

## At a glance

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## LABOUR MARKET OUTCOMES FOR IMMIGRANTS AND THE NEW ZEALAND-BORN 1997-2009: RETURNS TO HUMAN CAPITAL FOR DIFFERENT IMMIGRANT AND ETHNIC GROUPS

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This research provides an updated picture of the economic integration of overseas-born individuals and New Zealand (NZ) born minorities with different ethnic backgrounds. Data from the 1997-2009 New Zealand Income Survey was used to compare employment rates, hours worked and wages for these groups. The research also examined whether differences in observed labour market outcomes between these groups were explained by differences in characteristics such as education attainment, work experience and years in New Zealand.

### KEY FINDINGS

#### OVERSEAS-BORN INDIVIDUALS

**Differences in characteristics do not explain most of the employment gap for overseas-born Asian and Pasifika groups:** Employment rates for overseas-born Pasifika, Asian and Other men were 4-14 percentage points (pps) lower than for NZ-born Pakeha men (90%). For overseas-born Pasifika, Asian and Other women, rates were 8-19 pps lower than for NZ-born Pakeha women (76%). Once controlling for differences in characteristics between these groups, the employment rate gap remains. For example, for men, the employment gap was 11 pps for overseas-born Pasifika and 9-14 pps for overseas-born Asians and Other. For women, the gap was 10 pps for overseas-born Pasifika, and 3-17 pps for overseas-born Asians and Other.<sup>1</sup>

**Differences in characteristics do not explain lower wages for overseas-born Asian and Pasifika groups:** For example, for men, NZ-born Pakeha earned, on average, \$24.65 per hour. Overseas-born Pasifika earned 32% less and overseas-born Asians earned 4-8% less. After controlling for characteristics, a sizable wage gap remained for overseas-born Pasifika (31% less) and was revealed for overseas-born Asians (14-24% less).

#### NEW ZEALAND-BORN MINORITY GROUPS

**Differences in characteristics explain most of the employment gap for NZ-born minority groups:** For men, employment rates for NZ-born Pasifika, Asians and Other were 3-5 pps lower, and for Maori, 14 pps lower, than for NZ-born Pakeha. For women, NZ-born Asians had slightly higher employment rates (3 pps) compared with NZ-born Pakeha but rates for Maori (16 pps) and Pasifika (10 pps) were much lower. However, after controlling for characteristics, the employment gap decreases. For example, the employment gap for Maori men decreased to 5 pps and that for Maori and Pasifika women decreased to 2 pps.

1. Overseas-born Asians were split into 3 mutually exclusive groups: Asian-born Asians, Pacific-born Asians and Other Asians.

PACIFIC

YOUTH

LISNZ

SETTLEMENT

ISMP

ECONOMIC

GLOBAL MOBILITY

REFUGEE

### Differences in characteristics do not explain lower wages found for NZ-born Maori and Pasifika:

Large variation is found in average wages for different NZ-born minorities. For men, NZ-born Maori and Pasifika both earned 18% less, while NZ-born Asians earned slightly more, than NZ-born Pakeha. Wage gaps remain after controlling for differences in characteristics. For example, NZ-born Maori men earned 14% less, NZ-born Asian men 15% less and NZ-born Pasifika men 17% less than similar NZ-born Pakeha men. Differences for women are similar but generally smaller in magnitude.

### RETURNS TO EDUCATION<sup>2</sup>

After controlling for all characteristics discussed above it was found that, for every additional year of education, employment rates were 1.5-2.5 pps higher for NZ-born and overseas-born men and 2.5-4.7 pps higher for NZ-born and overseas-born women.

For each additional year of education, hourly wages increased by 8-9% for NZ-born men and by 7-9% for NZ-born women while overseas born workers had, on average, a 1-2% higher wage return than NZ-born workers.<sup>3</sup>

Examining returns to education by ethnicity, the research found that NZ-born Maori and Pasifika had higher employment rates for each year of education than NZ-born Pakeha. In terms of wages, NZ-born Asians, Asian-born Asians, Pacific-born Asian men and Other-born Asian women were found to have higher wages for each year of education than NZ-born Pakeha.

### DISCUSSION

Overall these results indicate that, once controlling for differences in characteristics measured in the New Zealand Income Survey, NZ-born Maori, Pasifika and Asians have similar employment rates to NZ-born Pakeha but lower wage rates, while overseas-born Pasifika and Asians and Other had both lower employment and wage rates.

Overseas-born individuals: Possible explanations that may lead to lower employment rates for Pasifika, Asians and Other include lower quality job networks or less access to informal childcare. These factors may also explain lower wage rates, along with other explanations, such as lower effective human capital, perhaps because of lower quality education or poor English language skills, or labour market discrimination.

New Zealand-born minority groups: The above explanations, such as lower quality education, may also account for the lower wage rates found for NZ-born minority groups. For example, recent Ministry of Education research shows that literacy skill level is related to employment and wages.<sup>4</sup> However there is only limited New Zealand research to date on possible contributing factors such as job search behaviour, employment patterns, such as moving in and out of the workforce, or labour market discrimination. International literature, particularly in the United States is increasingly suggesting that it is skill disparity, resulting from lower quality education, that produces wage differences among minority groups rather than factors such as discrimination.<sup>5</sup>

This analysis suggests there are areas where more in-depth research is required to explain differences in labour market outcomes for overseas and NZ-born. There is little empirical evidence on the relative importance of the factors that create disadvantage leading to wage and employment gaps. This type of analysis requires high quality longitudinal data that collects detailed information on individual cognitive and non-cognitive skills, job search behaviours and non-work obligations.

➔ Labour Market Outcomes for Immigrants and the New Zealand-born 1997-2009 can be found at <http://dol.govt.nz/publications/research/labour-market-outcomes/index.asp>

For further information please contact [research@dol.govt.nz](mailto:research@dol.govt.nz), or visit [www.immigration.govt.nz/research](http://www.immigration.govt.nz/research)

2. For the purposes of this study returns to education refers to the average increase in wages or employment in a population of individuals due to an additional year of education or schooling including the first year.

3. These findings are similar to international literature, which shows that returns to education on wages for the total population across OECD and other countries is on average around 8 percent per year of education. Card, D. (2001) "Estimating The Return To Schooling: Progress On Some Persistent Econometric Problems." *Econometrica*, Vol. 69(5) (September, 2001, 1127-60); Boarini, R et al. "The Private Internal Rates of Return to Tertiary Education, New Estimates for 21 OECD Countries." OECD Economics Department Working Paper.

4. Earle, D (2010), "Labour Market Outcomes of Skills and Qualifications", Ministry of Education.

5. Carneiro, P et al (2005), "Labour Market Discrimination and Racial Differences in Pre-market Factors", *Journal of Law and Economic*, vol. XLV111; Fryer R (2010), "Racial Inequality in the 21st Century: The Declining Significance of Discrimination" NBER Working Paper Series; Heckman, J (2011), "The American Family in Black and White: A post-Racial Strategy for Improving Skills to Promote Equality" IZA Discussion paper Series; O'Neill, J (2005), "What do Wage Differentials tell us about Labour Market Discrimination?" NBER Working Paper Series.