

The Impacts of Immigration: Evidence from the Economics Literature

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Impacts

Two main questions addressed in the literature:

How do immigrants adapt to the host economy?

How has this changed over time?

What is the impact of immigration on the labour market outcomes of residents?

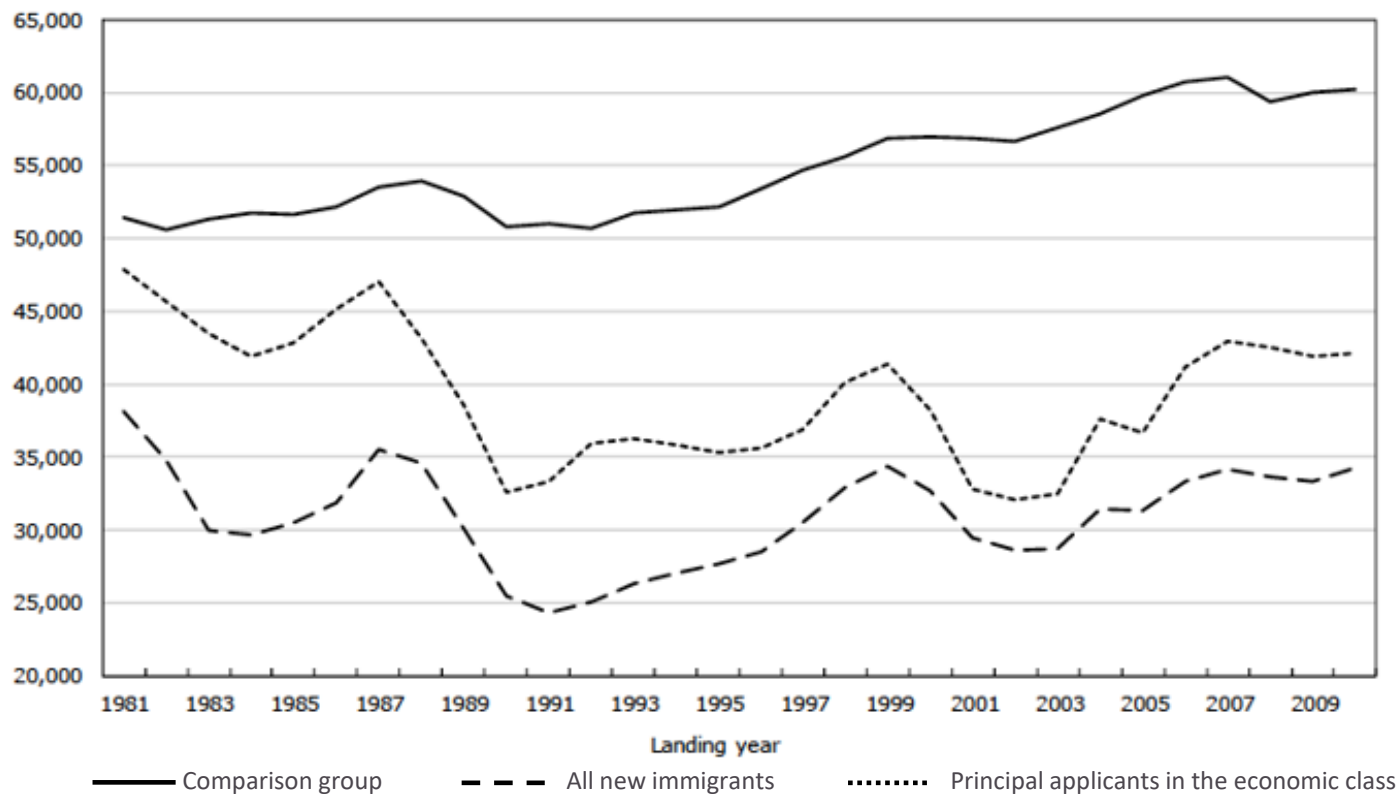
The two are linked as better adaptation may improve the impact of immigration on growth.

Adaptation to the Host Economy, Males (Hou and Picot 2016)

Chart 1

Entry earning of new Immigrant men, 1981 to 2010 landing years

Annual earnings
(2011 constant dollars)



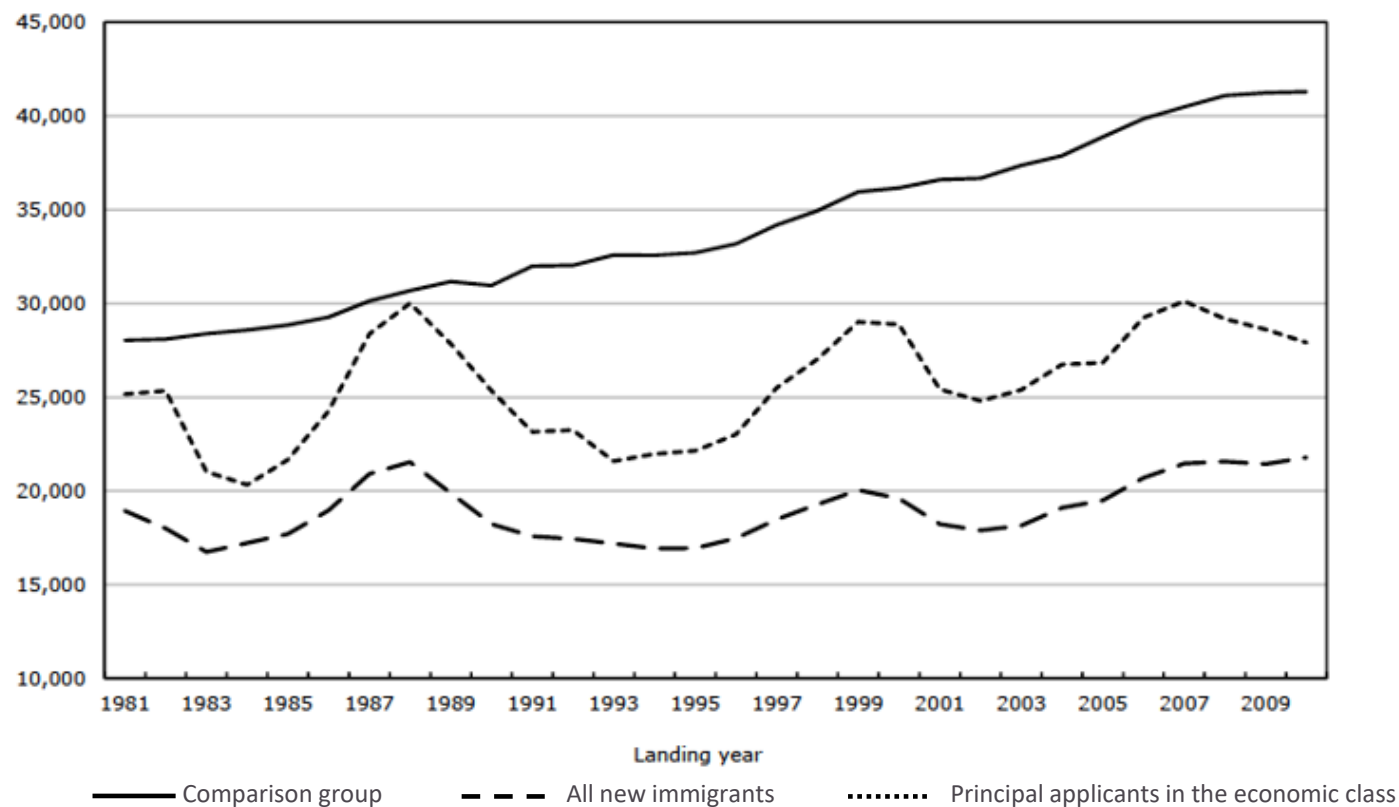
Source: Statistics Canada, Longitudinal Immigration Database.

Adaptation to the Host Economy, Females (Hou and Picot 2016)

Chart 2

Entry earning of new immigrant women, 1981 to 2010 landing years

Annual earnings
(2011 constant dollars)



Source: Statistics Canada, Longitudinal Immigration Database.

Reasons for Declining Entry Earnings

About half the relative decline in entry earnings is associated with:

A shift in the source country composition toward non-European countries

A decline in initial earnings faced by Canadian born new labour market entrants

Reasons for Declining Entry Earnings

Why do immigrants from non-European countries earn less in Canada?

Skills acquired in the source country are less productive than nominally similar skill acquired in Canada

Foreign acquired skills are equally productive but employers discount them because of a lack of information

Discrimination

Reasons for Declining Entry Earnings: Returns to Education

It is well documented that immigrants earn lower returns on a degree from a foreign university (e.g., Schaafsma and Sweetman(2001), Ferrer and Riddell(2008))

Ferrer, Green and Riddell(2006): the lower return is eliminated once one controls for a literacy test score

This could be because of taking the literacy test not in their mother tongue but Li and Sweetman(2014) show that we can also eliminate the lower return if we control for average literacy scores in the source country (taken in the language in that country)

Reasons for Declining Entry Earnings: Returns to Education

The implication is that, on average, immigrants have lower returns to education because their education skills are not as productive in the Canadian economy: there is no simple fix through credential recognition

Though, Brucker et al(2018), using rich German data, find that credential recognition raises earnings by 15 to 20 %

Reasons for Declining Entry Earnings: Experience and Language

A common finding is that foreign acquired work experience obtains a zero return in Canada (Schaafsma and Sweetman(2001), Green and Worswick(2012))

There is no work on whether this is because of credential recognition versus the foreign experience begin less productive

There is a positive correlation between language skills and earnings but no papers for Canada assess how much of this is selection

Clarke and Skuterud(2013): introducing language testing in Australia led to higher immigrant earnings but this was entirely due to shifting the source country composition

Reasons for Declining Entry Earnings: Discrimination

Pendakur and Pendakur (1998): visible minority immigrant men earn 16% less than native born white men with the same education and experience (for women it is 9% less)

Is this discrimination?

Ferrer, Green and Riddell (2006): there is no difference in returns to literacy for immigrants and the native born

On the other hand, the audit study in Oreopoulos (2011) shows that identical applicants with non-English sounding names have a 39% lower call-back rate

In the end, the lower earnings for non-European immigrants is likely a combination of less productive skills and discrimination.

One possible response is using foreign acquired skills to generate new skills in Canada (not the same as credential recognition)

Immigrant Job Creation and Employment Outcomes

Card(1990): Mariel Boatlift in 1980 increased Miami's labour force by 7% but within 3 to 5 years there was no apparent impact on either wages or employment rates of residents

This type of result has been replicated in many studies of local labour markets

No effect on the employment rate means that when immigration increases the population by 1%, the number of jobs expands by 1%

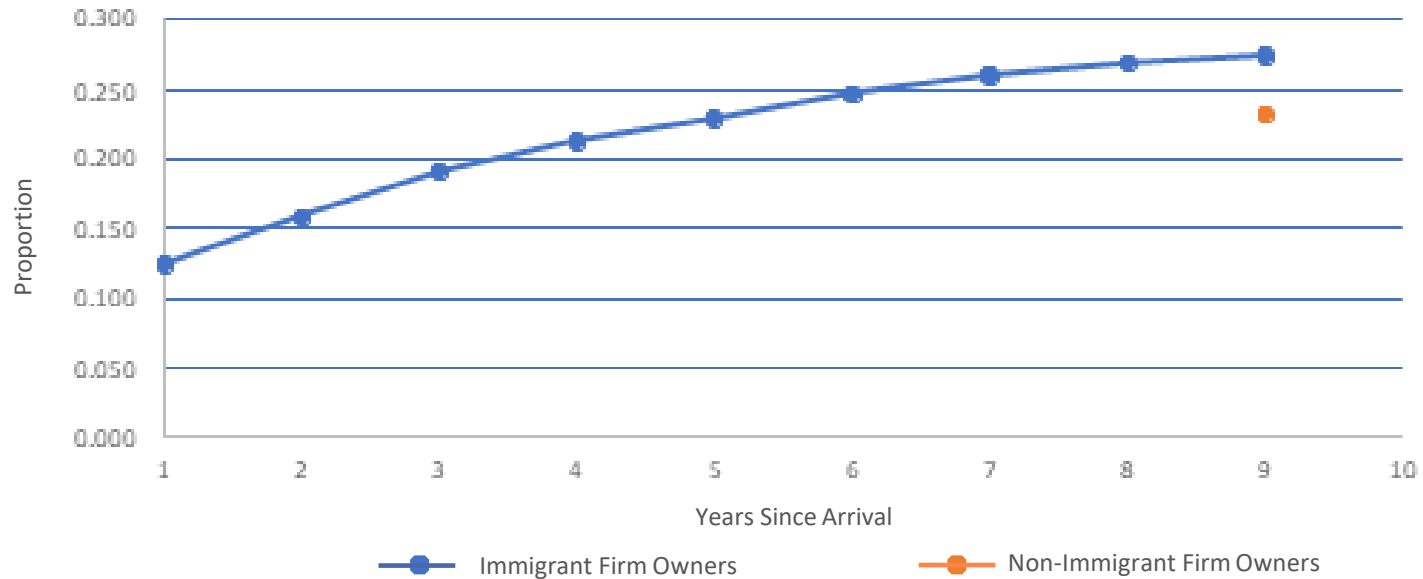
For Canada, in recent work with administrative data, we find that a 1% increase in population through immigration in a local labour market results in a 1% increase in employment, i.e., no effect on the employment rate

This could happen as new immigrants start firms, or residents start new firms, or from expansions of existing firms

Business owners as a share of Taxfilers

Chart 1

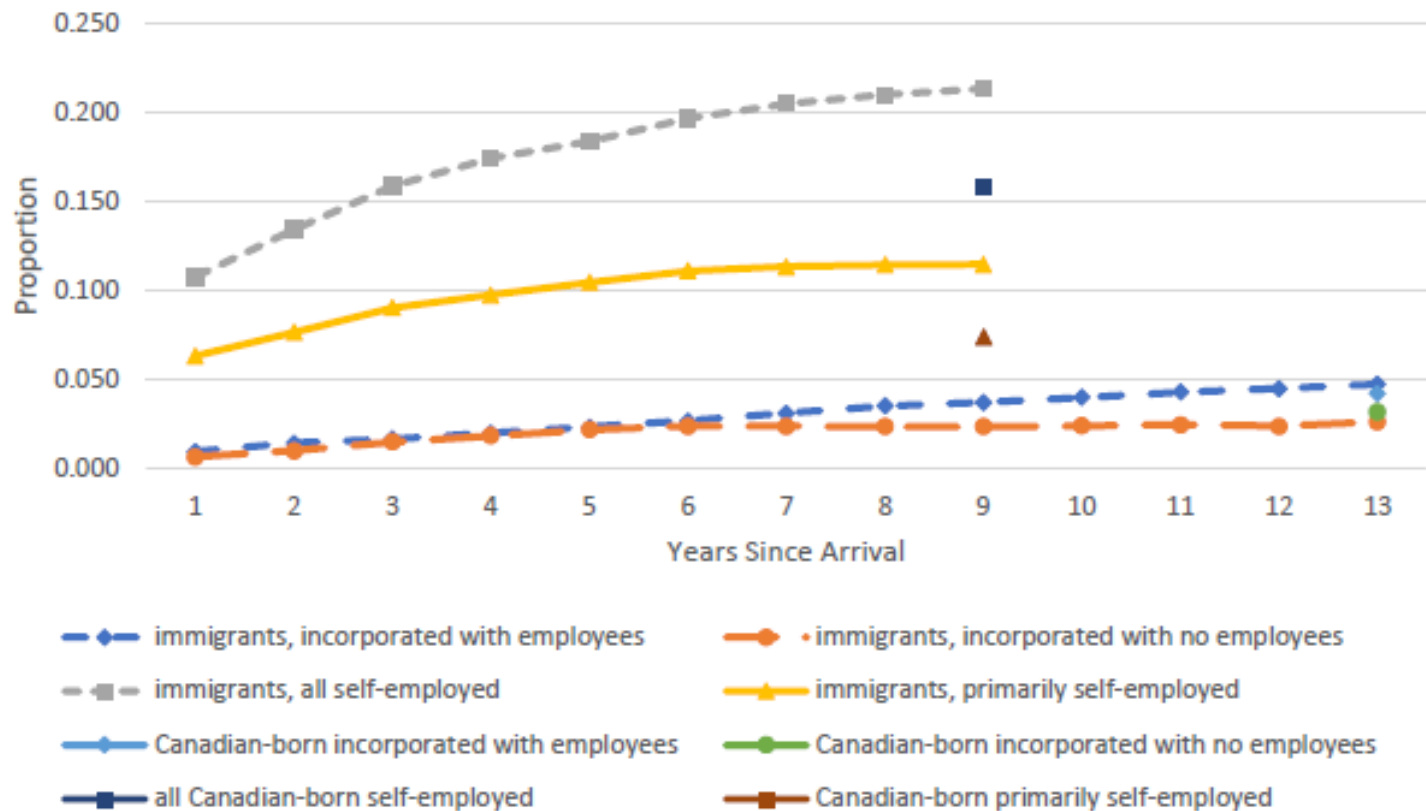
Ownership of All Types of Firms Combined: 2001 and 2004 Immigrant Entrants



Business owners as a share of Taxfilers

Chart 2

Firm Ownership by Type: 2000 and 2004 Immigrant Entrants



Immigrant Job Creation and Employment Outcomes

Nearly 40% of immigrants own a firm of some type during their first decade in Canada

The immigrant advantage in firm ownership comes from a greater probability of self-employment

Starting a self-employment firm is negatively associated with education and language ability. It is positively related to a recent history with low or no earnings

Non-incorporated (self-employment) firms rarely have employees.

This looks more like an occupation of last resort than starting an innovative firm

Immigrant Job Creation and Employment Outcomes

Starting an incorporated firm has little relation to human capital skills

Immigrant owned incorporated firms are smaller on average than their native-born counterparts

Incorporated firms started by new immigrants are more likely to fail (Ostrovsky and Picot 2018)

Immigrant Job Creation and Employment Outcomes

On the positive side:

Immigrant owned incorporated firms have higher growth rates (because they are young and small) (Picot and Rollin 2019)

Though, once control for age and size of the firm, immigrant firms, if anything, have lower growth rates

Immigrant owned incorporated firms are more concentrated in Knowledge Based Industries (Picot and Ostrovsky 2017)

Immigrant Job Creation and Employment Outcomes

About 80% of response of employment to a population increase comes from publicly traded firms

Very little of it comes from new firm creation by immigrants

Suppose we think about a cohort of new immigrants. How long before the entrepreneurs in that cohort create enough jobs to employ the rest of the immigrant workers in the cohort?

The short answer is never

Immigrant Job Creation and Employment Outcomes

Immigrant entrepreneurs are job creators but they are a small part of the total job creation that is going on.

The data fit with publicly traded firms being labour constrained - they can expand when there are more workers - but this doesn't lead to extra jobs. That is, resident workers don't gain but they also don't lose.

Conclusion

Entry earnings for immigrants declined continuously relative to comparable residents from late 1960's to mid-2000's

Important trend because of the implications for the immigrants themselves but also because it could mean immigrant human capital is not being transferred to the Canadian economy

Half of the decline is due to factors affecting other new entrants as well

Other half is due to shift in source country composition

Evidence on returns to education indicates lower earnings are due mainly to lower productivity plus discrimination

Credentials recognition could help some but not a panacea

Conclusion

Firm ownership is a big part of the immigrant experience but a lot of it is in self-employment and their incorporated firms are relatively small

Immigrant incorporated firms have higher growth rates on average because they are small and young (Picot and Rollin (2019))

Ultimately the proof is in the pudding: employment increases 1-for-1 with immigration. Immigrants are neither job-stealers nor extra job creators

Conclusion

All of these conclusions are within the data variation that we get from recent history

Immigration has potentially had a big impact at times when there was a substantial shortage of labour (filling the Prairies, building universities)

At other times, its impact on the economic outcomes we care about (i.e., intensive not extensive growth) is small