labour market caused by the recession, which will only exacerbate the already poor performance of immigrants relative to the Canadian born.

### Why are immigrants doing so poorly?

An appropriate policy response to the poor outcomes experienced by recent immigrants requires a sound understanding of the causal factors at play. Fortunately, Garnett Picot and his colleagues at Statistics Canada have undertaken this task

**Table 3: Median earnings, in 2005 constant dollars, of male and female recent immigrant earners aged 25 to 54 (\$)**

	With a university degree		Without a university degree	
	Males	Females	Males	Females
1980	48,541	24,317	36,467	18,548
1990	38,351	25,959	27,301	17,931
2000	35,816	22,511	25,951	16,794
2005	30,332	18,969	24,470	14,233

Source: Statistics Canada, 2008b: 22.

and produced many high-quality research studies that analyze the available data to find out why immigrants are doing so poorly in the labour market.

Picot and Arthur Sweetman (2005) have provided a convenient survey of the studies. They attribute the decline in entry-level earnings and increasing low-income rates to: (1) the changing characteristics of immigrants, including country of origin, language, and education, which appear to account for about a third of the increase in the earnings gap; (2) the decreasing returns on foreign work experience, which explain another third; and (3) the decline in labour market outcomes for all new labour force entrants, including immigrants. They also discuss a possible reduction in the return on education and differences in education quality. Put simply, the research shows that Canadian employers do not value foreign experience and heavily discount the value of foreign education. A lack of fluency in English or French is also a problem (Grondin, 2005). A more recent study by Picot (2008) attributed much of the recent decline to the downturn in high tech, combined with the increasing concentration of immigrants in IT and engineering. This provides a good example of the difficulty the government has in selecting the people most in demand in the labour market.

### Relative poverty increasing among immigrants

The poor performance of recent immigrants in the labour market has caused a much larger proportion of recent immigrants than Canadian-born to fall below Statistics Canada's Low Income Cut-Off (LICO), which is the most widely used, though still controversial, measure of the incidence of low income or "relative" poverty (for a discussion about the difference between relative and absolute poverty, see Sarlo, 2006, 2008). By this measure, the incidence of low income has been highest among recent immigrants from Africa and Asia (figure 3). This increase in the incidence of low income among immigrants helps to explain why income inequality has been increasing in the main immigrant-receiving centers of Toronto, Montreal, and Vancouver, where immigrants are becoming increasingly ghettoized (Hou and Picot, 2004).

While relative poverty, as defined by the LICO, has been rising among the immigrant community, it has been falling among the Canadian born (Grady, 2005). As a result, a growing disparity between rich and poor is emerging along ethnic and racial lines. There is a risk that this might undermine the dynamic of intergenerational upward mobility

that has made Canadian immigration policy so successful in the past.

## Discussion and recommendations

The fundamental problem, which few are willing to acknowledge and even fewer willing to do anything about, is simply that, using the existing selection system, it is not possible to admit annually as many as 250,000 immigrants who are capable of doing well in the Canadian labour market, despite 16 years of economic expansion, during which the unemployment rate dropped below 6%. The situation can only worsen as unemployment climbs, as is happening now as Canada faces the worst recession of the post-War period.

Based on the relationship between unemployment rates for immigrants and the national average exhibited in the most recent data, if the national average unemployment rate were to rise to 9%, then the unemployment rate for immigrants who have been in Canada for less than five years could reach 17%, and the unemployment rate for immigrants who have been in Canada for five to 10 years could touch 11% (Grady, 2009). The situation could even be much worse as new immigrants often find themselves at the end of the employment queue because of their lack of Canadian experience and education and their weak language skills. In the long term, these initial problems with labour market integration could easily turn into a life-long problem of marginal labour force attachment and low earnings. If workers do not find employment in their chosen field reasonably soon after landing in Canada, they may be forced to take temporary unskilled jobs and their human capital will depreciate. More fundamentally, there is a real possibility that their temporary jobs will, in effect, define them in the eyes of

future employers and prevent them from ever finding professional or skilled jobs.

The only way to ensure that new immigrants will do better in the Canadian labour market is to be more selective in choosing them. This means that the selection system will have to be radically revamped to make sure that it correctly identifies the immigrants who will really succeed in the labour market, rather than those who have formal education but few practical skills. Then the economic performance of the immigrants who are admitted will have to be monitored much more carefully to make sure that new immigrants are indeed succeeding—that is, on average, doing roughly as well as native Canadians after being in the country for a couple of decades.

To be more selective, it will be necessary to lower the global target for immigration substantially. We could begin by reducing the target to 100,000 immigrants per year. This target, a significant reduction from current levels, would make possible a marked increase in the labour market readiness of new arrivals. If the lower number of more qualified immigrants produced the desired improvement in the immigrants' economic performance, then the new immigration target could be maintained. If not, then it would have to be reduced further until the new immigrants were able to perform satisfactorily in the labour market.

Canadians, including existing immigrants, could expect to reap significant benefits from lower and more selective levels of immigration.

The resulting increase in immigrants' earnings would help stop the rise in relative poverty among immigrants. This, in turn, would make it more likely that the new immigrants would make a net fiscal contribution to the country within a reasonable period of time and thus prevent the emergence of a large, net fiscal drain, which, if allowed to grow, would make it all the more difficult for the government to eliminate its current unsustainably large deficit and restore its finances to a more healthy position (Grubel, 2005, provides preliminary estimates of the fiscal cost of recent immigration).

More generally, a tighter labour market would put upward pressure on the wages and incomes of all Canadians, including immigrants, which, maybe not coincidentally, have stagnated in recent years. However, true reform will not be easy to achieve, given the strong political pressure on all parties to maintain high immigration levels, regardless of the economic consequences.

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## Erratum

In the November 2009 issue of *Fraser Forum*, we incorrectly identified Ronald Coase as the "late Ronald Coase." In fact, Mr. Coase is alive and is the research advisor to the Ronald Coase Institute in St. Louis, MO. We sincerely regret the error.