The Allocation of Immigrant Talent Across Countries: Earnings Gaps

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Introduction

Immigrants make up significant proportions of the population and labor force in many developed economies, but they face considerable challenges in navigating those labor markets, such as occupational regulations and licensing, lack of destination-specific skills, or outright discrimination. In our recent working paper,1 we studied how labor market barriers affect immigrant workers collectively and by occupation groups across the US and other destination countries.

In a recent blog post,2 we summarized cross-country empirical evidence from our paper of employment differences between immigrant and native workers across four occupation groups—non-routine cognitive, non-routine manual, routine cognitive, and routine manual.2 Non-routine cognitive occupations include management and professional occupations; non-routine manual occupations include jobs like health aides and food workers; routine cognitive occupations include jobs like retail sales and clerical workers; and routine manual occupations include jobs like construction and assembly workers. In this essay, we shift our focus to the earnings differences between immigrant and native workers across these four occupation groups.

Immigrant-Native Gaps in Earnings Across Occupations

Individual-level data for the 19 countries in our analysis come from the Luxembourg Income Study (LIS). Figures 1-4 plot cross-country differences in average earnings between immigrant and native workers for non-routine cognitive, non-routine manual, routine cognitive, and routine manual occupations. For each occupation group, the y-axis gives the percentage difference, by country, between the earnings of immigrant and native workers in that group. A gap of –20%, for example, means immigrant workers earn, on average, 20% less than native workers in the same occupation group.

Figure 1
Cross-Country Differences in Earnings Between Immigrant and Native Workers: Non-routine Cognitive Occupations

Percent gap: (immigrants/natives) –1

Source: Luxembourg Income Study (LIS) database and authors’ calculations.
trails only Chile. While immigrants generally earn more on average than native workers in non-routine cognitive occupations, they are simultaneously underrepresented in this group—as noted in our previous blogpost.

We also showed that immigrants are overrepresented in lower-paying jobs—that is, manual occupations. Figures 2 and 4 demonstrate that, on top of being overrepresented, immigrants generally earn less on average than native workers in both non-routine and routine manual occupations. The magnitudes of these gaps, again, vary greatly by country.

In non-routine cognitive occupations (Figure 1), immigrant workers earn more on average than their native counterparts in about two-thirds of countries in our sample. Among these countries, immigrant workers lead by various magnitudes: Immigrants in Chile earn on average 27% more than native workers, while immigrants in Australia and the Netherlands earn only 3% and 2% more than native workers, respectively. The US notably has the second-largest positive gap in earnings between immigrant and native workers in non-routine cognitive occupations: At 18%, it

![Figure 2: Cross-Country Differences in Earnings Between Immigrant and Native Workers: Non-routine Manual Occupations](image)

**Figure 2**

**Cross-Country Differences in Earnings Between Immigrant and Native Workers: Non-routine Manual Occupations**

Percent gap: (immigrants/natives) –1

![Figure 3: Cross-Country Differences in Earnings Between Immigrant and Native Workers: Routine Cognitive Occupations](image)

**Figure 3**

**Cross-Country Differences in Earnings Between Immigrant and Native Workers: Routine Cognitive Occupations**

Percent gap: (immigrants/natives) –1

SOURCE: Luxembourg Income Study (LIS) database and authors’ calculations.
of countries in our sample, immigrants are less likely to be in non-routine cognitive occupations, which have the highest average earnings. At the same time, they are overrepresented in lower-paying occupations, particularly in non-routine manual jobs.

Exploring the immigrant-native gap along an earnings dimension paints a nuanced and richer picture of immigrant talent allocation. Though underrepresented in non-routine cognitive occupations, immigrants that are in this occupation group generally earn more on average than native counterparts. On the other hand, immigrant overrepresentation in manual occupations is compounded by the fact that they also tend to earn less on average than native counterparts. Differences in employment and earnings may reflect additional barriers that immigrants face in the labor markets of their destination countries, which we quantify in our working paper.

Notes

1 Views expressed do not necessarily reflect official positions of the Federal Reserve System or the Bank of Canada.

2 In addition, the following essay discusses these empirical results in detail for the US: Birinci, Serdar; Leibovici, Fernando and See, Kurt. “The Allocation of Immigrant Talent in the United States.” Federal Reserve Bank of St. Louis Economic Synopses, 2022, No. 23; https://doi.org/10.20955/es.2022.23.