

Too Little or Too Much? Wage Loss Compensation to Foreign-Born Permanent Residents

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Between 1991 and 1996, almost 70,000 new immigrants entered Alberta. About 33,775 settled in Calgary and about 27,270 settled in Edmonton. The 1996 Census indicates that 15% of Alberta's, approximately 21% of Calgary's and some 18.5% of Edmonton's population are immigrants. (Statistics reported in "The Daily" (Statistics Canada Cat.No.11-001E), November 4, 1997, p.8).

Imagine the situation of a newly arrived immigrant. He or she is probably an adult who has obtained all education (including English language skills) abroad. Presumably, he or she will have little knowledge of Canadian labour markets and their institutions. Where do I get a job? How do I apply for jobs, how do I write a job application, what employment opportunities are there outside the city limits? How do I augment my language skills and get the Canadian credentials I need to enter my intended occupation? Imagine also the uncertainties faced by potential employers. Is this immigrant's education equivalent to what the job requires? If the person seems to have a limited vocabulary and/or a heavy accent, will he or she understand and be understood by supervisors and customers?

All of these questions are related to the same issue: what human capital does the new immigrant have to offer relative to Canadian-born workers, and how can this human capital be enhanced and increased? To express it in the terminology used in *Andrews v. Grand & Toy, etc.* [1978] 1 W.W.R. 577: what is a new immigrant's initial earning capacity, and is it possible to predict how that capacity is going to change over the working life? Or are there no differences between the earning capacities of new immigrants, older immigrants and Canadian-born workers?

Over the past twenty or so years, empirical studies using data from many different immigrant-receiving countries have examined the question of what happens to the earnings of immigrants upon their arrival in the receiving country relative to the earnings of their native-born counterparts. The conclusion reached is that in general, immigrants' earnings undergo three separate stages: in the first stage, earnings fall short of the earnings of comparable native-born workers; in the second stage, often referred to as the "catch-up point", immigrants' earnings are equal to the earnings of native-born workers. Finally, in the third stage it is not unusual to observe immigrants' earnings surpassing those of native-born workers.

These findings have important implications for determining the amount of compensation to be paid to accident victims for loss of earnings as a result of injuries sustained, or to surviving dependents of accident victims in wrongful death cases. Suppose, for example, that compensation to a recent, young immigrant to Canada for loss of earnings due to injury were based on the earnings realized, on average, by all Alberta residents of the same sex and education. The research mentioned above would

indicate that the injured party may be overcompensated for early years but undercompensated for later years. (Whether a net under- or overcompensation occurs would depend on the working life remaining and on the amount of time required to reach the catch-up point.) Now suppose that compensation is to be paid to an older immigrant who entered Canada 40 years prior, again on the basis of earnings realized by all Alberta residents of the same sex and education. In this case, the injured party may well be undercompensated. Figure 1 below illustrates the stylized facts and their implications for personal injury / wrongful death cases.

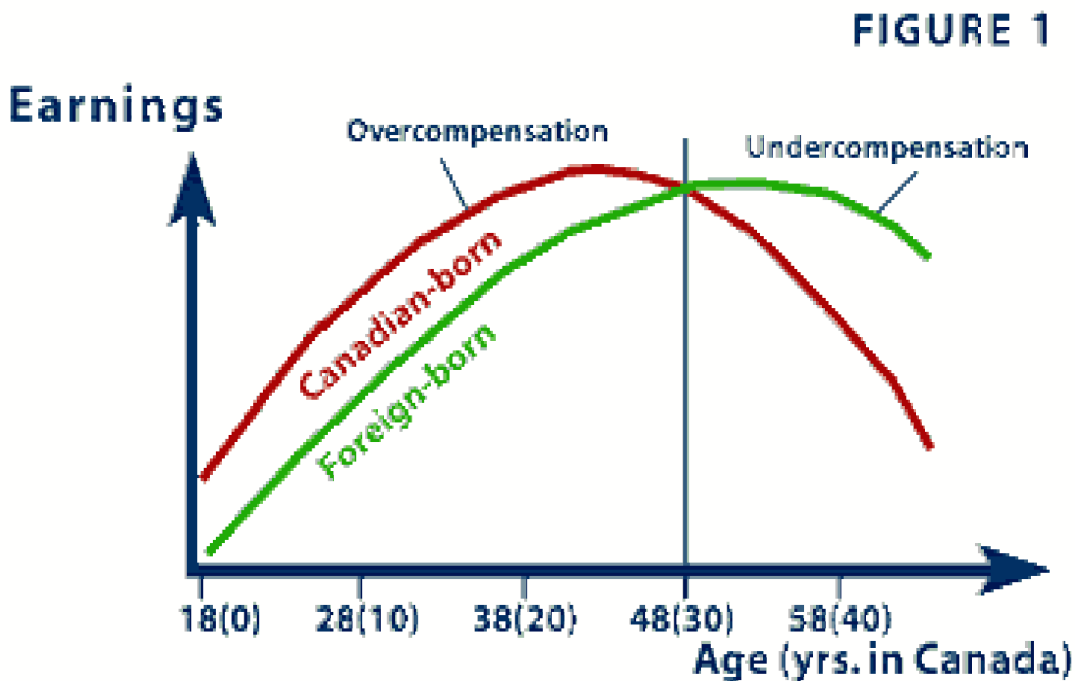


Figure 1 shows that where the injured party is foreign-born, it would be incorrect to base earnings or dependency loss estimates on the average earnings of the general population. In the absence of readily available detailed information on the earnings of immigrants (or custom tabulations from Statistics Canada), past and future earnings can be estimated using econometric techniques and data from the 1991 Census (from the 1996 Census in the near future) in their public use sample tape form. Although this approach is not feasible for individual occupations due to data limitations, it can be applied to various groups of occupations by level of skill as defined by the 1991 Census of Canada. A major advantage lies in the two-stage modelling process: first, the average influence of relevant labour force characteristics on earnings is estimated; second, the individual's characteristics (whether actual or assumed) are combined with these estimates to arrive at estimated past and future earnings. In this way, the specific characteristics of the individual can be taken into account rather than basing estimates on averages only.

To provide the reader with an idea of the earnings realized by Alberta's foreign-born population relative to the province's Canadian-born population, I have applied the method outlined above to data from the 1991 Census. A sample of observations on wage-earning individuals aged 15 to 65 who worked on a full-time basis in 1990 was extracted from the public use sample tape. These selection criteria were chosen to approximate the criteria applied by Statistics Canada to custom tabulations (showing average earnings by age group, sex and educational attainment) which are often relied upon by the courts in personal injury and wrongful death cases. To be admitted into the sample, observations had to also fulfill the following criteria: all of the information provided was complete and all answers were internally consistent; 1990 wage earnings were greater than or equal to \$1,500.

The sample of 30,411 observations was initially divided into Canadian-born Alberta males (14,963), foreign-born Alberta males (3,250), Canadian-born Alberta females (10,146) and foreign-born Alberta females (2,052). For each observation, information on the following variables was obtained: age; sex; marital status; place of birth; year of immigration; ability to hold a conversation in either English or French, or both; language spoken most often at home; total years of schooling; number of weeks worked in 1990; skill category in 1990; and wages earned in 1990.

A first look at the female sample indicated that although years of schooling and weeks worked are similar for Canadian-born and foreign-born females, they differ in terms of their average age and marital status, and are distributed differently across skill levels. Foreign-born females are, on average, almost four years older than Canadian-born females. A larger proportion of foreign-born females are employed in the two lower skill levels, and they are more likely to be married than Canadian-born females. The average foreign-born Alberta female's average annual wage was about \$870 lower (in 1990 dollars), despite the fact that she tends to be older, has the same educational attainment and works virtually the same number of weeks per year.

A similar picture emerged for the male sample. Foreign-born males were, on average, over five years older and a slightly smaller proportion were employed in the two lower skill levels. The average foreign-born Alberta male has a slightly higher educational attainment than his Canadian-born counterpart, and is more likely to be married. Despite the higher average age, greater concentration in the higher skill levels, slightly higher educational attainment and number of weeks worked in 1990, the average foreign-born Alberta male earned \$500 less in 1990 than otherwise similar Canadian-born Alberta males.

For each of the four subsamples, earnings profiles were estimated separately for each of the four skill groups. The resulting equations may be used to generate age-earnings profile estimates (expressed in 1990 dollars) for Canadian-born and foreign-born males or females employed in any one of the four skill levels and residing in Alberta. This is done by combining the regression results with hypothetical or actual characteristics. Because this article is intended as an exposition of the foreign-born earnings issue and its relevance in personal injury/wrongful death cases using data from the province of Alberta, the results of applying but one of the equations to two alternative hypothetical (and simplified) situations are shown below in Figure 2.

FIGURE 2

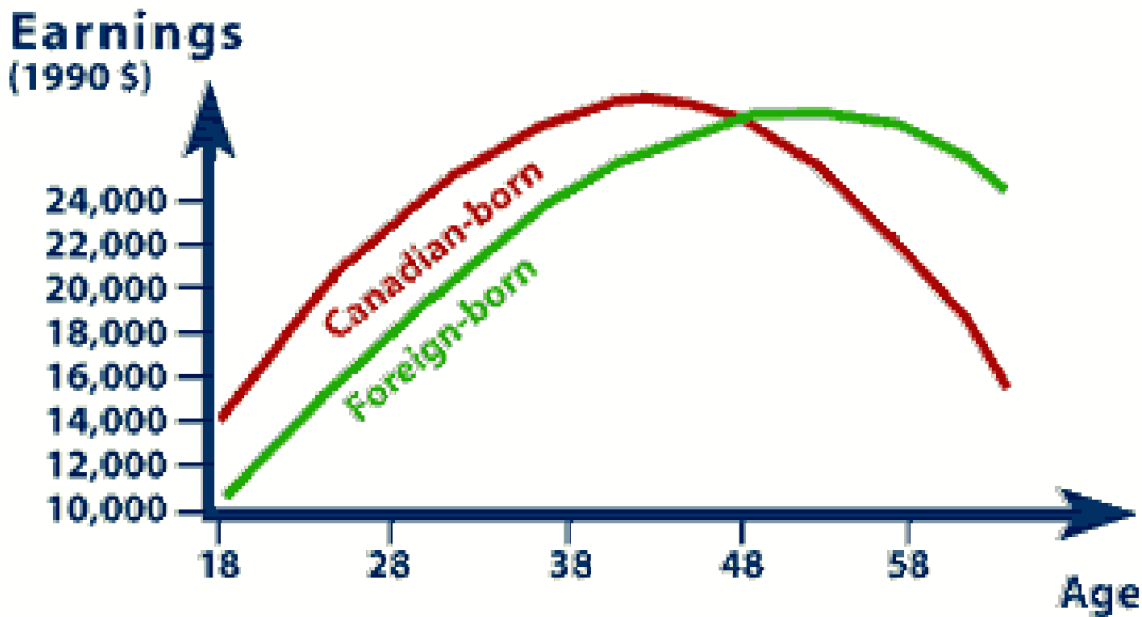


Figure 2 shows earnings projections for two hypothetical Alberta males, one foreign-born and the other Canadian-born. Both are assumed to fit the following description: employed in skill level 1 occupations, ten years of school completed, single, working 52 weeks per year on a full-time basis throughout the projection's time horizon. Both are shown to enter the Alberta labour market at 18 years of age. For the foreign-born, it has been assumed that entry into the Alberta labour market coincides with immigration to Canada (i.e., years in Canada = 0 at the start of the projection, years in Canada = 47 at the end of the projection).

Suppose for the moment, that the hypothetical foreign-born male were injured in a motor vehicle accident at, say, age 54 and that as a result of the accident he would not be able to work for a period of five years. If an award for wage loss were determined based on the age-earnings profile of otherwise similar Canadian-born males, then clearly the amount given to the plaintiff would not be sufficient to replace the earnings he could expect to receive, on average, for the next five years. Now suppose that the foreign-born male were injured in a motor vehicle accident at age 24 instead and that as a result of the accident he would not be able to work for a period of five years. In that case, the foreign-born plaintiff would receive more than the earnings he could expect to receive, on average, for the next five years as his earning capacity in early years would be significantly lower than that of similar Canadian-born males.

Related Articles

There is an extensive body of theoretical and empirical research on the issue of immigrants' earnings.

The interested reader may wish to review some of the following articles:

Bloom, David E., Gilles Grenier and Morley Gunderson. "The Changing Labor Market Position of Canadian Immigrants". Working Paper No. 4672, National Bureau of Economic Research: Cambridge, Mass., March, 1994.

Borjas, George. "Assimilation, Changes in Cohort Quality and the Earnings of Immigrants". *Industrial and Labour Relations Review*, 1985, Vol. 37, No. 4, pp. 463-489.

Chiswick, Barry R. "The Effect of Americanization on the Earnings of Foreign-born Men" *Journal of Political Economy*, 1978, vol. 86, no. 5, pp. 897-921

Chiswick, B.R. and P.W. Miller. "Earnings in Canada: The Role of Immigrant Generation, French Ethnicity, and Language". In: *Research in Population Economics*, JAI Press Inc. 1988, Vol. 6, pp.183-228.

DeVoretz, Don J. (Ed.). *Diminishing Returns*. Policy Study 24, C.D. Howe Institute/The Laurier Institute: Ottawa, Ontario, 1995.

Fagnan, Sheila. "Canadian Immigrant Earnings, 1971-86". In DeVoretz, Don J. (Ed.), *Ibid.*, pp.166-208.

Meng, Ronald. "The earnings of Canadian immigrant and native-born males". *Applied Economics*, 1987, vol. 19, pp. 1107-1119.

Pendakur, Krishna. "The Colour of Money: Earnings Differentials Among Ethnic Groups in Canada". *Research on Immigration and Integration in the Metropolis*, No. 96-03, May, 1996.

Tandon, B.B. "Earnings Differentials Among Native Born and Foreign Born Residents of Toronto". *International Migration Review*, Fall, 1978, Vol. 12, No. 3, pp. 406-410.