



**IMMIGRANTS, SKILL SHORTAGES AND THE JOB MARKET**

Immigration is a vital part of the Canadian economy. It is also a complex and sometimes contentious policy area. One emerging concern with Canadian immigration policy is the deterioration in the job market performance of newly arrived immigrants since the 1980s. Although immigrants to Canada today have more education than their counterparts in the 1960s and 1970s, they appear to be having more difficulty making the transition to work once here. Compared to past decades, recent immigrant cohorts have higher rates of unemployment, lower earnings and a greater likelihood of falling into poverty.

This trend is worrisome because a primary objective of immigration policy is for newcomers to build a prosperous life and fully contribute to the Canadian economy. In addition, immigration figures prominently in the federal government's strategy to meet Canada's future demand for workers. If immigrants are not faring well in the labour market, this suggests that the transfer of the "human capital" embodied in immigrants to the Canadian economy is not occurring as policy makers had envisioned. To the extent that this is the case, it casts doubt on the effectiveness of Canada's approach to immigrant selection and also underscores the need for new initiatives to facilitate immigrants' participation in the work force.

**Immigrants Critical to Future Labour Force Growth**

Immigration was an important source of growth in the Canadian labour force in the 1990s. A total of 977,500 immigrants joined the labour force during the decade. Nationally, these individuals accounted for

almost 70% of the growth in the labour force over the ten year period.<sup>1</sup> Most foreign-born workers who arrived during the 1990s went to Ontario. British Columbia received the second largest number of immigrants.

Although BC was a popular destination for newcomers to Canada, immigrants represented a smaller share (60%) of the growth in the province's labour force because of a strong net inflow of people from other provinces in the first half of the 1990s.<sup>2</sup> However, in Greater Vancouver, where almost all immigrants to BC end up, immigration accounted for fully 91% of the increase in the size of the labour force between 1991 and 2001.<sup>3</sup>

Given that fertility rates have remained relatively low and stable for the past 30 years, it is evident that there will be fewer Canadian-born individuals moving into the ranks of the working-aged population to replace the rapidly rising numbers of retirees. If current immigration rates continue, immigration will account for 100% of net labour force growth in Greater Vancouver, and for most of the growth at the provincial and national levels as well.

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<sup>1</sup> Statistics Canada, "The Changing Profile of Canada's Labour Force," *2001 Census: Analysis Series* (February 2003) p. 12.

<sup>2</sup> *Ibid.*, p.15.

<sup>3</sup> Clarence Lockhead, "Perspectives on Immigration: Findings from the Canadian Labour and Business Centre's Survey of Canadian Business, Labour and Public Sector Leaders," *Canadian Labour and Business Centre* (March 31, 2003) p.2.

## **Declining Earnings**

It used to be that immigrants would come to Canada and, within a few years, be earning wages/salaries comparable to their Canadian-born counterparts. By the 1980s however, this pattern began to change. The 1991 Census revealed that it was taking male immigrants eight or nine years to come close to matching the earnings of Canadian-born males. The 2001 Census found a further deterioration. Even after working for a decade in Canada, immigrants who had arrived in the early 1990s on average were earning just 75-80% of what native-born males were making.<sup>4</sup>

A recent analysis using more sophisticated statistical techniques also points to a decline in immigrant earnings. The study suggests that immigrants arriving between 1995 and 1999 on average earned 24% less than immigrants who came between 1965 and 1969 and had similar amounts of labour market experience and prior schooling.<sup>5</sup>

Perhaps more troubling is that growing numbers of immigrants have been unable to find work. In 1996, only 61% of recent immigrants aged 25 to 44 were employed, compared to 78.4% of the Canadian-born population in the same age group. This is a notable departure from the latter half of the 1970s, when the employment rate of recent immigrants in this age group was essentially the same as that of native-born Canadians.

The 2001 Census indicated that the employment gap was not simply a result of the generally poor labour market conditions that characterized most of the first half of the 1990s. In spite of strong economic growth over the second half of the 1990s,

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<sup>4</sup> Christopher Worswick, "Immigrants' Declining Earnings: Reasons and Remedies," CD Howe Institute Background, no.81 (April 2004).

<sup>5</sup> Abdurrahman Aydemir and Mikal Skuterud, "Explaining the Deteriorating Entry Earnings of Canada's Immigrant Cohorts: 1966-2000," Statistics Canada Research Paper No. 225 (May 2004).

the employment rate for recent immigrants was still 16 percentage points lower than that for the Canadian-born. Recent immigrants aged 25 to 44 were also twice as likely to be unemployed, with a jobless rate of 12.1% compared to 6.4% for their Canadian-born counterparts in the same age group.<sup>6</sup>

In the Greater Vancouver region, the employment gap between immigrants and Canadian-born individuals also widened over the 1990s and was larger than the nation-wide gap in the second half of the decade.<sup>7</sup>

## **A Brief Overview of Canadian Immigration Policy**

Immigrants are admitted to Canada under one of four broad classifications:

- Economic immigrants (includes skilled workers and business immigrants);
- Family sponsorships;
- Refugees; and,
- All others.

The criteria for admission vary widely across the categories, but under the skilled worker category admission is based upon a maximum 100 point scale designed to reflect the applicant's likely success in the

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<sup>6</sup> Statistics Canada, "The Changing Profile of Canada's Labour Force," op. cit., p. 12. Some of the overall gap is attributable to the lower employment rate for immigrant women, a large share of who entered Canada as family members of economic immigrants or on grounds of family reunification. Only 55.6% of recent female immigrants were employed in 2001, almost 22 percentage points lower than the employment rate for Canadian-born women. Recent male immigrants aged 25 to 44 had an employment rate of 77.4%, 9 percentage points lower than their Canadian-born counterparts.

<sup>7</sup> For men in the GVRD the employment rate for recent immigrants was 13.2 percentage points below the Canadian-born rate in 2001; for women, the gap was 25 percentage points.

Canadian labour market. Potential points are allotted as follows:<sup>8</sup>

- Education – up to 25 points;
- Official language – up to 24 points;
- Experience – up to 21 points;
- Age – up to 10 points;
- Arranged employment in Canada – up to 10 points; and,
- Adaptability – up to 10 points.

In 2003, the federal government lowered the required number of points to 67 from 75 because of concerns that too many applicants were being excluded using the 75 point threshold.

The share of immigrants admitted under each category has shifted over the past two decades, reflecting a desire to attract greater numbers of well-educated workers to Canada. The proportion admitted under the economic immigrant category has climbed from the 30-35% range to almost 60% by 2000.<sup>9</sup> Because of the emphasis given to education, the percentage of newly arrived immigrants with a university degree has risen to 34.1% from just 7.6% in 1980. Yet, as outlined above, notwithstanding the substantial increase in education levels and efforts to admit more skilled, employable workers, the job market performance of recent immigrants has deteriorated.

### **Transferability and Integration**

A key issue for policy makers is why recent arrivals have had less success in the labour market than immigrants who landed in the 1970s and early 1980s. This is not an easy question to answer, as many factors likely lie behind the trend.

At least part of the decline in immigrants' earnings is attributable to general economic

conditions, which also affect entry level earnings for Canadian-born workers.<sup>10</sup> Some research also suggests that poor labour market conditions in the early 1980s and 1990s had a permanent 'scarring effect' on the future assimilation of immigrants.

Another significant factor is that transferring foreign training and education into the Canadian workplace is a more difficult process than policy makers appear to believe. There are many stories of immigrants who cannot secure employment in their chosen occupation because their foreign credentials are not recognized in Canada. The Conference Board of Canada estimates that the loss of income associated with unrecognized skills/credentials is as high as \$6 billion per year, of which half or more reflects lower earnings of foreign-born workers.<sup>11</sup>

The issue, however, is complex. While there is much anecdotal evidence that immigrants face barriers because their credentials aren't recognized, one recent study argues that this evidence "needs to be treated with some caution."<sup>12</sup> Contrary to popular perceptions, the study finds that the increase in earnings associated with holding a degree or diploma (for a given number of years of education and experience) is actually higher for immigrants than for a comparable Canadian-born worker. The analysis, however, is intended to identify the impact of education on earnings and makes comparisons only among those who are working; this overlooks the many recent immigrants with

<sup>8</sup> See the Citizenship and Immigration Canada website at [www.cic.gc.ca](http://www.cic.gc.ca).

<sup>9</sup> Christopher Worswick, "Immigrant's Declining Earnings: Reasons and Remedies," op. cit.

<sup>10</sup> David Green and Christopher Worswick, "Immigration Earnings Profiles in the Presence of Human Capital Investment: Measuring Cohort and Macro Effects," unpublished working paper (September 2003).

<sup>11</sup> Conference Board of Canada, Brain Gain: The Economic Benefits of Recognizing Learning and Learning Credentials in Canada (2001).

<sup>12</sup> Ana Ferrer and Craig Riddell, "Education, Credentials and Immigrant Earnings," University of British Columbia (May 2003).

unrecognized credentials who are not officially employed.

Another explanatory factor is the shift in language abilities and country of origin of more recent immigrant cohorts. The study referenced above estimates that up to one-third of the deterioration in immigrant earnings can be explained by changes in language skills and the countries from which Canada sources immigrants. This finding highlights the need for newcomers to possess or quickly acquire adequate language skills if they hope to work in occupations relevant to their prior education and work experience.

Recent research also suggests that the decline in immigrants' earnings is at least partly related to a persistent drop in the value employers attach to foreign labour market experience (which is distinct from general language proficiency), particularly among immigrants from non-traditional source countries.

### **Conclusions**

By the end of the current decade immigrants will account for nearly all the growth in the labour market in both Canada and British Columbia. It is therefore clear that a sensible immigration policy must be part of any national strategy to fill job vacancies and mitigate skill shortages. The documented decline in the labour market performance of immigrants indicates that many foreign-born newcomers are finding it increasingly difficult to make the transition to working in Canada. This raises questions about the current system's capacity to attract the types of skilled workers that Canada will need to meet its future labour force requirements.

Several factors that appear to be contributing to immigrants' poor labour market performance – inadequate language ability, limited Canadian-relevant work experience, etc. – encompass criteria which the federal government takes into consideration when evaluating potential immigrants to Canada.

In terms of policy changes, it may be necessary to refine the mechanisms for evaluating immigrants seeking to enter Canada under the skilled worker category. Perhaps more weight should be given to assessing the adaptability of potential immigrants to Canadian work environments. Another option is to put greater emphasis on attracting younger immigrants, who by definition will have more time to acquire Canadian work experience and generally perform better in the labour market.<sup>13</sup> Under Ottawa's current system applicants receive ten additional points for being anywhere between the ages of 21 and 49.

In the evaluation process, more effort should also be devoted to identifying the likely transferability of foreign education and work experience.<sup>14</sup> Of necessity, this would entail strengthening the criteria and processes for recognizing foreign credentials in order to help immigration officials accurately assess transferability at the application stage.

A final suggestion is to step up the use of temporary work visas, which are common in the United States and some other developed countries. This would allow foreigners to work in Canada for specified time periods (e.g., 1-2 years) and thereby acquire exposure to the Canadian job market before undergoing the more arduous and complicated process of applying to become a permanent resident.

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<sup>13</sup> Joseph Schaafsma and Arthur Sweetman, "Immigrant Earnings: Age at Immigration Matters," Queen's University School of Policy Studies (May 2001).

<sup>14</sup> A recent study by the Canada West Foundation argues that Provincial Immigrant Nominee Programs can be used more effectively to help address provincial skill requirements. See Vien Huynh, "Closer to Home: Provincial Immigration Policy in Western Canada," Canada West Foundation, Report #35 (June 2004).